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

(Stock Code: 3983)

**PROPOSED REVISION OF CURRENT ANNUAL CAPS
FOR THE PROVISION OF SERVICES AND
SUPPLIES AND SALE OF PRODUCTS
BY CNOOC GROUP TO THE GROUP UNDER THE
COMPREHENSIVE SERVICES AND PRODUCT SALES AGREEMENT**

We refer to the announcement of the Company dated 3 November 2017, the circular dated 13 November 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 28 December 2017 in relation to, among others, (i) the Comprehensive Services and Product Sales Agreement entered into between CNOOC and the Company dated 3 November 2017; and (ii) the Current Annual Caps for the provision of services and supplies and sale of products by CNOOC Group to the Group for the years ending 31 December 2019 and 2020 under the Comprehensive Services and Product Sales Agreement.

During the process of the Company's internal review on continuing connected transactions, it was noted that the transaction amount (unaudited) relating to the provision of services and supplies and sale of products by CNOOC Group to the Group under Comprehensive Services and Product Sales Agreement was approximately RMB260.4 million for the nine months ended 30 September 2019, and the transaction amounts for year 2019 and 2020 are expected to exceed the threshold of 5% of the applicable percentage ratios under the Listing Rules. Therefore, the Board proposes to seek prior approval of Independent Shareholders under Rule 14A.54 of the Listing Rules to revise the Current Annual Caps for the two years ending 31 December 2019 and 2020.

CNOOC is the controlling shareholder of the Company. Therefore, CNOOC Group (other than the Group) are the Company's connected persons under Rule 14A.07 of the Listing Rules. As a result, the Transactions constitute continuing connected transactions of the Company. Pursuant to Rule 14A.54(1) of the Listing Rules, the Company is requested to re-comply with the announcement and shareholders' approval requirements before the Current Annual Caps are exceeded and it proposes to adopt the Proposed Revised Annual Caps. As the highest applicable percentage ratio in respect of Proposed Revised Annual Caps exceeds 5%, the Proposed Revised Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

We refer to the announcement of the Company dated 3 November 2017, the circular dated 13 November 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 28 December 2017 in relation to, among others, (i) the Comprehensive Services and Product Sales Agreement entered into between CNOOC and the Company dated 3 November 2017; and (ii) the Current Annual Caps for the provision of services and supplies and sale of products by CNOOC Group to the Group for the years ending 31 December 2019 and 2020 under the Comprehensive Services and Product Sales Agreement.

During the process of the Company's internal review on continuing connected transactions, it was noted that the transaction amount (unaudited) relating to the provision of services and supplies and sale of products by CNOOC Group to the Group under Comprehensive Services and Product Sales Agreement was approximately RMB260.4 million for the nine months ended 30 September 2019, and the transaction amounts for year 2019 and 2020 are expected to exceed the threshold of 5% of the applicable percentage ratios under the Listing Rules. Therefore, the Board proposes to seek prior approval of Independent Shareholders under Rule 14A.54 of the Listing Rules to revise the Current Annual Caps for the two years ending 31 December 2019 and 2020.

PRINCIPAL TERMS OF THE TRANSACTIONS UNDER COMPREHENSIVE SERVICES AND PRODUCT SALES AGREEMENT

Terms and conditions of the Comprehensive Services and Product Sales Agreement as mentioned in “Comprehensive Services and Product Sales Agreement” of the announcement of the Company dated 3 November 2017 remain unchanged.

DATE

3 November 2017

Parties

- (a) The Company
- (b) CNOOC

Scope of Provision of Services and Supplies and Sale of Products

In relation to the provision of services and supplies and sale of products by CNOOC Group to the Group under the Comprehensive Services and Product Sales Agreement,

- a. 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
- b. CNOOC Group has agreed to sell products (potash, medicament and natural gas etc.) to the Group.

Term

The term of the Comprehensive Services and Product Sales Agreement commenced on 1 January 2018 and will expire on 31 December 2020, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Pricing Principles

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

- i. 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
- ii. 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
- iii. 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.

All the prices for the provision of services and supplies and sale of products by the CNOOC Group to the Group under the Comprehensive Services and Product Sale Agreement have been and will be determined through tendering process (if practicable) with reference to the comparable market prices of the same type of services or supplies or products.

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 its term, the relevant prices shall be adjusted with reference to the government-prescribed price accordingly.

PRICING PROCEDURES

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.

REVISION OF THE CURRENT ANNUAL CAPS

Proposed Revised Annual Caps and historical figures

It is expected that the transaction volume of the Transactions may increase for the years 2019 and 2020. As such, the Company proposes to revise the Current Annual Caps.

Transaction type	Current Annual Caps for the year ending 31 December		Proposed Revised Annual Caps for the year ending 31 December	
	2019	2020	2019	2020
	(RMB'000)		(RMB'000)	
Provision of services and supplies and sale of products by CNOOC Group to the Group	383,469	390,796	498,525	691,638

The historical amounts of the Transactions for the year ended 31 December 2018 and the nine months ended 30 September 2019, were approximately RMB181,897,000 and RMB260,399,000 (unaudited), respectively.

Basis of the Proposed Revised Annual Caps

The reasons for the increase of the historical amounts mentioned above and the basis of the Proposed Revised Annual Caps considered by the Directors are as follows:

- (i) CNOOC Tianye, located in Inner Mongolia, uses natural gas as its main raw material, while the natural gas supply in northern China in winter is tight, causing it to stop production sometimes in winter. Therefore, in order to ensure the continuous production of CNOOC Tianye in winter, the Group has reached an agreement with the CNOOC Gas and Power to provide gas for CNOOC Tianye in the winter of 2019 and 2020 by way of transition. As a result, the procurement demand of services and supplies and sale of products by the Group from CNOOC Group under the Comprehensive Services and Product Sales Agreement is expected to increase; and
- (ii) a 5% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market changes.

As at the date of this announcement, the transaction amount of the Transactions has not exceeded the Current Annual Cap.

Reasons and Benefits for the Revision of Current Annual Caps

The company anticipates that, as disclosed above, the demand for procurement of services, supplies, and products by the Group from CNOOC Group under the Comprehensive Services and Product Sales Agreement will increase. The Transactions are necessary for daily manufacturing and operation and in line with the interests of the Group. 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 will secure stable and reliable supply of raw material and services for the Company's production.

The Comprehensive Services and Product Sales Agreement and the Transactions are 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 the Transactions and the Proposed Revised Annual Caps as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole, as the Transactions has facilitated and will continue to facilitate the operation of the Group's business.

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.

GENERAL INFORMATION

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

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.

IMPLICATIONS OF THE LISTING RULES

CNOOC is the controlling shareholder of the Company. Therefore, CNOOC Group (other than the Group) are the Company's connected persons under Rule 14A.07 of the Listing Rules. As a result, the Transactions constitute continuing connected transactions of the Company. Pursuant to Rule 14A.54(1) of the Listing Rules, the Company is requested to re-comply with the announcement and shareholders' approval requirements before the Current Annual Caps are exceeded and it proposes to adopt the Proposed Revised Annual Caps. As the highest applicable percentage ratio in respect of Proposed Revised Annual Caps exceeds 5%, the Proposed Revised Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 resolution agreeing to submit to Independent Shareholders for approval of the Proposed Revised Annual Caps.

The Company will convene an EGM to obtain the approval from the Independent Shareholders in respect of the Proposed Revised Annual Caps.

At the EGM, CNOOC Group will abstain from voting with respect to the Proposed Revised Annual Caps. The relevant resolution 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 the Proposed Revised Annual Caps.

The Independent Board Committee will advise the Independent Shareholders in respect of the Proposed Revised Annual Caps. Halcyon Capital, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 27 November 2019 in accordance with the Listing Rules.

Upon approval of the Proposed Revised Annual Caps 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 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 the Proposed Revised Annual Caps;
2. a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and
3. a letter from the Independent Board Committee to the Independent Shareholders.

The circular is subject to review by the Stock Exchange. As additional time is required for the Company to prepare and finalize certain information to be included in the Circular, it is expected that the circular will be despatched on or around 27 November 2019. 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 requires otherwise:

“Board”	the board of Directors
“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 of the Company
“CNOOC Group”	CNOOC and its associates, excluding the Group
“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 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 3 November 2017 entered into between the Company and CNOOC, which has been reviewed and approved by Shareholders on the 2017 extraordinary general meeting of the Company held on 28 December 2017

“Current Annual Cap(s)”	the current annual caps for the provision of services and supplies and sale of products by CNOOC Group to the Group for the two years commencing on 1 January 2019 and ending 31 December 2019 and 2020 under the Comprehensive Services and Product Sales Agreement, being RMB383,469,000 and RMB390,796,000, respectively
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Friday, 20 December 2019 at the Meeting Room, 3rd Floor, 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 Proposed Revised Annual Caps, and any adjournment thereof
“Group”	the Company and its subsidiaries from time to time
“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 Proposed Revised Annual Caps under the Comprehensive Services and Product Sales Agreement
“Independent Financial Adviser” or “Halcyon Capital”	Halcyon Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Revised Annual Caps
“Independent Shareholders”	Shareholders other than CNOOC Group
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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

“Proposed Revised Annual Cap(s)”	the proposed revised annual caps for the provision of services and supplies and sale of products by CNOOC Group to the Group for the two years commencing on 1 January 2019 and ending 31 December 2019 and 2020 under the Comprehensive Services and Product Sales Agreement, being RMB498,525,000 and RMB691,638,000
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction(s)”	the continuing connected transactions in relation to the provision of services and supplies and sale of products by CNOOC Group to the Group under the Comprehensive Services and Product Sales Agreement
“%”	percent

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

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

Beijing, the PRC
4 November, 2019

As at the date of this announcement, the executive directors of the Company are Mr. Xia Qinglong and Mr. Wang Weimin, 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 purposes only*