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*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 3983)**

**CONTINUING CONNECTED TRANSACTIONS  
PROPOSED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS  
AND  
CONTINUING CONNECTED TRANSACTIONS AND  
DISCLOSEABLE TRANSACTIONS IN RELATION  
TO THE FINANCIAL SERVICES AGREEMENT AND  
THE FINANCE LEASE AGREEMENT**

**CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL  
CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

Certain continuing connected transactions of the Group are required to be conducted with its connected persons in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable as far as the Shareholders as a whole are concerned.

As some of the agreements governing the continuing connected transactions entered into by the Group and their respective annual caps will expire on 31 December 2020, the Group proposes to (1) enter into new agreements in respect of the above-mentioned continuing connected transactions, and (2) set the annual caps for 2021 to 2023 for certain types of continuing connected transactions.

**CONTINUING CONNECTED TRANSACTION AND DISCLOSABLE TRANSACTION IN RELATION TO THE FINANCIAL SERVICES AGREEMENT AND THE FINANCE LEASE AGREEMENT**

The Group proposes to enter into the Financial Services Agreement with CNOOC Finance and the Finance Lease Agreement with CNOOC Leasing due to business needs. Given the highest applicable percentage ratios in respect of the Proposed Caps for the transactions for deposits placed by the Group with CNOOC Finance contemplated under the Financial Services Agreement and the transactions contemplated under the Finance Lease Agreement are more than 5% but less than 25%, the transactions contemplated thereunder also constitute disclosable transactions to the Company under Chapter 14 of the Listing Rules and is therefore subject to announcement requirement under Chapter 14 of the Listing Rules.

**EGM**

The Company will convene the EGM to obtain the approval from the Independent Shareholders of, among other things:

1. the Proposed Caps for 2021 to 2023 for the continuing connected transactions contemplated under the Natural Gas Sale and Purchase Agreements entered into between the Group and CNOOC China Limited;
2. the Comprehensive Services and Product Sales Agreement entered into between the Company and CNOOC and the Proposed Caps for 2021 to 2023 for the transactions contemplated thereunder;
3. the Financial Services Agreement entered into between the Company and CNOOC Finance and the Proposed Caps for 2021 to 2023 for the transactions contemplated thereunder; and
4. the Finance Lease Agreement entered into between the Company and CNOOC Leasing and the Proposed Caps for 2021 to 2023 for the finance leasing services between the Group and CNOOC Leasing contemplated thereunder.

A circular containing, among other things, details relating to the Non-exempted Continuing Connected Transactions, the recommendation of the Independent Board Committee, the advice of the Independent Financial Adviser and a notice of the EGM will be despatched by the Company to the Shareholders on or around 13 November 2020.

## **CONTINUING CONNECTED TRANSACTIONS**

Certain continuing connected transactions of the Group are required to be conducted with its connected persons in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable as far as the Shareholders as a whole are concerned.

As some of the agreements governing the continuing connected transactions entered into by the Group and their respective annual caps will expire on 31 December 2020, the Group proposes to (1) enter into new agreements in respect of the above-mentioned continuing connected transactions, and (2) set the annual caps for 2021 to 2023 for certain types of continuing connected transactions.

A summary of the above-mentioned continuing connected transactions is set out below.

### **Continuing connected transactions with CNOOC and its associates**

#### ***Properties Leasing Agreement***

The Group is required to lease certain properties from CNOOC Group as well as lease certain properties to CNOOC Group in the ordinary and usual course of its business. On 23 October 2020, the Company entered into the Properties Leasing Agreement with CNOOC on normal commercial terms, pursuant to which: (1) CNOOC Group may provide properties leasing services and relevant property management services (if needed) to the Group; and (2) the Group may provide properties leasing services and relevant property management services (if needed) to CNOOC Group.

The term of the Properties Leasing Agreement will commence on 1 January 2021 and expire on 31 December 2023, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Properties Leasing Agreement are being conducted on normal commercial terms and conditions which shall not be less favorable to the Group than those offered to third parties and priced in accordance with the following principles:

the property rent and management fees for each leased property shall be determined by both parties by taking into account factors including locations of the properties, the state of the properties and the property management service scope;

1. As to provision of properties leasing services and relevant property management services by CNOOC Group to the Group:

*(1) property rent*

- a. shall not be higher than the property rent payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and
- b. shall not be higher than the property rent for the same or similar types of properties in the same area or the adjacent areas.

*(2) property management fees*

- a. shall not be higher than the standard property management fees approved by the state pricing regulatory authorities (if any);
- b. shall not be higher than the property management fees payable by other third party lessees of other properties owned by CNOOC Group or other owners (if any) in the same building; and
- c. shall not be higher than the property management fees for the same or similar types of properties in the same area or adjacent areas.

2. As to the provision of properties leasing services and relevant property management services by the Group to CNOOC Group:

*(1) property rent*

- a. shall not be lower than the property rent payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and
- b. shall not be lower than the property rent for the same or similar types of properties in the same area or the adjacent areas.

*(2) property management fees*

- a. shall not be lower than the standard property management fees approved by the state pricing regulatory authorities (if any);
- b. shall not be lower than the property management fees payable by other third party lessees of other properties owned by the Group or other owners (if any) in the same building; and
- c. shall not be lower than the property management fees for the same or similar types of properties in the same area or adjacent areas.

The Group may, from time to time when the situation requires, enter into specific agreements which will set out the specific scope of services, terms and conditions of providing such services according to the principles laid down by the Properties Leasing Agreement.

In order to effectively implement the Properties Leasing Agreement, when determining the pricing standard, to the extent practicable, the relevant department of the Group will obtain property rent and management fees payable by other third party lessees of other properties owned by CNOOC Group and other owners (if any) in the same building, and property rent and management fees for the same or similar types of properties in the same area or adjacent areas to make sure the price and terms offered by CNOOC Group are in compliance with the above-mentioned principles as set out in the Properties Leasing Agreement.

### ***Natural Gas Sale and Purchase Agreements***

We refer to the Prospectus of the Company, the announcements of the Company dated 5 November 2008, 9 November 2011, 28 March 2012, 28 October 2014 and 3 November 2017 and the circulars of the Company dated 14 November 2008, 31 December 2008, 15 November 2011, 7 November 2014 and 13 November 2017 in relation to, among other things, the continuing connected transactions of the Company.

The Group entered into five natural gas sale and purchase agreements with CNOOC China Limited, the summary of which are listed as follows:

- (1) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between the Company and CNOOC China Limited dated 28 July 2003, under which CNOOC China Limited has committed to supply natural gas to the Company for Fudao Phase II Urea Plant at prices that are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 20 years, commencing on 1 October 2003 and will expire on 30 September 2023.
- (2) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement between CNOOC Jiantao and CNOOC China Limited dated 10 March 2005, under which CNOOC China Limited has committed to supply natural gas to CNOOC Jiantao for Hainan Phase I Methanol Plant at prices that are subject to adjustments on a monthly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding month. The natural gas delivery period under this agreement is 20 years, commencing on 16 October 2006 and will expire on 15 October 2026.

- (3) Natural Gas Sale and Purchase Framework Agreement between the Company and CNOOC China Limited on 1 September 2006, under which CNOOC China Limited has committed to supply natural gas for the Company's future plants. This agreement does not include the transactions conducted under the two pre-existing agreements mentioned above. Under this framework agreement, CNOOC China Limited will sell natural gas to the Company and/or the Company's subsidiaries at a price which is determined on a fair and reasonable basis (including by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire) and in accordance with normal commercial customs. The term of the agreement is of 20 years commencing on the date of the agreement. CNOOC China Limited and the Company or the Company's relevant subsidiaries will enter into separate agreements which will set out the specific terms and conditions for natural gas sales and purchases according to the principles laid down by this framework agreement.

On 26 March 2010, the Company and CNOOC China Limited entered into the Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement under the Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006 pursuant to which CNOOC China Limited has agreed to supply natural gas to the Company for Hainan Phase II Methanol Plant at prices of natural gas that are subject to adjustments on a quarterly basis by reference to the prices of Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire during the preceding quarter. The natural gas delivery period under this agreement is 15 years, commencing on 1 January 2011 and will expire on 31 December 2025.

- (4) Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement among the Company, CNOOC Fudao and CNOOC China Limited dated 28 October 2014 pursuant to which CNOOC China Limited has agreed to supply to the Group with natural gas as feedstock required mainly for Fudao Phase I Urea Plant. The natural gas delivery period under this framework agreement is nine years commencing on 1 August 2015.

On 18 May 2015, the Company, CNOOC Fudao and CNOOC China Limited entered into the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Agreement under the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement dated 28 October 2014 pursuant to which CNOOC China Limited has agreed to supply to the Company with natural gas as feedstock required mainly for Fudao Phase I Urea Plant. The natural gas delivery period under this agreement commenced on 8 April 2016 and will expire at the end of operation period of the gasfield, which is expected to be on or before 31 July 2024.

- (5) Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement among the Company, CNOOC Fudao and CNOOC China Limited dated 3 November 2017, pursuant to which CNOOC China Limited has agreed to supply to the Group with natural gas as feedstock required mainly for the Hainan Plants. The natural gas delivery period under this agreement is 20 years commencing on 15 November 2018.

As disclosed in the Prospectus of the Company, because the above-mentioned natural gas sale and purchase agreements (1) to (3) were entered into by the Company before its listing on 29 September 2006, the Company applied to the Stock Exchange at the time of its listing for, and the Stock Exchange has granted, a waiver from strict compliance with the independent shareholders' approval requirement. The joint sponsors to the listing have also confirmed that they consider that a term of 20 years for each of the natural gas sale and purchase agreements (1) to (3) is appropriate.

As disclosed in the circulars of the Company dated 7 November 2014 and 13 November 2017, for the above-mentioned natural gas sale and purchase agreements (4) and (5), the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement and Dongtang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, Halcyon Capital, the then independent financial adviser of the Company, having considered the nature of the agreement and industrial practice, was of the opinion that it is reasonable for the agreement to be of a longer period than three year and it is in line with normal business practice for agreements of this type.

In order to ensure that the price of the natural gas under the above-mentioned natural gas sale and purchase agreements (1) to (3) is determined on a fair and reasonable basis and in accordance with the pricing principles, the Company has adopted the following procedures when determining the price of the natural gas to be supplied to its production facilities in Hainan:

- a. the designated department of the Company would monitor and obtain the prevailing average prices of the Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire on a quarterly basis in the case of Fudao Phase I Urea Plant, Fudao Phase II Urea Plant and Hainan Phase II Methanol Plant, and on a monthly basis in the case of Hainan Phase I Methanol Plant;
- b. based on the average prices of the Four Major Types of Crude Oil quoted on Platts Crude Oil Marketwire obtained, the designated department would calculate the natural gas price for the preceding quarter or month (as the case may be) in accordance with the pricing principles as set out in the relevant natural gas sale and purchase agreement;
- c. the designated department would then submit the natural gas price so determined to senior management of the Company for approval upon which the Company would make payment to CNOOC China Limited in accordance with the terms and conditions as set out in the relevant natural gas sale and purchase agreements.

The transactions under the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement has been conducted on normal commercial terms and conditions which is no less favourable than those offered to independent third parties by CNOOC China Limited, and has been priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle as CNOOC China Limited is the sole supplier of natural gas in the region. The Company has checked the 2013 annual report of CNOOC Limited to ensure the benchmark price is comparable to the average realised price per thousand cubic feet of natural gas in 2013 as disclosed therein. The parties will negotiate for the adjustment of the benchmark price in August each year taking into consideration of the factors such as change of the pricing policy by the state pricing regulatory authorities, prices of domestic energy markets, domestic prices for natural gas and change in CPIs.

The transactions under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement has been conducted on normal commercial terms and conditions which is no less favourable than those offered to independent third parties by CNOOC China Limited, and has been priced in accordance with a benchmark price which is determined with reference to the exploration, development and production cost of the gasfield plus reasonable profit in principle as CNOOC China Limited is the sole supplier of natural gas in the region.

In order to ensure the benchmark price of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement is determined on a fair and reasonable basis, the Company has checked the average realized price per thousand cubic feet of natural gas disclosed in the annual reports of CNOOC Limited for 2014 to 2016, analysed the effect of different natural gas prices on the gross profit of the Company's products, and the Financial Management Department of the Company has compared the benchmark price provided by CNOOC China Limited to another related company.

The price of natural gas will be adjusted based on the benchmark price on a quarterly basis if the average price of international crude oil (Dated Brent) or the average selling price of the Company's urea or methanol of that quarter increases to a certain threshold, with the price of international crude oil (Dated Brent) and the selling price of the Company's urea or methanol each contributing an agreed percentage in the adjustment of the natural gas price. Under the current adjustment mechanism, the price of natural gas will stay unchanged if none of the average price of international crude oil (Dated Brent) or the average selling price of the Company's methanol or urea increases to a certain threshold, while the price of natural gas will increase if any of the average price of international crude oil (Dated Brent) or the average selling price of the Company's methanol or urea increases to a certain threshold.

The adjustment mechanisms in the existing natural gas sale and purchase agreements of the Company as disclosed in this announcement mainly refer to the prices of crude oil. However, due to fluctuation in international crude oil prices in recent years, in the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Company considers that a mechanism to adjust natural gas price with reference to various other factors in addition to oil price will alleviate the pressure of the Company when facing increasing oil price and secure a price more favourable for the Company, and in particular taking into account the selling price of the Company's products would enable the Company to better control its cost.

In order to ensure the price of natural gas under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement is determined in accordance with the pricing principle, at the end of each quarter, the Financial Management Department is responsible for collecting the average price for international crude oil (Dated Brent) of that quarter while the Marketing Center is responsible for preparing the average selling price of the Company's methanol and urea of that quarter. The Production Management Department will calculate the price of natural gas of that quarter in accordance with the price adjustment mechanism as set out in the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement. The adjusted natural gas price then will be submitted to the senior management of the Company for final review and approval. In the case of any dispute on the natural gas price, the Production Management Department and the Financial Management Department are responsible for negotiating with CNOOC China Limited.

All the five natural gas sale and purchase agreements mentioned above will not expire this year, and their terms remain unchanged. As such, the Company will not seek the Independent Shareholders' approval of the agreements.

### ***Comprehensive Services and Product Sales Agreement***

On 23 October 2020, the Company entered into the Comprehensive Services and Product Sales Agreement with CNOOC, pursuant to which:

- a. the Group has agreed to provide services and supplies to CNOOC Group (including but not limited to provision of offices and facilities, labour services, technical training services, project management services, logistics management services, accommodation/catering services, port management, logistics assistance, transportation services and material supplies for utility system, dependent upon service locations and the facilities established);
- b. CNOOC Group has agreed to provide services and supplies to the Group (including but not limited to engineering services, telecommunication and network services, construction services, management system/technology development services, equipment leasing, equipment maintenance, project management services, labour services, materials/equipment procurement services, transportation services,

technical training services, catering, accommodation, medical, insurance services, conference services, consultancy services and logistics management services, dependent upon service locations and the facilities established); and

- c. the Group has agreed to sell products (urea, phosphate fertiliser, methanol, potash, Polyoxymethylene, ammonia, compound fertiliser, acrylonitrile, etc.) to CNOOC Group and CNOOC Group has agreed to sell products (potash, medicament and natural gas etc.) to the Group.

The term of the Comprehensive Services and Product Sales Agreement will commence on 1 January 2021 and will expire on 31 December 2023, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

In order to facilitate effective internal control of the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement, the Company will divide, so far as practicable, such transactions into two categories, which are (i) the provision of services and supplies and sale of products by the Group to CNOOC Group and (ii) the provision of services and supplies and sale of products by CNOOC Group to the Group.

Under the Comprehensive Services and Products Sales Agreement, the provision of services, supplies and products by the Group to CNOOC Group will be conducted on normal commercial terms and conditions which shall not be favourable than those offered to independent third parties by the Group, the provision of services, supplies and products by CNOOC Group to the Group will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties by CNOOC Group, and the prices thereunder will be determined in accordance with the pricing principles set out in the Comprehensive Services and Product Sales Agreement as follows:

1. As to provision of services, supplies and products by the Group to CNOOC Group:
  - a. not lower than the prices charged by the Group to other comparable independent third party customers for the same type of services, supplies or products; or
  - b. with reference to the prices for the same type of services, supplies or products in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service providers or suppliers; or
  - c. with reference to the prices for the same type of services, supplies or products in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party providers or suppliers.

2. As to provision of services, supplies and products by CNOOC Group to the Group:
  - a. not higher than the prices charged by CNOOC Group to its associates (other than members of the Group) or other comparable independent third party customers (if any) for the same type of services, supplies or products; or
  - b. with reference to the prices for the same type of services, supplies or products in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party service providers or suppliers; or
  - c. with reference to the prices for the same type of services, supplies or products in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third party providers or suppliers.

Nevertheless, for the above-mentioned services, supplies and products, when relevant government authorities publish a government-prescribed price in relation to the transactions contemplated under the Comprehensive Services and Product Sales Agreement during the term of the Comprehensive Services and Product Sales Agreement, the relevant prices shall be adjusted with reference to the government-prescribed price accordingly.

In order to ensure that the price of the Comprehensive Service and Product Sales Agreement with reference to provision of services and supplies and sales of products by the Group to the CNOOC Group is determined on a fair and reasonable basis and in accordance with the pricing principle, the Company has adopted the following procedures when determining the price of the services and supplies provided and the price of the products sold:

1. *As for provision of services and supplies by the Group to CNOOC Group*

Before entering into specific service or supply provision agreements with CNOOC Group, the designated department of the Group will evaluate and assess the scope of the relevant services or supplies requested and prepare a fee proposal based on detailed cost calculation referencing to cost of materials, products and labors, technical difficulties and expertise involved, as well as fee quotes of the Group to other independent third party customers and the fees charged by competitors of the Group in the market (if available) collected from regional data available in the market and market data gathered by the Group's marketing team during on-site visits, which will be submitted to the senior management for approval. The senior management of the Company will determine the price of the Group's services or supplies based on the market information collected by the Group's marketing team with reference to the then marketing strategy of the Company, so as to ensure that the fees for the services or supplies that the Group will be charging CNOOC Group are competitive and comparable to those being offered to independent third party customers of the Group.

2. *As for sale of products by the Group to CNOOC Group*

The Company has set up the Sales and Pricing Committee, which comprises senior management and executives from the Marketing Center, the Financial Management Department, the Audit Department and the Capital Operation Department of the Company, to determine the price of products for sale. The Marketing Center of the Company will gather market information, such as the recent market trend and the prices charged by competitors of the Group in the market collected from regional data quoted on specialized websites of industrial market information and available in the market and market data gathered by the Group's marketing team during on-site visits, and propose the selling price for the products to be sold taking into consideration the selling price proposed by the local marketing team and market information gathered. The proposed selling price will then be reported to the Sales and Pricing Committee which will review the rationales and basis for determining the proposed price before approving the price. The Sales and Pricing Committee will determine the selling price of the Group's products based on the market information collected by the Group's marketing team with reference to the then marketing strategy of the Company. The specific product sales agreements will then be entered into at the approved price.

In order to ensure that the price of the Comprehensive Services and Product Sales Agreement with respect to provision of services and supplies and sale of products by CNOOC Group to the Group is determined on a fair and reasonable basis and in accordance with the pricing principle, the Company has set up the Procurement Management Committee, which comprises senior management and executives from the Procurement Department and Disciplinary Inspection Committee of the Company, to determine the supplier of services, supplies and products. The following procedures have been adopted when determining the suppliers of the services, supplies and products:

The Procurement Management Committee is responsible for carrying out tendering process to assess the quality and price of services, supplies and products, qualification of suppliers, and terms offered by no less than three suppliers to make sure the conditions offered by CNOOC Group in the separate agreements under the Comprehensive Services and Product Sales Agreement are no less favorable to the Group than those offered by independent third parties to the Group (if practicable). If the above-mentioned tendering process is not available due to the exclusivity of certain services, supplies or products in certain places, requirements of government authorities or other reasons, the Procurement Management Committee will negotiate with suppliers of services, supplies or products to make sure the pricing principles set out in the Comprehensive Services and Product Sales Agreement are fulfilled.

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific scope of services, supplies and products, and the terms and conditions of providing such services, supplies and products according to the principles laid down by the Comprehensive Services and Product Sales Agreement.

### *Financial Services Agreement*

The Group utilizes from time to time financial services provided by CNOOC Finance and, therefore, entered into the Financial Services Agreement with CNOOC Finance on 23 October 2020, pursuant to which CNOOC Finance will provide to the Group a range of financial services that the Group may require, including the following:

1. provision of financing services to the Group, including but not limited to loans;
2. deposit services;
3. notes acceptance and discounting services;
4. arrangement of entrustment loans between the Company and its subsidiaries or among its subsidiaries;
5. transfer and settlement services, including transfer and settlement for transactions between the Company and its subsidiaries and for transactions between the Group and CNOOC Group; and
6. other financial services permitted by the CBIRC to the Group.

The term of the Financial Services Agreement will commence on 1 January 2021 and expire on 31 December 2023 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Financial Services Agreement will be conducted on normal commercial terms and conditions and will be priced in accordance with the following principles:

1. provision of loans to the Group: the interest rates for such loans are determined in accordance with the loan prime rate (LPR) promulgated by the National Interbank Funding Center as authorized by the PBOC from time to time, and with appropriate discount to the comparable loan interest rate provided by major financing banks of the Company.
2. provision of deposit services: the interest rates for such deposits are determined in accordance with the deposit benchmark interest rates for relevant financial institutions as promulgated by the PBOC from time to time, and shall be no less than the comparable deposit interest rate offered by major financing banks of the Company.
3. notes acceptance and discounting services: in providing note acceptance services to the Group, CNOOC Finance will charge service fees that are calculated in accordance with the par value, and the fee rates are determined with appropriate discount to the comparable rate provided by major financing banks of the Company;

in providing note discounting services to the Group by CNOOC Finance, the interest rates are determined by reference to the latest notes market quote, and with applicable discount to the comparable interest rate provided by major financing banks of the Company.

4. arrangement of entrustment loans: the annual service fees are to be calculated based on the outstanding principal of the loans, and the aggregate amount of service fees and loan interest together shall not exceed the interest for securing a loan of the same term directly from independent third party financial institutions by the Company and/or its subsidiaries; and if there are standard rates promulgated by the PBOC or other competent regulatory authorities, the service fees shall be determined with reference to the standard rates promulgated by the PBOC or other competent regulatory authorities and with appropriate discount to the comparable standards provided by major financing banks of the Company.
5. transfer and settlement services in RMB: no service fee will be charged (relevant services in other currencies shall adopt principle 6 as set out below); and
6. other financial services: service fees shall be determined with reference to the relevant standard charging rate promulgated by the PBOC or other competent regulatory authorities, and with appropriate discount to the comparable service fees provided by major financing banks of the Company.

In order to effectively implement the deposit services under the Financial Services Agreement, the Capital Operation Department of the Group will obtain the rates and terms offered by CNOOC Finance and other major and independent PRC commercial banks and deposit benchmark interest rate by the PBOC from time to time and at least quarterly to make sure the rates and terms provided by CNOOC Finance are in compliance with the above-mentioned principles set out in the Financial Services Agreement.

Pursuant to the Financial Service Agreement entered into between the Company and CNOOC Finance, the Company shall be entitled to have a unilateral right of set-off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group, the Group will be able to offset the amount due to the Group from CNOOC Finance against the amount outstanding from the Group to CNOOC Finance, and CNOOC Finance shall not be entitled to have any such offset right in this circumstance.

### *Finance Lease Agreement*

On 23 October 2020, the Company entered into the Finance Lease Agreement with CNOOC Leasing, pursuant to which:

- a. CNOOC Leasing agrees to provide finance lease services to the Group when the Group so requires, by means including but not limited to (1) the Group selling its production facility/equipment to CNOOC Leasing, leasing them back from CNOOC Leasing for its own use and repurchasing them at the end of the lease period; or (2) CNOOC Leasing purchasing production facility/equipment in accordance with the Group's choice of the suppliers and the facility/equipment, leasing them to the Group for its use and selling them to the Group at the end of the lease period; and
- b. the Group agrees to pay lease rent (principal plus lease interest) and commission fees to CNOOC Leasing for provision of the finance lease service.

The term of the Finance Lease Agreement will commence on 1 January 2021 and expire on 31 December 2023, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions contemplated under the Finance Lease Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those provided to independent third parties by CNOOC Leasing, and the principal amount, the lease interest rate and commission fees shall be determined in accordance with the following principles:

- a. principal amount: for scenario 1 above, the principal amount shall be determined with reference to the net book value of such production facility/equipment or the appraised value of such production facility/equipment to be prepared by an independent valuer, and shall not be less favorable than that provided by an independent third party financial institution to the Group; for scenario 2, the principal amount shall be determined based on the purchase price of such production facility/equipment, and shall not be less favorable than that provided by an independent third party financial institution to the Group; and
- b. lease interest and commission fees: the consolidated rate of lease interest plus commission fees during the lease period shall not be higher than the available loan interest rate quoted from the PRC commercial banks for the corresponding period.

The Capital Operation Department of the Company are responsible for gathering quotes from independent finance lease companies or major and independent PRC commercial banks and assessing the qualifications and terms offered to make sure the terms offered in the specific finance lease agreement by CNOOC Leasing are no less favorable to the Group than those offered by independent third parties. The results will be submitted to senior management of the Company for final approval.

The Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific terms and conditions of obtaining such finance lease services according to the principles laid down by the Finance Lease Agreement.

### **Continuing connected transactions with Kingboard and its associates**

#### ***Kingboard Product Sales and Services Agreement***

The Company entered into the Kingboard Product Sales and Services Agreement with Kingboard on 23 October 2020, pursuant to which the Company agreed to sell products produced by the Group, including but not limited to methanol; and to provide related services such as transportation services to Kingboard and its associates, including but not limited to short-distance transportation, train loading, ship loading, sea transportation, railway transportation, purchase/arrangement of cargo transportation insurance.

The term of Kingboard Product Sales and Services Agreement will commence on 1 January 2021 and expire on 31 December 2023 but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

The transactions under the Kingboard Product Sales and Services Agreement will be conducted on normal commercial terms and conditions which shall not be less favorable than those offered to independent third parties by the Group and priced in accordance with the following principles:

1. not lower than the prices charged by the Group to comparable independent third parties for sales or provision of the same type of products or services; or
2. with reference to the prices for the same type of products or services sold or provided in the same areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties; or
3. with reference to the prices for the same type of products or services sold or provided in the adjacent areas charged on normal terms in the ordinary and usual course of its business by comparable independent third parties.

Nevertheless, when relevant government authorities publish a government-prescribed price in relation to the transactions contemplated under Kingboard Product Sales and Services Agreement during the term of the Kingboard Product Sales and Services Agreement, the relevant prices shall be adjusted with reference to government-prescribed price accordingly.

Kingboard (and/or its associates) and the Group may, from time to time when the situation requires, enter into separate agreements which will set out the specific products and scope of services, terms and conditions of selling products or providing services according to the principles laid down by the Kingboard Product Sales and Services Agreement.

In order to ensure that the price of the Kingboard Product Sales and Services Agreement is determined on a fair and reasonable basis and in accordance with the pricing principle, the Company has adopted the following procedures when determining the price of the services provided and the price of the products sold:

*1. As for provision of services by the Group to Kingboard and its associates*

Before entering into specific service provision agreements with Kingboard and its associates, the designated department of the Group will evaluate and assess the scope of the relevant services requested and prepare a fee proposal based on detailed cost calculation referencing to cost of materials, products and labors, technical difficulties and expertise involved, as well as fee quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available), which will be submitted to the management for approval, so as to ensure that the fees for the services that the Group will be charging Kingboard and its associates are competitive and comparable to those being offered to independent third party customers of the Group.

*2. As for sale of products by the Group to Kingboard and its associates*

The Company has set up the Sales and Pricing Committee, which comprises senior management and executives from the Marketing Center, the Financial Management Department, the Audit Department and the Capital Operation Department of the Company, to determine the price of products for sale. The Marketing Center of the Company will gather market information, such as the recent market trend and the prices charged by competitors of the Group in the market, and propose the selling price for the products to be sold taking into consideration the selling price proposed by the local marketing team and market information gathered. The proposed selling price will then be reported to the Sales and Pricing Committee which will review the rationales and basis for determining the proposed price before approving the price. The specific products sales agreements will then be entered into at the approved price.

## HISTORICAL TRANSACTION FIGURES AND THE PROPOSED ANNUAL CAPS WITH RESPECT TO CONTINUING CONNECTED TRANSACTIONS

Set out below are the historical amounts of the continuing connected transactions of the Company for the two previous financial years ended 31 December 2019 and the nine months ended 30 September 2020 and the approved annual caps for the three years ending 31 December 2020:

| Category of the Continuing Connected Transactions   | Year ended 31 December 2018 |              | Year ended 31 December 2019 |              | Nine months ended 30 September 2020 | Year ended 31 December 2020 |
|---|-----------------------------|--------------|-----------------------------|--------------|-------------------------------------|-----------------------------|
|   | Actual amount               | Approved cap | Actual amount               | Approved cap | Actual amount                       | Approved cap                |
| <i>Amounts in RMB'000</i>   |                             |              |                             |              |                                     |                             |
| Properties Leasing Agreement:<br>Lease of properties by the Group from CNOOC Group  | 26,861                      | 27,969       | 25,996                      | 27,969       | 19,587                              | 27,969                      |
| Lease of properties by CNOOC Group from the Group   | 6,796                       | 7,150        | 6,804                       | 7,150        | 5,197                               | 7,150                       |
| Natural Gas Sale and Purchase Agreements:<br>Purchase of natural gas by the Group from CNOOC China Limited ( <i>Note 1</i> )                                    | 2,333,978                   | 2,922,470    | 2,446,715                   | 2,945,741    | 1,837,747                           | 2,967,467                   |
| Comprehensive Services and Product Sales Agreement:<br>Provision of services and supplies and sale of products by CNOOC Group to the Group ( <i>Note 2</i> )    | 181,897                     | 304,247      | 430,613                     | 498,525      | 334,137                             | 691,638                     |
| Provision of services and supplies and sale of products by the Group to CNOOC Group ( <i>Note 3</i> )   | 564,898                     | 1,426,892    | 504,550                     | 1,624,386    | 344,873                             | 2,065,922                   |
| Financial Services Agreement:<br>Deposits placed by the Group with CNOOC Finance  | 399,941                     | 400,000      | 399,857                     | 400,000      | 399,498                             | 400,000                     |
| Kingboard Product Sales and Services Agreement:<br>Sale of products and provision of services by the Group to Kingboard and/or its associates ( <i>Note 4</i> ) | 418,658                     | 451,796      | 267,770                     | 464,244      | 149,053                             | 474,508                     |
| Finance Lease Agreement:<br>Provision of finance leasing services by CNOOC Leasing to the Group ( <i>Note 5</i> )   | 1,396,118                   | 1,473,000    | 1,140,235                   | 1,579,000    | 1,098,092                           | 1,579,000                   |

*Notes:*

1. The difference between the actual transaction amount and the approved annual caps from 2018 to 2020 was because the proposed annual caps for the three financial years ending on 31 December 2020 were determined based on theoretical maximum amount of gas consumption on a full-year running basis without considering non-scheduled stops in each production plant of the Company in Hainan.
2. The difference between the actual transaction amount and the approved annual caps from 2018 to 2020 was mainly caused by the reduced procurement by the Group of potash from CNOOC Group due to availability of more favourable price provided by third parties.
3. The difference between the actual transaction amount and the approved annual caps from 2018 to 2020 was mainly caused by (1) the change in accounting treatment from the full amount method to the net amount method for the company that is expected to undertake the primary potash sales business; (2) the decrease in price of methanol due to unfavorable market conditions; and (3) the decrease in liquid hydrogen sales volumes as compared to the expected sales volumes.
4. The difference between the actual transaction amount and the approved annual caps from 2018 to 2020 was mainly caused by the decrease in the price of methanol due to unfavourable market conditions.
5. The difference between the actual transaction amount and the approved annual caps from 2018 to 2020 was mainly caused by the change in the term of the finance lease agreements from three years to one year in 2019, and the principal amount of finance lease is lower than expected.

The table below set out the proposed annual caps for the continuing connected transactions:

| Category of the Continuing Connected Transactions  |                              | Year ending      | Year ending      | Year ending      |
|--|------------------------------|------------------|------------------|------------------|
|  |                              | 31 December 2021 | 31 December 2022 | 31 December 2023 |
|  |                              | (Note 1)         | (Note 1)         | (Note 1)         |
| <i>Amounts in RMB'000</i>  |                              |                  |                  |                  |
| Properties Leasing Agreement:  |                              |                  |                  |                  |
| Lease of properties by the Group from CNOOC Group (Note 5)   | Caps (Note 2)                | 32,728           | 32,728           | 32,728           |
| Lease of properties by CNOOC Group from the Group (Note 5)   | Caps (Note 2)                | 7,486            | 7,486            | 7,486            |
| Natural Gas Sale and Purchase Agreements:  |                              |                  |                  |                  |
| Purchase of natural gas by the Group from CNOOC China Limited (Note 6)                               | Proposed Caps (Note 3)       | 2,814,157        | 2,879,788        | 2,945,829        |
| Comprehensive Services and Product Sales Agreement: (Note 7)   |                              |                  |                  |                  |
| Provision of services and supplies and sale of products by CNOOC Group to the Group (Note 8)         | Proposed Caps (Note 3)       | 893,208          | 900,221          | 915,437          |
| Provision of services and supplies and sale of products by the Group to CNOOC Group (Note 9)         | Proposed Caps (Note 3)       | 766,115          | 795,696          | 810,356          |
| Financial Services Agreement: (Note 10)  |                              |                  |                  |                  |
| Deposits placed by the Group with CNOOC Finance (Note 11)  | Proposed Caps (Note 3 and 4) | 400,000          | 400,000          | 400,000          |
| Kingboard Product Sales and Services Agreement:  |                              |                  |                  |                  |
| Sale of products and provision of services by the Group to Kingboard and/or its associates (Note 12) | Caps (Note 2)                | 315,893          | 336,929          | 355,965          |
| Finance Lease Agreement:   |                              |                  |                  |                  |
| Provision of finance leasing services by CNOOC Leasing to the Group (Note 13)                        | Proposed Caps (Note 3)       | 1,104,000        | 1,108,000        | 1,108,000        |

*Notes:*

1. In respect of all continuing connected transactions of the Company, the Directors have estimated the annual transaction figures for the coming three financial years ending on 31 December 2023 on the following basis:
  - (a) the continuing connected transactions continuing to be entered into on the terms and conditions set out in the relevant agreements;
  - (b) the continuing connected transactions continuing to be entered into in the ordinary and usual course of business of the Group and upon normal commercial terms;
  - (c) reference being made to the historical amounts for the two financial years ended 31 December 2019 and the nine months ended 30 September 2020; and
  - (d) no material adverse changes to the state of the PRC economy, the business expansion of the Group, the level of prices and demand for the Group's products and the materials and services needed by the Group for its operation and development.
2. These figures refer to continuing connected transactions which are expected to be exempt from Independent Shareholders' approval requirements under rule 14A.73(1) of the Listing Rules because the applicable percentage ratios are expected to be kept below 5%. The caps refer to the maximum annual transaction figures within which each relevant type of transactions will be conducted in the corresponding year. If the actual transaction amount exceeds the cap but is within the threshold of 5% of the applicable percentage ratios, the Company will make an announcement pursuant to Rule 14A.54 of the Listing Rules. If the actual transaction amount is expected to exceed the threshold of 5% of the applicable percentage ratios, the Company will seek prior approval of independent shareholders under Rule 14A.54 of the Listing Rules.
3. The Proposed Caps are subject to Independent Shareholders' approval at the EGM.
4. These caps refer to the maximum daily balance during the relevant period.
5. **Properties Leasing Agreement:** The caps refer to the leasing fees to be paid by the Group to CNOOC Group or the leasing fees to be paid by CNOOC Group to the Group, and the determination of the caps is mainly based on data of historical transactions. According to International Financial Reporting Standard 16, the Group has selected not to recognise right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with those leases as an expense in profit or loss on a straightline basis over the lease term. Therefore, no right-of-use asset will be recognised in respect of transactions contemplated under the Properties Leasing Agreement.
6. **Natural Gas Sale and Purchase Agreements:** The determination of the annual caps is mainly based on:
  - (1) the estimated price of natural gas to be supplied for Hainan Plants;
  - (2) the theoretical maximum amount of gas consumption based on the highest possible operation days of each production plant of the Group in Hainan; and
  - (3) a 3% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market changes.

7. ***Comprehensive Services and Product Sales Agreement:*** In order to facilitate effective internal control of the continuing connected transactions contemplated under the Comprehensive Services and Product Sales Agreement, the Company will divide, so far as practicable, such transactions into two categories, which are (i) the provision of services and supplies and sale of products by CNOOC Group to the Group, and (ii) the provision of services and supplies and sale of products by the Group to CNOOC Group.
8. ***Comprehensive Services and Product Sales Agreement (Provision of services and supplies and sale of products by CNOOC Group to the Group):*** The determination of the annual caps is mainly based on the following aspects: (1) expected increase in the procurement demand of services and supplies and sale of products by the Group from CNOOC Group as the Group has reached an agreement with the CNOOC Gas and Power in relation to CNOOC Gas and Power's provision of gas for CNOOC Tianye in the winter by way of transition to ensure the continuous production of CNOOC Tianye in winter; (2) the amount of potash the Group expects to purchase from CNOOC Group; and (3) a 5% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market change.
9. ***Comprehensive Services and Product Sales Agreement (Provision of services and supplies and sale of products by the Group to CNOOC Group):*** The determination of the annual caps is mainly based on (1) the estimated amount of sales of methanol, urea, phosphate fertiliser, compound fertiliser and logistics support to CNOOC Group by the Group; and (2) a 5% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market change.
10. ***Financial Services Agreement:*** In view of PBOC's liquidity regulation policies over domestic banks in the PRC, it is very important for the Group to be able to secure timely and sufficient financings from CNOOC Finance. There are two types of loans granted by CNOOC Finance to the Group: (1) loans where security over the Group's assets is required to be created in favour of CNOOC Finance; and (2) loans where no security over the assets of the Group is required to be created in favour of CNOOC Finance. As no type (1) loan had been obtained since 2012 and the Group does not anticipate that any type (1) loan will be granted by CNOOC Finance to the Group in the future, all loans granted by CNOOC Finance to the Group (which were previously referred to as the transactions in respect of the provision of loans to the Company) now do not require any security over the Group's assets. Therefore, these transaction contemplated thereunder constitute financial assistance provided by CNOOC Group to the Group which will be fully exempt from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules. If any loan to be granted by CNOOC Finance to the Group in the future requires any security over the Group's assets to be given in respect of such loan, the Group will duly comply with the Listing Rules and make the relevant disclosures as appropriate.
11. ***Financial Services Agreement (Deposits placed by the Group with CNOOC Finance):*** The determination of the annual caps is mainly based on data of historical transactions.
12. ***Kingboard Product Sales and Services Agreement:*** The determination of the annual caps is mainly based on (1) the Group's sales plan for methanol and the estimate on its future selling prices; and (2) a 5% buffer for fluctuation in commodity price, future operation needs of the Company and possible market change.

13. **Finance Lease Agreement:** The determination of the annual caps, being the maximum principal amount outstanding plus lease interest and commission fees accrued under the finance leases for each respective financial year, is mainly based on potential demand for finance lease services by the Group from CNOOC Leasing for its daily operation and development and with reference to the mode of the finance lease business. According to International Financial Reporting Standard 16, the Group has elected not to recognise right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with those leases as an expense in profit or loss on a straightline basis over the lease term. Therefore, no right-of-use asset will be recognised in respect of transactions contemplated under the Finance Lease Agreement.

## **MEASURES TO ENSURE COMPLIANCE WITH THE LISTING RULES**

The Company has established comprehensive internal control system and adopted various internal control rules, including connected transaction management measures, sales and pricing management measures and procurement and tender administration measures, to ensure that the continuing connected transactions are conducted in accordance with the executed agreements. Before entering into a specific connected transaction agreement, the designated department of the Group will review and assess whether the rates and terms set out in the specific agreement are consistent with the executed framework agreement to ensure that the interests of the Shareholders as a whole are taken into account and protected. The Company has set up the Audit Department to audit and assess the operation of the internal control management system of the Company and report to the audit committee of the Board and the Board in connection to the status of the internal control of the Company (including the implementation status of connected transactions) regularly. The audit committee of the Board and the supervisory committee of the Company will also regularly conduct assessment on the internal control system of the Company and its subsidiaries in order to ensure the effectiveness of the internal control system of the Group, including internal control measures in respect of connected transactions management. Furthermore, the audit committee of the Board convenes meetings twice a year to discuss and assess the implementation of connected transactions. In addition, the Company's external auditors shall conduct an interim review and a year-end audit on the Company's internal control measures, including connected transactions.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Company is one of the major subsidiaries of CNOOC which is one of the largest petroleum companies in China. In view of the extensive resources and experience of CNOOC Group, it is desirable for the Group to seek supports and maintain business relationships with CNOOC Group, and the transactions contemplated thereunder will secure stable and reliable supply of raw material and services for the Company's production and expand the financing channels of the Company and lower its financing cost.

Kingboard is the business partner of the Company with respect to CNOOC Jiantao. It, together with its parent company Kingboard Holdings and its other associates, also maintains close business relationship with the Group in terms of product sale and purchase. It is beneficial for the Group to enter into commercial arrangements and transactions with Kingboard and its associates.

The continuing connected transactions of the Company are or will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to carry out the continuing connected transactions as those transactions have facilitated and will continue to facilitate the operation of the Group's business. The Directors are of the view that the terms and annual caps of those transactions as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

With respect to the continuing connected transactions that are exempt from independent shareholders' approval requirements under the Listing Rules, the Directors (including the independent non-executive Directors) are of the opinion that such transactions have been entered into, and will be carried out, in the ordinary and usual course of the Group's business, on an arm's length basis and on normal commercial terms, and that the terms and the annual caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## **INFORMATION OF THE PARTIES INVOLVED**

### **Information on the Group**

The Group mainly engages in the developments, production and sales of fertilisers (including urea, phosphate fertiliser and compound fertiliser) and chemical products (primarily methanol and polyformaldehyde).

### **Information on CNOOC and its associates**

CNOOC is the controlling shareholder of the Company and is one of largest state-owned oil companies in the PRC specializing in exploration of oil and gas in the PRC with its headquarters in Beijing. It is the largest offshore oil and gas producer in the PRC. Since its establishment, it has sustained continuous developments and had advanced from a company engaging only in exploitation of oil and gas to an integrated conglomerate with prominent main business and a complete production chain including upstream petroleum businesses (such as exploration, development, production and sales of oil and gas), downstream petroleum businesses (such as refining, petrochemicals, use of natural gas, power generation, the manufacturing and sale of fertilisers and chemicals) and financial services.

CNOOC Limited is a subsidiary of CNOOC. CNOOC Limited and its subsidiaries principally engage in exploration, development, production and sales of offshore oil and natural gas.

CNOOC China Limited is a subsidiary of CNOOC Limited and principally engages in exploration, development, production and sales of offshore petroleum in the PRC.

CNOOC Finance is a subsidiary of CNOOC and a non-bank financial institution with the approval of the PBOC. It is subject to the supervision of the CBIRC. It has been providing financial services to members of CNOOC Group (including the Group) as an intra-group service provider.

CNOOC Leasing is a wholly-owned subsidiary of CNOOC and principally engages in finance leasing and leasing, purchasing leasing assets from vendors abroad, salvage value disposal and maintenance of the leasing assets, lease transaction consultation and guarantee.

### **Information on Kingboard and its associates**

Kingboard is a company incorporated in Hong Kong with limited liability and a subsidiary of Kingboard Holdings. The principal activities of Kingboard is investment holding.

Kingboard Holdings is a company incorporated in Cayman Islands with limited liability and the controlling shareholder of Kingboard. The principal activities of Kingboard Holdings and its subsidiaries are the manufacturing of laminates, copper foil, glass fabric, glass yam, bleached kraft paper, printed circuit boards, chemicals, liquid crystal displays and magnetic products. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the ultimate beneficial owner of Kingboard Holdings is Hallgain Management Limited, an independent third party of the Company.

## **LISTING RULES IMPLICATIONS**

### **CNOOC and its associates**

CNOOC is the controlling shareholder of the Company. Therefore, CNOOC and its associates (other than the Group) are the Company's connected persons under Rule 14A.07 of the Listing Rules. Given CNOOC Limited, CNOOC Finance and CNOOC Leasing are all subsidiaries of CNOOC and CNOOC China Limited is a wholly-owned subsidiary of CNOOC Limited, all of them are associates of CNOOC and therefore shall be deemed as connected persons of the Company under Rule 14A.07 of the Listing Rules.

As the highest applicable percentage in respect of the Proposed Caps of each of the Non-exempted Continuing Connected Transactions exceeds 5%, these Non-exempted Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the Proposed Caps for the transactions for deposits placed by the Group with CNOOC Finance contemplated under the Financial Services Agreement and the transactions contemplated under the Finance Lease Agreement are more than 5% but less than 25%, the transactions contemplated thereunder also constitute disclosable transactions to the Company under Chapter 14 of the Listing Rules and is therefore subject to announcement requirement under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratios for the transactions contemplated under the Properties Leasing Agreement are more than 0.1% but less than 5%, these transactions are subject to reporting and announcement requirements but shall be exempt from the circular, independent financial adviser and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios for the transactions in respect of the notes acceptance and discounting services, arrangement of entrustment loans between the Company and its subsidiaries or among its subsidiaries, transfer and settlement services and other financial services contemplated under the Financial Services Agreement are less than 0.1%, these transactions are accordingly qualified under Rule 14A.76 of the Listing Rules as de minimis transactions and are exempt from reporting, announcement and Independent Shareholders' approval requirements.

### **Kingboard and its associates**

The Company and Kingboard holds 60% and 40% equity interests of CNOOC Jiantao, respectively. Thus, Kingboard is a substantial Shareholder of CNOOC Jiantao, a subsidiary of the Company. Therefore, Kingboard and its associates (including Kingboard Holdings and its subsidiaries) are connected persons of the Company at the subsidiary level under Chapter 14A of the Listing Rules.

Given that Kingboard and its associates are connected persons of the Company only at the subsidiary level and the Board has approved the transactions contemplated, despite that the highest applicable percentage ratio for the transactions contemplated under the Kingboard Product Sales and Services Agreement exceeds 5%, such transactions are only subject to reporting and announcement requirements and are exempt from the circular, independent financial adviser and Independent Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. The independent non-executive Directors have confirmed that the terms of the transactions contemplated thereunder are fair and reasonable; and that the transaction is on normal commercial terms or better and in the interest of the Company and its Shareholders as a whole.

## **VOTING AT THE BOARD MEETING AND THE EGM**

Due to their positions in CNOOC, Mr. Meng Jun and Mr. Guo Xinjun have abstained from voting at the Board meeting on the resolutions approving or agreeing to submit to Independent Shareholders for approval of the Properties Leasing Agreement, the Comprehensive Services and Product Sales Agreement, the Financial Services Agreement and the Finance Lease Agreement and their respective annual caps or the Proposed Caps contemplated thereunder, and the Proposed Caps of the Natural Gas Sale and Purchase Agreements.

The Company will convene an EGM to obtain the approval from the Independent Shareholders of, among other things:

1. the Proposed Caps for 2021 to 2023 for the continuing connected transactions contemplated under the Natural Gas Sale and Purchase Agreements entered into between the Group and CNOOC China Limited;
2. the Comprehensive Services and Product Sales Agreement entered into between the Company and CNOOC and the Proposed Caps for 2021 to 2023 for the transactions contemplated thereunder;
3. the Financial Services Agreement entered into between the Company and CNOOC Finance and the Proposed Caps for 2021 to 2023 for the transactions contemplated thereunder; and
4. the Finance Lease Agreement entered into between the Company and CNOOC Leasing and the Proposed Caps for 2021 to 2023 for the finance leasing services between the Group and CNOOC Leasing contemplated thereunder.

At the EGM, CNOOC and its associates will abstain from voting with respect to the Non-exempted Continuing Connected Transactions. The relevant resolutions to be proposed at the EGM will be voted by poll in compliance with the Listing Rules.

For the purpose of the EGM, the Board has established the Independent Board Committee (comprising Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun, all of whom are independent non-executive Directors) to consider and advise the Independent Shareholders with respect to (1) the Comprehensive Services and Product Sales Agreement, the Financial Services Agreement and the Finance Lease Agreement, and (2) the Proposed Caps. The Company has also appointed Halcyon Capital as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Non-exempted Continuing Connected Transactions and the Proposed Caps.

Details of the relevant advice and recommendation of Halcyon Capital, together with the principal factors and reasons taken into account by it in arriving at its advice and recommendation will be published in the circular to be dispatched on or around 13 November 2020 in accordance with the Listing Rules.

Upon approval of certain continuing connected transactions by the Independent Shareholders, the Company will comply with the requirements specified under Chapter 14A of the Listing Rules in respect of the conduct of the Non-exempted Continuing Connected Transactions.

## **DESPATCH OF CIRCULAR**

The Company will despatch a circular in accordance with requirements under the Listing Rules, which will contain, among other things,

1. details on (1) certain continuing connected transactions and (2) the Proposed Caps;
2. a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
3. a letter from the Independent Board Committee to the Independent Shareholders; and
4. a notice of the EGM.

The circular is subject to review by the Stock Exchange. The Company expects that the circular will be despatched on or around 13 November 2020 in accordance with the Listing Rules. The Shareholders and potential investors should refer to the circular for further information.

## **DEFINITIONS**

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

|                       |   |
|-----------------------|---|
| “Board”               | the board of Directors  |
| “CBIRC”               | 中國銀行保險監督管理委員會 (China Banking and Insurance Regulatory Commission)   |
| “CNOOC”               | 中國海洋石油集團有限公司 (China National Offshore Oil Corporation*), a state-owned company established in China which is also the controlling Shareholder |
| “CNOOC China Limited” | 中海石油(中國)有限公司 (CNOOC China Limited*), a company established in China and a wholly-owned subsidiary of CNOOC Limited                            |

|  |  |
|--|--|
| “CNOOC Finance”                                      | 中海石油財務有限責任公司 (CNOOC Finance Limited*), a company established in China and a wholly-owned subsidiary of CNOOC   |
| “CNOOC Fudao”  | 海洋石油富島有限公司 (CNOOC Fudao Limited*), a company established in the PRC and is currently a wholly-owned subsidiary of the Company  |
| “CNOOC Gas and Power”                                | 中海石油氣電集團有限責任公司 (CNOOC Gas and Power Group Ltd.*), a company incorporated in the PRC and a subsidiary of CNOOC  |
| “CNOOC Group”  | CNOOC and its associates, excluding the Group  |
| “CNOOC Jiantao”                                      | 中海石油建滔化工有限公司 (CNOOC Kingboard Chemical Limited*), a company established in China and the equity interest of which is owned as to 60% by the Company and 40% by Kingboard |
| “CNOOC Leasing”                                      | 中海油國際融資租賃有限公司 (CNOOC International Financial Leasing Limited*), a company incorporated in the PRC with limited liability and a wholly owned subsidiary of CNOOC          |
| “CNOOC Limited”                                      | 中國海洋石油有限公司 (CNOOC Limited*), a company listed on the Stock Exchange (Stock Code: 0883) and the New York Stock Exchange (Stock Code: CEO) and a subsidiary of CNOOC       |
| “CNOOC Tianye”                                       | 中海石油天野化工有限責任公司 (CNOOC Tianye Chemical Limited*), a company incorporated in the PRC and a none-wholly owned subsidiary of the Company                                     |
| “Company”  | 中海石油化學股份有限公司 (China BlueChemical Ltd.*), a company incorporated in the PRC and a subsidiary of CNOOC, the H shares of which are listed on the Stock Exchange             |
| “Comprehensive Services and Product Sales Agreement” | the comprehensive services and product sales and purchase framework agreement dated 23 October 2020 entered into between the Company and CNOOC                           |
| “CPI”  | Consumer Price Index   |
| “Director(s)”  | director(s) of the Company   |

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|--|--|
| “Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement” | the Dongfang 13-2 gasfield group natural gas sale and purchase agreement dated 3 November 2017 among the Company, CNOOC Fudao and CNOOC China Limited  |
| “EGM”  | the extraordinary general meeting of the Company to be held at 9:00 a.m. on Tuesday, 29 December 2020 at the Meeting Room 1401, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC to be convened, among other things, for the Independent Shareholders to consider and, if thought fit, approve the agreements in relation to certain continuing connected transactions and the Proposed Caps, and any adjournment thereof   |
| “Finance Lease Agreement”  | the finance lease framework agreement dated 23 October 2020 entered into between the Company and CNOOC Leasing   |
| “Financial Services Agreement”   | the financial services framework agreement dated 23 October 2020 entered into between the Company and CNOOC Finance  |
| “Four Major Types of Crude Oil”  | the four types of crude oil referred to in Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement, Natural Gas Sale and Purchase Framework Agreement and Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited and Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement entered into between CNOOC China Limited and CNOOC Jiantao mean West Texas Intermediate Crude Oil (西德克薩斯中質原油), Tapis Crude Oil (塔皮斯原油), Brent Crude Oil (混合布倫特原油) and Minas Crude Oil (米納斯原油) |
| “Fudao Phase I Urea Plant”   | the Company’s urea plant with a 520,000-tonne annual capacity in Hainan  |
| “Fudao Phase II Urea Plant”  | the Company’s urea plant with an 800,000-tonne annual capacity in Hainan   |
| “Group”  | the Company and its subsidiaries from time to time   |
| “Hainan Phase I Methanol Plant”  | the Company’s methanol plant with a 600,000-tonne annual capacity in Hainan  |
| “Hainan Phase II Methanol Plant”                                       | the Company’s methanol plant with an 800,000-tonne annual capacity in Hainan   |

|  |   |
|--|---|
| “Hainan Plants”                                      | Fudao Phase I Urea Plant, Fudao Phase II Urea Plant, Hainan Phase I Methanol Plant and Hainan Phase II Methanol Plant   |
| “Hong Kong”  | the Hong Kong Special Administrative Region of the PRC  |
| “Independent Board Committee”                        | an independent committee of the Board comprising Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the agreements in relation to certain continuing connected transactions and the Proposed Caps   |
| “Independent Financial Adviser” or “Halcyon Capital” | Halcyon Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempted Continuing Connected Transactions and the Proposed Caps |
| “Independent Shareholders”                           | Shareholders other than those who have interest in the relevant Non-exempted Continuing Connected Transactions  |
| “Kingboard”  | 建滔投資有限公司 (Kingboard Investments Limited*), a Hong Kong incorporated subsidiary of Kingboard Holdings, which holds 40% equity interest in CNOOC Jiantao  |
| “Kingboard Holdings”                                 | Kingboard Holdings Limited, a company listed on the Stock Exchange (stock code: 0148), formerly known as Kingboard Chemical Holdings Limited  |
| “Kingboard Product Sales and Services Agreement”     | the product sales and purchase and related services framework agreement dated 23 October 2020 entered into between the Company and Kingboard  |
| “Listing Rules”                                      | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |

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| “Natural Gas Sale and Purchase Agreements”       | the five long-term agreements the Group has entered into with CNOOC China Limited, including (i) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited dated 28 July 2003, (ii) Dongfang 1-1 Offshore Gasfield Natural Gas Sale and Purchase Agreement entered into between CNOOC Jiantao and CNOOC China Limited dated 10 March 2005, (iii) Natural Gas Sale and Purchase Framework Agreement entered into between the Company and CNOOC China Limited dated 1 September 2006 and Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited dated 26 March 2010 thereunder, (iv) the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement entered into among the Company, CNOOC Fudao and CNOOC China Limited on 28 October 2014 and the Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Agreement entered into among the Company, CNOOC Fudao and CNOOC China Limited dated 18 May 2015 thereunder, and (v) Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement entered into among the Company, CNOOC Fudao and CNOOC China Limited dated 3 November 2017 |
| “Non-exempted Continuing Connected Transactions” | the continuing connected transactions contemplated under (i) the Natural Gas Sale and Purchase Agreements, (ii) the Comprehensive Services and Product Sales Agreement, (iii) the Financial Services Agreement (with respect to deposits placed by the Group with CNOOC Finance), and (iv) the Finance Lease Agreement, which are subject to Independent Shareholders’ approval at the EGM   |
| “PBOC”   | 中國人民銀行 (the People’s Bank of China)  |
| “Platts Crude Oil Marketwire”                    | Platts Crude Oil Marketwire is published by Platts which is a leading global provider of energy and metals information. Platts has been widely recognised by the crude oil industry due to the high accuracy and quick update of the information provided by it, and its fair and transparency as an independent information provider. So far, major oil companies and trading companies both in China and abroad have adopted the oil price information provided by Platts as the basis to conduct their business   |
| “PRC” or “China”                                 | the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region and Taiwan  |

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| “Properties Leasing Agreement” | the properties leasing framework agreement dated 23 October 2020 entered into between the Company and CNOOC  |
| “property(ies)”                | certain buildings and/or land use rights   |
| “Proposed Cap(s)”              | the proposed maximum annual aggregate value(s) for each type of the Non-exempted Continuing Connected Transactions of the Company for each year in the period commencing from 1 January 2021 to 31 December 2023 |
| “Prospectus”                   | the Hong Kong prospectus of the Company dated 18 September 2006  |
| “RMB”                          | Renminbi, the lawful currency of the PRC   |
| “Shareholder(s)”               | shareholder(s) of the Company  |
| “Stock Exchange”               | The Stock Exchange of Hong Kong Limited  |
| “%”                            | per cent   |

*In addition, the terms “associate”, “connected person”, “connected transaction”, “continuing connected transaction”, “controlling shareholder”, “substantial shareholder”, “percentage ratio(s)” and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.*

*\* The Chinese name(s) of the PRC entities have been translated into English in this announcement for reference only. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.*

By order of the Board  
**China BlueChemical Ltd.\***  
**Wu Xiaoxia**  
*Company Secretary*

Beijing, the PRC,  
23 October 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Wang Weimin and Mr. Hou Xiaofeng, the non-executive directors of the Company are Mr. Meng Jun and Mr. Guo Xinjun, and the independent non-executive directors of the Company are Ms. Karen Lee Kit Ying, Mr. Eddie Lee Kwan Hung and Mr. Yu Changchun.*

*\* For identification purpose only*