THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other independent professional adviser.

If you have sold or transferred all your shares in **China BlueChemical Ltd.**, you should at once hand this circular, together with the enclosed form of proxy and reply slip, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中海石油化学股份有限公司
China BlueChemical Ltd.*

(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 NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

HALCYON 鎧盛

Halcyon Capital Limited

A notice convening the EGM to be held at the Meeting Room, 3rd Floor, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, PRC on Thursday, 28 December 2017 at 10:00 a.m. is set out on pages 53 to 55 of this circular.

A reply slip and a form of proxy for use at the EGM (or any adjournment thereof) are enclosed and are also published on the website of the Stock Exchange (www.hkexnews.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Friday, 8 December 2017. Whether or not you are able to attend the EGM, you are strongly advised to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) at Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC or the Company's H share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof) (i.e., by 10:00 a.m. on Wednesday, 27 December 2017). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

* *For identification purpose only*

13 November 2017

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In this circular, the following words and expressions shall, unless the context otherwise requires, have the following respective meanings:

"Board"	the board of Directors
"CBRC"	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
"CNOOC"	中國海洋石油集團有限公司 (原中國海洋石油總公司) (China National Offshore Oil Corporation*), a state-owned company established in China which is also the controlling shareholder of the Company
"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 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 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 Investments Limited
"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
"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
"CPI"	Consumer Price Index
"Director(s)"	director(s) of the Company

"Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement"	the Dongfang 13–2 gasfield group natural gas sale and purchase agreement finalized and signed on 3 November 2017 among the Company, CNOOC Fudao and CNOOC China Limited
"EGM"	the extraordinary general meeting of the Company to be held at 10:00 a.m. on Thursday, 28 December 2017 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 agreements in relation to certain continuing connected transactions and the Proposed Caps as set out in this circular, and any adjournment thereof
"Finance Lease Agreement"	the finance lease framework agreement dated 3 November 2017 entered into between the Company and CNOOC Leasing
"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. Lee Kit Ying, Mr. 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 as set out in this circular
"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 agreements in relation to certain continuing connected transactions and the Proposed Caps as set out in this circular
"Independent Shareholders"	Shareholders other than those who have interest in the relevant Non-exempted Continuing Connected Transactions as set out in this circular
"Latest Practicable Date"	9 November 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"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) 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 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 (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group), and (iii) the Finance Lease Agreement, which are subject to Independent Shareholders' approval at the EGM
"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 circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan

"Proposed Cap(s)"	the proposed maximum annual aggregate value(s) for each type of the Non-exempted Continuing Connected Transactions of the Company for the period commencing from 1 January 2018 to 31 December 2020
"Prospectus"	the Hong Kong prospectus of the Company dated 18 September 2006
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of the Company
"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 circular 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.*

中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

Executive Director:
Mr. XIA Qinglong

Non-executive Directors:
Mr. CHEN Bi
Mr. MENG Jun
Mr. GUO Xinjun

Independent non-executive Directors:
Ms. LEE Kit Ying
Mr. LEE Kwan Hung
Mr. YU Changchun

Registered Office:
No. 1 Zhu Jiang South Street
Dongfang City
Hainan Province
The PRC

Principal place of business in Hong Kong:
65/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

13 November 2017

To the Shareholders

Dear Sir/Madam,

INTRODUCTION

We refer to the announcement dated 3 November 2017 of the Company in relation to, among other things, the continuing connected transactions of the Company.

The purposes of this circular are:

(1) to provide details in respect of the Non-exempted Continuing Connected Transactions;

(2) to set out the recommendations from the Independent Board Committee in respect of the agreements in relation to certain continuing connected transactions and the Proposed Caps;

(3) to set out the advice from Halcyon Capital in respect of terms of the agreements in relation to certain continuing connected transactions and the Proposed Caps;

(4) to provide the Shareholders with other information required under the Listing Rules; and

(5) to provide the Shareholders with the notice of the EGM.

SUMMARY OF THE NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Natural Gas Sale and Purchase Agreements

1. Existing 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 circular of the Company dated 14 November 2008, 31 December 2008, 15 November 2011 and 7 November 2014 in relation to, among other things, the continuing connected transactions of the Company.

The Group entered into four 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.

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 circular of the Company dated 7 November 2014, for the above-mentioned natural gas sale and purchase agreement (4), the Dongfang 1–1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework 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 Group 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 have 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 have 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.

All the four 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. Nevertheless, as set out in this circular, the Company is seeking the Independent Shareholders' approval of the proposed caps for the transactions contemplated under the Natural Gas Sale and Purchase Agreements for the three financial years commencing on 1 January 2018 and ending on 31 December 2020.

2. Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement

In order to secure stable and reliable supply of natural gas for the Hainan Plants, the Company, CNOOC Fudao and CNOOC China Limited finalized and signed the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement on 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 the initial delivery date, which is set between 1 August 2018 and 30 November 2018.

The transactions under the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to independent third parties by CNOOC China Limited, and will be 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 Plan and Finance 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 circular 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 Plan and Finance 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 Plan and Finance Department are responsible for negotiating with CNOOC China Limited.

Considering the facts that (i) natural gas is a crucial raw material to the Group's production; (ii) CNOOC China Limited is the only supplier of natural gas in the region; (iii) the Company has made its best effort to make sure the benchmark price is determined on a fair and reasonable basis and the adjustment mechanism is more favourable for the Company; and (iv) the agreement is entered into through arm's-length negotiation of both parties, the Company is of the opinion that the terms of Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement is fair and reasonable and in the interest of the Group and Shareholders as a whole.

The Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement will be submitted to the Independent Shareholders for their approval at the EGM.

Since the term of the natural gas delivery period under the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement is for a period longer than three years, Halcyon Capital, is required to: (i) explain why such agreement requires a longer period; and (ii) confirm if it is normal business practice for agreements of this type to be of such duration, pursuant to Rule 14A.52 of the Listing Rules.

Having considered that (i) it was the practice of CNOOC Limited and its subsidiaries to (a) sign long duration supply agreements/sales contracts (with tenure ranging from 5 to 26 years) with both connected and independent third party customers in order to ensure the return on substantial capital investment for development of gasfields and (b) make reference to the estimated reserves and production profile of the relevant gasfields for stable supply of natural gas to determine the duration of natural gas supply agreements/sales contracts; and (ii) the Company's need to secure a stable source of natural gas as primary feedstock for its production facilities in Hainan to avoid unnecessary disruption to its normal business operation, Halcyon Capital is of the view that it is reasonable for the term of the natural gas delivery period under the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement to be of a longer period than three years.

In addition, Halcyon Capital has, among other things, discussed with the senior management of the Company about the rationale for the duration of such agreement and has reviewed publicly available information regarding a number of natural gas sale and purchase agreements which involve duration in excess of three years, and based on such review, Halcyon Capital is of the opinion that the term of the natural gas delivery period under the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement is in line with normal business practice for agreements of this type.

Comprehensive Services and Product Sales Agreement

We refer to the Company's announcement dated 3 November 2017 in relation to, among other things, the continuing connected transactions of the Company.

On 3 November 2017, 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 systems, 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, etc.) to CNOOC Group and CNOOC Group has agreed to sell products (potash, medicament, etc.) to the Group.

Pursuant to the Comprehensive Services and Product Sales Agreement, the Company has agreed to sell potash to CNOOC Group as part of its potash trading business. Under the potash trading business arrangement, a Hong Kong-incorporated subsidiary of the Company will purchase potash from overseas suppliers and sell the potash to a domestic subsidiary of CNOOC which is one of the only four companies holding licenses to import and distribute potash in China. The selling price of potash to CNOOC Group shall not be lower than the prevailing potash import price offered by independent third parties with reference to the potash prices published by other relevant companies in the market or public information.

In addition, since none of the Company or its domestic subsidiaries holds the potash import license, the Group cannot import potash from its Hong Kong subsidiary directly. Instead, the Group may purchase potash from CNOOC Group when situation requires. The designated department of the Group will compare the selling prices quoted from CNOOC Group with those of independent third parties to ensure the potash prices offered by CNOOC Group will not be higher than the prices quoted from independent third parties.

The term of the Comprehensive Services and Product Sales Agreement will commence 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.

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. As the highest applicable percentage ratio for the category (ii) transactions (with respect to provision of services and supplies and sale of products by CNOOC Group to the Group) does not exceed 5%, these transactions (including the annual caps contemplated thereunder) are only subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 3 November 2017 for more information on the provision of services and supplies and sale of products by CNOOC Group to the Group.

All the prices for the provision of services and supplies and sale of products by the Group to CNOOC Group under the Comprehensive Services and Product Sales Agreement will be determined based on the comparable market prices of the same type of services or supplies or products. At present there are no government-prescribed prices currently in force for the above-mentioned services, supplies and products. Nevertheless, 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 respect 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 Plan and Finance Department, the Audit Department and the Supervisory 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.

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.

Finance Lease Agreement

We refer to the Company's announcement dated 3 November 2017 in relation to, among other things, the continuing connected transactions of the Company.

On 3 November 2017, 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 2018 and 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.

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 Management 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.

HISTORICAL TRANSACTION FIGURES AND THE PROPOSED ANNUAL CAPS WITH RESPECT TO NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Set out below are the historical amounts of the Non-exempted Continuing Connected Transactions for the two previous financial years ended 31 December 2016 and the six months ended 30 June 2017 and the approved annual caps for the three years ending 31 December 2017:

	Year ended 31 December 2015		Year ended 31 December 2016		Six months ended 30 June 2017	Year ended 31 December 2017
Category of the Non-exempted Continuing Connected Transactions	**Actual amount**	**Approved cap**	**Actual amount**	**Approved cap**	**Actual amount**	**Approved cap**
			Amounts in RMB'000			
Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited *(Note 1)*	2,231,894	2,488,145	2,357,150	3,160,629	1,240,199	3,379,107
Comprehensive Services and Product Sales Agreement: Provision of services and supplies and sale of products by the Group to CNOOC Group *(Note 2)*	1,260,825	1,793,372	683,673	2,138,701	238,755	2,481,607
Finance Lease Agreement: Provision of finance leasing services by CNOOC Leasing to the Group *(Note 3)*	1,396,360	2,424,200	2,058,952	2,424,200	27,710	2,424,200

Notes:

1. The difference between the actual transaction amount and the approved annual caps from 2015 to 2017 was because the proposed annual caps for the three financial years ending on 31 December 2017 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 2015 to 2017 was mainly caused by (1) reduction in sales of potash to CNOOC Group due to unfavorable market conditions and the deferred execution of the sales and purchase agreement of potash; and (2) decrease in price of methanol due to unfavorable market conditions.

3. The difference between the actual transaction amount and the approved annual caps from 2015 to 2017 was mainly caused by the change in the term of the finance lease agreements from a year to three years in 2016, and no new finance lease occurred in the first half of 2017.

The table below set out the proposed annual caps for the Non-exempted Continuing Connected Transactions:

Category of the Non-exempted Continuing Connected Transactions		**Year ending 31 December 2018** *(Note 1)*	**Year ending 31 December 2019** *(Note 1)*	**Year ending 31 December 2020** *(Note 1)*
			Amounts in RMB'000	
Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited *(Note 3)*	Proposed Caps *(Note 2)*	2,922,470	2,945,741	2,967,467
Comprehensive Services and Product Sales Agreement: Provision of services and supplies and sale of products by the Group to CNOOC Group *(Note 4)*	Proposed Caps *(Note 2)*	1,426,892	1,624,386	2,065,922
Finance Lease Agreement: Provision of finance leasing services by CNOOC Leasing to the Group *(Note 5)*	Proposed Caps *(Note 2)*	1,473,000	1,579,000	1,579,000

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 2020 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 2016 and the six months ended 30 June 2017; 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. The Proposed Caps are subject to Independent Shareholders' approval at the EGM.

3. ***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 5% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market changes.

4. ***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 potash, methanol, ammonia, public engineering service, and port loading and offloading services to CNOOC Group by the Group assuming the potash trading

business of the Company being carried out as scheduled, as predicted based on the trends of supply and demand in the international potash trading market; and (2) a 5% buffer for fluctuation in relevant commodity prices, future operation needs of the Company and possible market changes.

5. ***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.

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 and procurement, sales and pricing management measures 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 NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

As mentioned in the announcement of the Company dated 3 November 2017, the Non-exempted Connected Continuing Transactions were or will be entered into for the business needs and benefits 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 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.

The Non-exempted Continuing Connected Transactions 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 Non-exempted 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 the Proposed Caps of those transactions as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As CNOOC is the controlling shareholder of the Company, CNOOC and its associates (other than the Group) are therefore connected persons of the Company under Rule 14A.07 of the Listing Rules. Given CNOOC Limited and CNOOC Leasing are subsidiaries of CNOOC and CNOOC China Limited is a wholly-owned subsidiary of CNOOC Limited, CNOOC Limited, CNOOC Leasing and CNOOC China Limited are all therefore connected persons of the Company under Rule 14A.07 of the Listing Rules.

Thus, the transactions contemplated under the Natural Gas Sale and Purchase Agreements, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) 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 the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Meanwhile, as the highest applicable percentage ratio in respect of the Proposed Caps for the transactions contemplated under the Finance Lease Agreement is more than 5% but less than 25%, the transactions contemplated thereunder also constitute discloseable 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.

INFORMATION OF THE PARTIES INVOLVED

Information on the Group

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

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 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.

BOARD CONFIRMATION

The Board (including the independent non-executive Directors) are of the view that the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement are arrived at after arm's length negotiations by each party and entered into in the course of normal business of the Group and are of the view that the Non-exempted Continuing Connected Transactions contemplated thereunder and the Proposed Caps for each year ending 31 December 2020 are on normal commercial terms and fair and reasonable and are also in the interest of the Company and the Shareholders as a whole.

Due to their respective position in CNOOC, Mr. Chen Bi, Mr. Meng Jun and Mr. Guo Xinjun have all abstained from voting on the Board resolutions approving the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement and the Non-exempted Continuing Connected Transactions contemplated thereunder and the Proposed Caps in accordance with Rule 13.44 of the Listing Rules. Save as disclosed above, none of the Directors has any material interest in the Non-exempted Continuing Connected Transactions.

RECOMMENDATION

Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors) believe that (1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and (2) together with the Proposed Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

For the purpose of the EGM, the Board has established the Independent Board Committee to consider and advise the Independent Shareholders with respect to (1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales 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.

The letter of advice from Halcyon Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 49 of this circular.

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 23 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and (2) together with the Proposed Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

EGM

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

(1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement entered into among the Company, CNOOC Fudao and CNOOC China Limited;

(2) the Proposed Caps for 2018 to 2020 for the continuing connected transactions contemplated under the Natural Gas Sale and Purchase Agreements entered into between the Group and CNOOC China Limited;

(3) the Comprehensive Services and Product Sales Agreement entered into between the Company and CNOOC and the Proposed Caps for 2018 to 2020 for the provision of services and supplies and sales of products by the Group to CNOOC Group contemplated thereunder; and

(4) the Finance Lease Agreement entered into between the Company and CNOOC Leasing and the Proposed Caps for 2018 to 2020 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. As at the Latest Practicable Date, the voting rights attached to 2,738,999,512 domestic shares of the Company were controlled by CNOOC and such number of Shares represented approximately 59.41% of the issued share capital of the Company.

The notice of the EGM to be held at 10:00 a.m. on Thursday, 28 December 2017 is set out on pages 53 to 55 of this circular. A reply slip and a form of proxy for use at the EGM are also enclosed.

Whether or not you are able to attend the EGM, you are strongly advised to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) at Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (or any adjournment thereof) (i.e., by 10:00 a.m. on Wednesday, 27 December 2017). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

A POLL AT EXTRAORDINARY GENERAL MEETING

In accordance with the requirement of Rule 13.39(4) of the Listing Rules, all resolutions to be considered, and if thought fit, to be passed at the EGM, shall be passed by way of a poll.

OTHER INFORMATION

Your attention is drawn to the letter from Halcyon Capital which contains its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the additional information set out in the appendix to this circular and the notice of the EGM.

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

* *For identification purpose only*

中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

13 November 2017

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 13 November 2017 (the "**Circular**") despatched to the shareholders of the China BlueChemical Ltd. of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the fairness and reasonableness with respect to (1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement, and (2) the Proposed Caps. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee on those aspects of the Non-exempted Continuing Connected Transactions and the Proposed Caps.

We wish to draw your attention to the letter from the Board set out on pages 6 to 22 of the Circular and the letter from Halcyon Capital containing its advice to us set out on pages 24 to 49 of the Circular.

Having considered the advice given by Halcyon Capital Limited, we are of the opinion that (1) the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and (2) together with the Proposed Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the above agreements and the Proposed Caps for each relevant type of the Non-exempted Continuing Connected Transactions.

Yours faithfully,
Lee Kit Ying, Lee Kwan Hung and Yu Changchun
Members of Independent Board Committee

* *For identification purpose only*

The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.

Halcyon Capital Limited
11/F, 8 Wyndham Street,
Central, Hong Kong

13 November 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to (i) the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group) and the Finance Lease Agreement; and (ii) the relevant Proposed Caps, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 13 November 2017 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, CNOOC was a controlling Shareholder within the meaning of the Listing Rules. Accordingly, CNOOC and its associates (other than the Group) are the connected persons of the Company under Rule 14A.07 of the Listing Rules. CNOOC Limited 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 are connected persons of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Proposed Caps of the Non-exempted Continuing Connected Transactions exceed 5% and the respective Proposed Caps exceeds HK$10,000,000, the Non-exempted Continuing Connected Transactions are subject to the requirements of reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Listing Rules. CNOOC and its associates will abstain from voting at the EGM with respect to the Non-exempted Continuing Connected Transactions.

The Independent Board Committee comprising all independent non-executive Directors, namely Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun, has been established to advise the Independent Shareholders as to whether the entering into of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group) and the Finance Lease Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and together with the Proposed Caps are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole and how to vote on the relevant resolutions in the EGM. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation in this regard.

BASIS OF OUR OPINION

Except for being appointed as the independent financial adviser to the then independent board committee and independent shareholders of the Company (details of which have been set out in the letter from the independent financial adviser contained in the circular of the Company dated 7 November 2014), we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid to us in connection with our appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, and therefore we consider such relationship would not affect our independence. We are therefore independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Non-exempted Continuing Connected Transactions.

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, for which they are fully responsible, in all material aspects, were true, accurate and complete as at the time they were made and as at the date hereof, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the Circular, the Natural Gas Sale and Purchase Agreements, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and the reasons for the Non-exempted Continuing Connected Transactions (including the relevant Proposed Caps), and considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group, CNOOC and each of their respective associates, and the parties involved in the Non-exempted Continuing Connected Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempted Continuing Connected Transactions, we have considered the following principal factors and reasons:

I. Background and reasons for entering into of the Non-exempted Continuing Connected Transactions

The Group is principally engaged in the development, production and sales of fertilisers (including urea, phosphate and compound fertilisers) and chemical products (primarily methanol).

As advised by the management of the Group, the Group has established long-term business relationships with CNOOC Group, including the supply of natural gas by CNOOC China Limited as principal raw material to the Group's production facilities of urea and methanol, namely Fudao Phase I Urea Plant, Fudao Phase II Urea Plant, Hainan Phase I Methanol Plant and Hainan Phase II Methanol Plant, and the provision of services and supplies and sale of products between the Group and the CNOOC Group.

As set out in the Board Letter, the following existing Natural Gas Sale and Purchase Agreements, with natural gas delivery period ranging from 9 to 20 years, will not expire this year and the terms of the supply of natural gas by CNOOC China Limited remain unchanged:

(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 for Fudao Phase II Urea Plant;

(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 for Hainan Phase I Methanol Plant;

(iii) Ledong Natural Gasfield Natural Gas Sale and Purchase Agreement entered into between the Company and CNOOC China Limited dated 26 March 2010 under Natural Gas Sale and Purchase Framework Agreement dated 1 September 2006 for Hainan Phase II Methanol Plant; and

(iv) Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sales and Purchase Agreement entered into among the Company, CNOOC Fudao and CNOOC China Limited dated 18 May 2015 under Dongfang 1-1 Gasfield Phase I Adjusted Project Natural Gas Sale and Purchase Framework Agreement dated 28 October 2014 mainly for Fudao Phase I Urea Plant.

As set out in the Board Letter, in order to ensure stable supply of natural gas for the Hainan Plants, the Company, CNOOC Fudao and CNOOC China Limited finalized and signed the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement on 3 November 2017.

The Company also entered into the Comprehensive Services and Product Sales Agreement with CNOOC on 3 November 2017 to continue the provision of services and supplies and sale of products between the Group and the CNOOC Group commencing from 1 January 2018 to 31 December 2020.

Furthermore, in order to broaden the Group's funding platform and source for its future development funding needs and allow the Group with the flexibility to select appropriate service provider for its financing arrangement to raise funds at lower costs, the Company entered into the Finance Lease Agreement with CNOOC Leasing on 3 November 2017 to continue the existing finance lease arrangements with CNOOC Leasing.

CNOOC is one of the largest state-owned oil companies in the PRC and an integrated conglomerate with various business sectors covering oil and gas exploitation, technical services, natural gas and power generation, financial services, logistics services and new energies development. CNOOC Limited and its subsidiaries (including CNOOC China Limited) are principally engaged in exploration, development, production and sales of offshore oil and natural gas in the PRC.

Having taken into account the aforesaid, we concur with the Directors' view that it is desirable for the Group to continue its business relationship with and to seek supports from the CNOOC Group as such cooperation is expected to benefit the Group for its business development from leveraging on the CNOOC Group's extensive resources and experience in various business sectors and the entering into of the Non-exempted Continuing Connected Transactions is in the ordinary and usual course of business of the Group.

II. Principal Terms of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement and the Finance Lease Agreement

Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement

Principal terms of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement are set out as below:

(a) CNOOC China Limited has agreed to supply, and the Company and CNOOC Fudao have agreed to purchase natural gas;

(b) the natural gas delivery period under this agreement is twenty years commencing on the initial delivery date between 1 August 2018 and 30 November 2018;

(c) will be priced in accordance with a benchmark price; and

(d) the benchmark price will be subject to quarterly adjustment if the average crude oil price (Dated Brent) or the Group's average selling price of urea or methanol of that quarter increases to a certain threshold, with the average crude oil price (Dated Brent) and the Group's average selling price of urea or methanol each contributing an agreed percentage in the adjustment of the natural gas price.

We have discussed with the management of the Group the rationale for the term of twenty years of the natural gas delivery period under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement.

As advised by the management of the Group, the estimated supply of natural gas to the Group by CNOOC China Limited's existing gasfields may not be able to meet the scheduled demand of the Group, and therefore it is beneficial for the Group to source other natural gas supply in Hainan as continual support to the operations of the Group. The Group has discussed with CNOOC China Limited, the sole supplier of natural gas in the region of Hainan where the Group's production facilities reside, and identified Dongfang 13-2 Gasfield which has capacity to supply natural gas to the Hainan Plants. Through the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Hainan Plants can gain access to an additional source of natural gas supply and reduce the possibility of supply shortage of natural gas. Furthermore, the long term natural gas delivery period under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement was determined based on the estimated reserves and production profile of Dongfang 13-2 Gasfield. We understood from the management of the Group, through the long-term natural gas sale and purchase agreement, the Group is able to secure an additional source of natural gas as feedstock for its production facilities in Hainan which in turn can avoid unnecessary disruption to its normal business operation.

We noted from the annual report (the "**CNOOC 2016 Annual Report**") of CNOOC Limited (the parent company of CNOOC China Limited) for the financial year ended 31 December 2016 and the circular (the "**CNOOC Circular**") of CNOOC Limited dated 16 November 2016 regarding the renewal of continuing connected transactions that it was the practice of CNOOC Limited and its subsidiaries to (a) sign long duration supply agreements/sales contracts (with tenure ranging from 5 to 26 years) with both connected and independent third party customers in order to ensure the return on substantial capital investment for development of gasfields and (b) make reference to the estimated reserves and production profile of the relevant gasfields for stable supply of natural gas to determine the duration of natural gas supply agreements/sales contracts.

Furthermore, in order to assess the fairness and reasonableness for the duration of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement being longer than three years, we have also reviewed publicly available information regarding arrangement for supply of natural gas with tenure exceeding three years. We considered natural gas agreements entered into by listed companies (the "**Comparable Companies**") which (i) are principally engaged in the exploration and production of oil and gas; and (ii) had market capitalisation of more than HK$490 billion as at the Latest Practicable Date (given the market capitalisation of CNOOC Limited was approximately HK$496.5 billion as at the Latest Practicable Date, we consider companies with market capitalisation of more than HK$490 billion represent similar scale of operation as CNOOC Limited) to be appropriate for the purpose of our analysis. Based on the aforesaid selection criteria and our searches conducted on a best effort basis on Bloomberg and the company websites of the Comparable Companies, we have identified a list of arrangements for supply of natural gas with tenure exceeding three years announced since 1 January 2015 up to the Latest Practicable Date and the relevant information of which are set out below:

Company	**Background**
BP p.l.c ("**BP**")	BP is an oil and petrochemicals company listed on Frankfurt Stock Exchange, London Stock Exchange, New York Stock Exchange and Tokyo Stock Exchange with market capitalisation of approximately GBP103.8 billion as at the Latest Practicable Date. It explores for and produces oil and natural gas, refines, markets, and supplies petroleum products, generates solar energy, and manufactures and markets chemicals. Its chemicals include terephthalic acid, acetic acid, acrylonitrile, ethylene, and polyethylene.

Company	Background
Chevron Corporation ("**Chevron**")	Chevron is an integrated energy company with operations in countries located around the world and listed on New York Stock Exchange with market capitalisation of approximately US$221.6 billion. Chevron produces and transports crude oil and natural gas. Chevron also refines, markets, and distributes fuels, as well as being involved in chemical and mining operations, power generation, and energy services.
Total SA ("**Total**")	Total explores for, produces, refines, transports, and markets oil and natural gas. It is listed on Frankfurt Stock Exchange and New York Stock Exchange with market capitalisation of approximately Euro123.6 billion. Total also operates a chemical division which produces polypropylene, polyethylene, polystyrene, rubber, paint, ink, adhesives, and resins. Total operates gasoline filling stations in Europe, the United States, and Africa.

Source: Bloomberg

Details of the natural gas agreements entered into by the companies as mentioned above are set out below:

Parties	Date of media release	Period of agreement	Details of the transactions
BP and PTT Public Limited Company	29 December 2016 *Source: website of BP*	20 years	BP will supply approximately 1 million tons of liquefied natural gas per annum to Thailand. The term of the agreement is 20 years and the liquefied natural gas supply will commence in 2017.
Chevron and ENN LNG Trading Company Limited	29 August 2016 *Source: website of Chevron*	10 years	Chevron will supply with up to 0.65 million metric tons per annum of liquefied natural gas to China over 10 years, with the first delivery expected to start in 2018 or the first half of 2019.
Total and Chugoku Electric Power Co., Inc.	22 July 2016 *Source: website of Total*	17 years	Total will supply liquefied natural gas with up to 0.4 million tons per year for a period of 17 years starting from 2019.

Parties	Date of media release	Period of agreement	Details of the transactions
Chevron and Singapore Carbon Hydrogen Energy Pte Ltd	20 July 2016 *Source: website of Chevron*	5 years	Chevron will supply with up to 0.5 million metric tons per annum of liquefied natural gas to a subsidiary of Guangdong JOVO Group Co., Ltd over 5 years.
Total and ENN LNG Trading Company Limited	4 February 2016 *Source: website of Total*	10 years	Total has signed a binding Heads of Agreement with ENN LNG Trading Company Limited for the delivery of 0.5 million tons per year of liquefied natural gas for a period of 10 years.
Total and PT Pertamina (Persero)	2 February 2016 *Source: website of Total*	15 years	Total has signed long-term liquefied natural gas sale and purchase agreements with a state-owned Indonesian company PT Pertamina (Persero) for the supply of liquefied natural gas volumes increasing from 0.4 to 1 million tons per year over a period of 15 years beginning in 2020.
Chevron and ENN LNG Trading Company Limited	18 January 2016 *Source: website of Chevron*	10 years	Australian subsidiaries of Chevron have signed a non-binding heads of agreement with ENN LNG Trading Company Limited for delivering up to 0.5 million metric tons per annum of liquefied natural gas to China over 10 years starting in 2018.
Chevron and China Huadian Green Energy Co., Ltd	21 December 2015 *Source: website of Chevron*	10 years	Chevron's subsidiary has signed a non-binding liquefied natural gas supply Heads of Agreement to deliver liquefied natural gas to China Huadian Green Energy Co., Ltd for a 10 years term. It is expected China Huadian Green Energy Co., Ltd will receive up to 1 million metric tons per annum.
BP and China Huadian Corporation	21 October 2015 *Source: website of BP*	20 years	BP and China Huadian Corporation signed a sale and purchase agreement for BP to sell Huadian up to 1 million tonnes of liquefied natural gas per year worth up to $10 billion over the next 20 years.
BP and Kansai Electric Co., Inc	28 May 2015 *Source: website of BP*	23 years	BP will supply up to 13 million tons of liquefied natural gas to Japan. The term of the agreement is 23 years.

Parties	Date of media release	Period of agreement	Details of the transactions
Chevron and SK LNG Trading Pte Ltd	20 January 2015 *Source: website of Chevron*	5 years	Chevron's Australian subsidiaries have signed a binding sale and purchase agreement with SK LNG Trading Pte Ltd to deliver a total of 4.15 million tons of liquefied natural gas over a period of 5 years starting in 2017.

As shown from the above arrangements, the durations of natural gas sale and purchase arrangements range from 5 years to 23 years.

Taking into account that it is the practice of CNOOC Limited and its subsidiaries to sign long duration supply agreements/sales contracts (with tenure ranging from 5 to 26 years) with both connected and independent third party customers and there are other natural gas suppliers entering into natural gas supply contracts in recent years (with tenure ranging from 5 to 23 years) as detailed above, we consider that the long term natural gas delivery period under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement are in line with normal business practice for this type of contracts.

We have reviewed the pricing principles laid down in the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement. As advised by the management of the Group, the transactions will be priced in accordance with a benchmark price, which is determined after arm's length negotiation between the Group and CNOOC China Limited after taking into account the exploration, development and production cost of the Dongfang 13-2 Gasfield plus reasonable return to CNOOC China Limited. As discussed with the management of the Group, the Company has compared the benchmark price with (i) the benchmark price offered by CNOOC China Limited to another related company within CNOOC Group; and (ii) the average realized price per thousand cubic feet of natural gas in 2014 to 2016 as disclosed in the annual reports of CNOOC Limited for each of the financial years ended 31 December 2014, 2015 and 2016. We noted from the internal record provided by the management of the Group that the Company, CNOOC Limited and another related company entered into discussion on the benchmark price for natural gas of Dongfang 13-2 Gasfield and the Company and the other related company were being offered the same benchmark price. We have reviewed the Group's natural gas purchase costs summary and noted that such benchmark price is comparable to the average unit price per thousand cubic feet of natural gas purchased by the Group from CNOOC China Limited's existing gasfields for the six months ended 30 June 2017. Furthermore, we have compared the benchmark price with the average realized price per thousand cubic feet of natural gas in 2014 to 2016 as disclosed in the CNOOC 2016 Annual Report and noted they are comparable.

In addition, pursuant to the terms of Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the benchmark price will be subject to quarterly adjustment if the average crude oil price (Dated Brent) or the Group's average selling price of urea or methanol of that quarter increases to a certain threshold, with the average crude oil price (Dated Brent) and the Group's average selling price of urea or methanol each contributing an agreed percentage in the adjustment of the natural gas price. As advised by the management of the Group, CNOOC China Limited is the sole supplier of natural gas in the region of Hainan where the Group's production facilities reside and there was currently no government prescribed price for natural gas sourced from offshore gasfields. As discussed with the management of the Group, such quarterly adjustment mechanism to the benchmark price by referencing to the changes in the average quarterly selling prices of the Group's urea or methanol and changes in average quarterly prices of average crude oil price (Dated Brent), was arrived at between the parties after arm's length negotiation with an aim to balancing the effect of volatility of the prices of the Group's products and the crude oil to both business operation of the Group and CNOOC China Limited.

As discussed with the management of the Group, at the end of each quarter, the Plan and Finance Department will collect the average crude oil price (Dated Brent) of that quarter and the Marketing Center will prepare the Group's average selling price of urea or methanol 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 and submit the adjusted natural gas price to the senior management of the Group for final review and approval and agreement with CNOOC China Limited. The designated department of the Group will then base on the adjusted natural gas price after agreement with CNOOC China Limited, if any, for settlement. In the case of any dispute on the natural gas price, the Production Management Department and the Plan and Finance Department are responsible for negotiating with CNOOC China Limited. Accordingly, we are of the view that there are adequate procedures in place to ensure that the actual purchase price of natural gas will be in accordance with the stated pricing basis.

Comprehensive Services and Product Sales Agreement

Principal terms of the Comprehensive Services and Product Sales Agreement are set out as below:

(a) the Group has agreed to provide to the CNOOC Group services and supplies (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 by the Group or CNOOC Group;

(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 by the Group or CNOOC Group; and

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

The transactions under the Comprehensive Services and Product Sales Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable to the Group than those offered to independent third parties. All the prices for the provision of services and supplies and sale of products by the Group to CNOOC Group under the Comprehensive Services and Product Sales Agreement will be determined based on the comparable market prices of the same type of services or supplies or products.

As discussed with the management of the Group, despite the abovementioned service and products without an applicable government-prescribed price for now, we understand that 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 with respect to provision of services and supplies and sale of products by the Group to the CNOOC Group under the Comprehensive Service and Product Sales Agreement is determined on a fair and reasonable basis and in accordance with the pricing principle, the Company has adopted the procedures as disclosed in the section headed "IV. Internal Control Measures for the Non-Exempted Continuing Connected Transactions" below in this letter. We have reviewed (i) the Comprehensive Services and Product Sales Agreement; (ii) the relevant invoices issued by the Group to CNOOC Group and independent third parties respectively on sampling basis; (iii) the relevant approval documents for pricing issued by the respective designated departments of the Group; (iv) the internal records of the Group on setting up prices for its services, supplies and products; and (v) the internal control policy of the Group and noted that the prices charged by the Group were conducted in accordance with the pricing policies and were comparable to those charged to independent third parties.

Taking into account the above, we are of the view that the terms of the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Finance Lease Agreement

Principal terms of the Finance Lease Agreement are set out as below:

(a) CNOOC Leasing has agreed 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 the provision of the finance lease service.

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 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 favourable 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 favourable 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 rates quoted from the PRC commercial banks for the corresponding period.

We have reviewed the Finance Lease Agreement and as discussed with the management of the Group, and understood that before entering into any individual finance lease agreement with CNOOC Leasing under the Finance Lease Agreement, the Company will seek for quotations from independent finance lease service companies and major and independent PRC commercial banks, and compare offers for the same assets classes to make sure the method of determination of the principal amount and consolidated rate of lease interest plus commission fees provided by CNOOC Leasing are not less favourable than those provided by other independent financial institutions to the Group. As advised by the management of the Group, after obtaining quotations from independent financial institutions, the Group had not entered into any agreement with them in relation to finance lease due to the fact that the terms offered by CNOOC Leasing were more favorable.

We have further reviewed (i) sample copies of the individual finance lease agreements entered into by the Group and CNOOC Leasing and (ii) sample copies of the relevant monthly invoices issued from CNOOC Leasing for periodic principal repayments and charges of lease interests and commission fees according to the repayment schedule, and we noted that the principal amounts were determined by reference to the carrying amounts of the fixed assets, and the lease interests and commission fees were determined at rates lower than the rates offered by PRC commercial banks and independent finance lease service companies for the relevant lease periods.

In consideration of the foregoing, we are of the view that the terms of the Finance Lease Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

III. Basis of the Relevant Proposed Caps

Set out below are the Proposed Caps in respect of the relevant Non-exempted Continuing Connected Transactions for each of the three financial years ending 31 December 2020:

Category of the Continuing Connected Transactions		Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020
			Amounts in RMB'000	
Natural Gas Sale and Purchase Agreements: Purchase of natural gas by the Group from CNOOC China Limited	Proposed Caps	2,922,470	2,945,741	2,967,467
Approximate increase as compared with previous year			*0.8%*	*0.7%*
Comprehensive Services and Product Sales Agreement: Provision of services and supplies and sales of products by the Group to the CNOOC Group	Proposed Caps	1,426,892	1,624,386	2,065,922
Approximate increase as compared with previous year			*13.8%*	*27.2%*
Finance Lease Agreement: Provision of finance lease services by CNOOC Leasing to the Group	Proposed Caps	1,473,000	1,579,000	1,579,000
Approximate increase as compared with previous year			*7.2%*	*Nil*

As set out in the Board Letter, in determining the Proposed Caps for each of the Non-exempted Continuing Connected Transactions, the Directors have estimated the annual transaction figures for the coming three financial years ending 31 December 2020 on the following basis:

(a) the Non-exempted Continuing Connected Transactions continuing to be entered into on the terms and conditions set out in the relevant agreements;

(b) the Non-exempted 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 2016 and the six months ended 30 June 2017; 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.

We noted that (i) the Group's Proposed Cap amounts for the total consideration to be paid by the Group to CNOOC China Limited for the natural gas supplied by CNOOC China Limited for each of the three financial years ending 31 December 2018, 2019 and 2020 of approximately RMB2,922.5 million, RMB2,945.7 million and RMB2,967.5 million respectively, representing a decrease of approximately 13.5% comparing to the annual cap amount for the financial year ending 31 December 2017, an increase of approximately 0.8% comparing to the Proposed Cap amount for financial year ending 31 December 2018 and an increase of approximately 0.7% comparing to the Proposed Cap amount for the financial year ending 31 December 2019; (ii) the Group's Proposed Cap amounts for the total consideration to be received by the Group from CNOOC Group for services, supplies and products provided by the Group for each of the three financial years ending 31 December 2018, 2019 and 2020 of approximately RMB1,426.9 million, RMB1,624.4 million and RMB2,065.9 million respectively, representing a decrease of approximately 42.5% comparing to the annual cap amount for the financial year ending 31 December 2017, an increase of approximately 13.8% comparing to the Proposed Cap amount for the financial year ending 31 December 2018 and an increase of approximately 27.2% comparing to the Proposed Cap amount for the financial year ending 31 December 2019 respectively; and (iii) the Group's Proposed Cap amount for the total consideration to be paid by the Group to CNOOC Leasing for the finance lease services provided by CNOOC Leasing for each of the three financial years ending 31 December 2018, 2019 and 2020 of approximately RMB1,473.0 million, RMB1,579.0 million and RMB1,579.0 million respectively, representing a decrease of approximately 39.2% comparing to the annual cap amount for the financial year ending 31 December 2017, an increase of approximately 7.2% comparing to the Proposed Cap amount for the financial year ending 31 December 2018 and no change comparing to the Proposed Cap amount for the financial year ending 31 December 2019 respectively.

Proposed Caps of the Natural Gas Sale and Purchase Agreements

Set out below are the historical amounts of the purchase of natural gas from CNOOC China Limited for the two financial years ended 31 December 2016 and six months ended 30 June 2017.

		Year ended 31 December 2015	**Year ended 31 December 2016**	**Six months ended 30 June 2017**
			Amounts in RMB'000	
Purchase of natural gas by the Group from CNOOC China Limited	Actual amounts	2,231,894	2,357,150	1,240,199
Approximate increase as compared with previous year			*5.6%*	

As advised by the management of the Group, the historical actual amounts of the Group's purchase of natural gas from CNOOC China Limited increased by approximately 5.6% during the year ended 31 December 2016 as compared to that of the year ended 31 December 2015, which was mainly due to the increase in average unit price and transaction amounts of natural gas. During the six months ended 30 June 2017, the average unit price of natural gas returned to the 2015 average and the Company's purchase of natural gas from CNOOC China Limited amounted to approximately RMB1,240.2 million. We understood from the management of the Group that although the historical actual amount remained stable, the Proposed Cap for the year ending 31 December 2018 is reduced by approximately 13.5% as compared to that of the annual cap for the year ending 31 December 2017 after taking into account the difference between the historical actual natural gas price and the estimated average natural gas price from the approved annual caps from 2015 to 2017.

In assessing the reasonableness of the Proposed Caps of the Natural Gas Sale and Purchase Agreement, we have discussed with the management of the Company and understand that the Group has taken into account of the following principal factors in determining such Proposed Caps: (i) the Group's estimated average price of natural gas to be supplied for Hainan Plants in coming three financial years after taking into account the historical average natural gas prices and the Group's estimation on the growth of natural gas prices in the coming three financial years; (ii) the Group's estimated maximum demand for natural gas consumption for production of Hainan Plants; (iii) the natural gas consumption to be supplied under the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement; and (iv) a buffer of 5% in consideration of the possibility of fluctuation in natural gas price and/or gas volume in the coming three financial years.

As discussed with the management of the Group, the Group's demand for natural gas is expected to increase in the future as the Group will endeavor to strengthen its production management and improve the operation and utilisation rates of the Hainan Plants. Hence, the estimated purchase of natural gas by the Group from CNOOC China Limited for the financial year ending 31 December 2018 is expected to increase as compared to the expected actual amount of that for the financial year ending 31 December 2017. The implied growth rates of the Group's Proposed Caps in respect of purchase of natural gas from CNOOC China Limited for each of the two financial years ending 31 December 2020 are determined with reference to the estimated production volumes of the Hainan Plants in accordance with the future production plan provided by the management of the Group (the "**Production Plan**") and the discussion between the Group and CNOOC China Limited in respect of the supply of natural gas by CNOOC China Limited in 2019 to 2020 in additional to the factors as mentioned above.

We have reviewed the relevant calculation of the Proposed Caps under the Natural Gas Sale and Purchase Agreements and the Production Plan and noted that such Proposed Cap is arrived at based on the Group's estimated unit price and consumption demand of natural gas for the production of Hainan Plants. We have also reviewed invoices provided by the Company for supply of natural gas by CNOOC China Limited to the Group on a sample basis, the pricing principles stipulated in the Natural Gas Sale and Purchase Agreements, historical average purchase prices of natural gas and price trends of the Group's urea or methanol, Four Major Types of Crude Oil and changes in the PRC consumer price indices since 2015 and consider that the estimated natural gas price used for the calculation of relevant cap amounts is reasonable. We also understood from management of the Group that the estimated demand for natural gas adopted by the Company for the calculation of the relevant cap amounts is mainly determined by reference to the historical natural gas volume consumed by the Hainan Plants and the volume stipulated in the Natural Gas Sale and Purchas Agreements. In addition, in view of the natural gas price is affected by the fluctuation of the average selling price of the Group's urea or methanol and average crude oil price, we have reviewed the historical trend of prices and consider a 5% buffer factored in the calculation of the Proposed Caps of natural gas purchase is reasonable.

Taking into account the above, we consider the Proposed Caps in respect of the Natural Gas Sale and Purchase Agreements are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Proposed Caps of the Comprehensive Services and Product Sales Agreement (as to the provision of services and supplies and sale of products by the Group to CNOOC Group)

Set out below are the historical amounts of the provision of services and supplies and sales of products to CNOOC Group for the two financial years ended 31 December 2016 and the six months ended 30 June 2017.

		Year ended 31 December 2015	Year ended 31 December 2016	Six months ended 30 June 2017
			Amounts in RMB'000	
Provision of services and supplies and sales of products by the Group to the CNOOC Group	Actual amounts	1,260,825	683,673	238,755
Approximate decrease as compared with previous year			*(45.8%)*	

As discussed with the management of the Group, the historical amount of the Group's provision of services and supplies and sales of products decreased by approximately 45.8% for the financial year ended 31 December 2016 as compared to the financial year ended 31 December 2015, which was mainly attributed to the lower-than-expected amounts of sales of potash, urea and methanol to CNOOC Group. As advised by the management of the Group, such lower amounts of sales were primarily because (1) the trading arrangements of potash supply to CNOOC Group in 2016, which was expected to start in the first quarter of 2016, were delayed to August 2016 due to longer time than expected for negotiation of trading terms with its independent third party potash suppliers, and therefore the Group's actual trading volume of potash for the financial year ended 31 December 2016 was lower than the expected annual cap; and (2) the amount of sale of methanol products to CNOOC Group was lower than the expected since the selling price of the Group's methanol dropped and maintained at low level during the first 3 quarters in 2016, although the price recovered in the last quarter of 2016. Based on our independent research on the website of National Bureau of Statistics of China, we noted that the trend of the Group's selling price of methanol is in line with overall price trend of methanol in the PRC market during 2016. During the six months ended 30 June 2017, the Company's provision of services and supplies and sales of products to CNOOC Group amounted to approximately RMB238.8 million, which was lower-than-expected mainly as a result of another delay in trading arrangements of potash supply to CNOOC Group for the financial year ended 31 December 2017 due to negotiation of trading terms with its independent third party potash suppliers. The Group has entered into potash supply agreements with its independent third party potash suppliers during the second and third quarter of 2017 and based on the expected demand for potash from CNOOC Group, the Group expects the supply of potash to CNOOC Group will increase in the second half of 2017.

In assessing the reasonableness of the Proposed Cap of the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group), we have reviewed the calculation of the Proposed Cap and understand the Proposed Cap is arrived at based on the estimated demand for the relevant products and services from the CNOOC Group in accordance with their respective business operation and plan. Furthermore, the Company also contemplated the historical amount of the Group's provision of services and supplies and sales of products in determining the Proposed Cap of the Comprehensive Services and Product Sales Agreement for the financial year ending 31 December 2018. We noted that such Proposed Cap for the financial year ending 31 December 2018 is much higher than the annualised amount taking into account the actual transaction amount for the six months ended 30 June 2017. Such increment was mainly contributed by the estimated supply of potash to CNOOC Group where the estimated values account for approximately 54.0% of the of the Proposed Cap for the financial year ending 31 December 2018. We have discussed with the management of the Company and understand that the subsequent increase of the Proposed Cap amounts over the financial year ending 31 December 2019 and 2020 are mainly attributable to the following factors: (i) the estimate on the changes of volume and unit price of products to be provided by the Group to CNOOC Group; (ii) the estimate on the changes in volume of supply of potash by the Group to CNOOC Group; (iii) commencement of the supply of liquefied ammonia by the Group to CNOOC Group; and (iv) a buffer of 5% in consideration of the possibility of fluctuation in the relevant prices and/or demand from CNOOC Group in relation thereto in the coming three financial years.

As discussed with management of the Group, the estimated supply of potash to CNOOC Group accounts for the largest portion amongst the Proposed Caps of different types of transactions under the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group), where the estimated values account for approximately 54.0%, 54.3% and 49.8% of the Proposed Caps, for each of the three financial years ending 31 December 2018, 2019 and 2020, respectively. We understood from the management of the Group that the Proposed Cap amount of potash trading under the Comprehensive Services and Product Sales Agreement is determined with reference to the historical demand of potash from CNOOC Group. As advised by the management of the Group, the Group enters into potash supply agreement with its independent third party potash suppliers each year to secure certain amount of potash for its trading business. For the potash supply agreements concluded in 2016 and 2017, the negotiation of trading terms of potash supply agreements began in each respective year and much more time than expected has been spent in negotiation process. Given that the Group expects its potash trading business will be carried out as scheduled, the estimated transaction amount for the three financial years ending 31 December 2020 is expected to gradually return to its historical level in 2015. We have reviewed the relevant calculation of the Proposed Cap amounts of potash supply for the coming three financial years, and noted the estimated selling prices and quantities are taking consideration the latest supply agreement signed with independent third party suppliers; market selling prices of comparable transactions; and a potash procurement plan of CNOOC Group in the coming three financial years, respectively.

The total consideration to be received from CNOOC Group for sale of liquefied ammonia products for each of the three financial years ending 31 December 2018, 2019 and 2020 amount to approximately 0.03%, 3.25% and 16.37% of the Proposed Caps under the Comprehensive Services and Product Sales Agreement, respectively, and no such annual caps were provided for in previous financial years. As advised by the management of the Group, the Group intends to sell liquefied ammonia to CNOOC Group because CNOOC Group's new production facility, which commenced operation in 2017, requires liquefied ammonia as part of its production process. The Group expects the sale of liquefied ammonia will further increase in 2019 as a result of the expected commencement of CNOOC Group's another new production facility in June 2019. As the Group supplied liquefied ammonia to independent third party customers in the past, we understood from the management of the Group the relevant Proposed Caps is determined with reference to the historical selling price of the Group's liquefied ammonia. We have reviewed the letter of intent issued from CNOOC Group to the Group for the proposed procurement arrangement from the Group and the relevant calculation of the cap amounts for the coming three financial years. In addition, we have also reviewed the relevant liquefied ammonia sales invoices of CNOOC Group with independent third party customers on a sample basis and consider the relevant cap amount for the supply of liquefied ammonia to CNOOC Group is reasonable.

We have reviewed contracts and invoices for some products, services on sampling basis and taken into account the possible fluctuation in prices and demands for services, supplies and/or products caused by various factors such as changes in business operation and plan of the CNOOC Group in the coming three financial years, we therefore consider the 5% buffer is reasonable.

Taking into account of the foregoing, we consider the Proposed Cap in respect of the Comprehensive Services and Product Sales Agreement is fair and reasonable so far as the Company and the Independent Shareholders concerned.

Proposed Caps of the Finance Lease Agreement

Set out below are the value of the provision of finance lease services provided by CNOOC Leasing for the two financial years ended 31 December 2016 and six months ended 30 June 2017.

		Year ended 31 December 2015	**Year ended 31 December 2016**	**Six months ended 30 June 2017**
			Amounts in RMB'000	
Provision of finance lease services by CNOOC Leasing to the Group	Actual Amounts	1,396,360	2,058,952	27,710
Approximate increase as compared with previous year			*47.5%*	

As discussed with the management of the Group, the provision of finance lease services by CNOOC Leasing amounts increased by 47.5% from RMB1,396.4 million for the financial year ended 31 December 2015 to RMB2,059.0 million for the financial year ended 31 December 2016, and the lease interest plus commission fees were approximately 3.9% per annum. As further advised by the management of the Group, the increase in the use of the finance lease services was due to the lower interest rates offered by CNOOC Leasing than the rates offered by independent financial institutions and therefore enabled the Group to finance its secured short-term or medium term cash flows at lower costs, which alleviated the stress on the Group's profitability and cash flows under the difficult market environment in 2016. We have checked the Group's record of comparing the terms of finance lease transactions offered by CNOOC Leasing and independent financial institutions before procuring finance leasing transactions from CNOOC Leasing, and noted that the terms offered by CNOOC Leasing were no less favourable than those offered by independent financial institutions.

In assessing the reasonableness of the Proposed Caps of the Finance Lease Agreement, we have discussed with the management of the Group, the Proposed Caps were determined mainly based on (i) potential demand for finance lease services by the Group from CNOOC Leasing for its daily operation and development; (ii) the expected maximum principal amount outstanding plus lease interest and commission fees accrued under each finance leasing transaction for each respective financial year; (iii) the Group's proposed repayment plan for its finance leasing transactions from CNOOC Leasing; and (iv) estimated fluctuation in interest rates. As advised by the management of the Group, the relevant Proposed Cap was arrived at based on the estimated financial needs of the Company's relevant subsidiaries and the consolidated rate of lease interest plus commission fees to be lower than the loan interest rate quoted from the PRC commercial banks for the corresponding period.

The Group entered into the existing finance leases agreements in 2016 for three years term which will not expire in 2018, and there is no plan for the Group to obtain further financing until the expiration of the existing finance lease agreements. Therefore the increase in amount of the Proposed Cap for the two financial years ending 31 December 2020, as compared to that of financial year ending 31 December 2018 is mainly due to proposed renewal of the existing finance lease agreements.

We have reviewed (i) the Finance Lease Agreement and the existing finance lease agreements; (ii) the proposed repayment plan of the Group's finance leasing transactions from CNOOC Leasing, showing the principal amount outstanding plus lease interest and commission fees accrued under each respective finance leasing transaction for each of the three financial years ending 31 December 2020; and (iii) the relevant calculation of the Proposed Caps, and noted that the Proposed Cap has been made reference to the financial positions (including the borrowing level) and net assets value of available production assets of the Company's relevant subsidiaries as shown on their respective financial statements as at 31 December 2016 and 30 June 2017 and expected lease interest and commission fees has taken into account the recent three year interest rates as quoted from the website of People's Bank of China and the lease interest and commission fees of the existing finance lease agreements, we consider the Proposed Cap in respect of the Finance Lease Agreement is fair and reasonable so far as the Company and the Independent Shareholders concerned.

Based on the foregoing review and analyses, we consider that each of the Proposed Caps was made by the Directors after due and careful consideration and therefore, we concur with the view of the Directors that the basis for determining the relevant Proposed Caps is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Given that the Proposed Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the relevant Non-exempted Continuing Connected Transactions, we express no opinion as to how closely the actual transaction amounts of each of the Non-exempted Continuing Connected Transactions correspond with the Proposed Caps as discussed above.

IV. Internal Control Measures for the Non-exempted Continuing Connected Transactions

As stated in the Board Letter, 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. 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.

For the Non-exempted Continuing Connected Transactions regarding the purchase of natural gas from CNOOC China Limited, to ensure the fairness and reasonableness of the pricing, it is the Group's policy to (1) perform monthly or quarterly review (as the case may be) on the pricing calculation of natural gas, with reference to market prices of Four Major Types of Crude Oil obtained from Platts Crude Oil Marketwire, (2) perform annual review on benchmark price adjustments with reference to factors such as adjustment policy by the state pricing regulatory authorities to natural gas pricing, prices of domestic energy markets, domestic prices for natural gas and changes in CPIs; or (3) perform quarter review on benchmark price adjustments with reference to the factors including the average crude oil price (Dated Brent) and the Group's average selling price of urea or methanol of that quarter.

Regarding the provision of the services and supplies, and sales of products to CNOOC Group, the prices for services, supplies or products being offered to CNOOC Group will be determined based on the comparable market prices of the same type of services or supplies or products. In order to ensure the prices (1) for provision of services and supplies 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; and (2) for sale of products to CNOOC Group, the Company has set up the Sales and Pricing Committee, which comprises senior management and executives from the Marketing Center, the Plan and Finance Department, the Audit Department and the Supervisory 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 specialised 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.

For finance lease services provided by the CNOOC Leasing, before entering the individual finance lease agreement, the Group will perform procedures to compare the principal amount against the latest net book value or appraised value of such fixed assets to be prepared by an independent valuer. The Capital Management Department of the Company will gather quotations from independent finance lease service companies and major and independent PRC commercial banks, and will assess the qualifications and terms offered to make sure the terms (including principal amount and consolidate lease interest and commission fees) offered in the specific finance lease agreement by CNOOC Leasing are not less favourable to the Group than those provided by other independent third parties. The results will be submitted to senior management of the Company for final approval.

We have reviewed the internal control policy of the Group and discussed with the management of the Company to understand the procedures. With respect to each type of Non-exempted Continuing Connected Transactions, we have also reviewed sample documents provided by the Company (including invoices, contracts, price review and analysis documents) on random selection basis under the Non-exempted Continuing Connected Transactions and noted that they are in line with the pricing policies as described above.

In addition, pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-exempted Continuing Connected Transactions are subject to the following annual review requirements:

(a) the independent non-executive Directors must review the Non-exempted Continuing Connected Transactions every year and confirm in the annual report whether the Non-exempted Continuing Connected Transactions have been entered into:

    (i) in the ordinary and usual course of business of the Group;

    (ii) on normal commercial terms or better; and

    (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(b) the Company must engage its auditors to report on the Non-exempted Continuing Connected Transactions every year. The auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Non-exempted Continuing Connected Transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Non-exempted Continuing Connected Transactions involve the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Non-exempted Continuing Connected Transactions; and

(iv) have exceeded the caps;

(c) the Company must provide a copy of the auditors' letter to the Stock Exchange at least 10 business days before the bulk printing of its annual report;

(d) the Company must allow, and ensure that the counterparties to the Non-exempted Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Non-exempted Continuing Connected Transactions; and

(e) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the Company's auditors cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and the Shareholders' approval requirement and may impose additional conditions.

Taking into account the above-mentioned internal control measures and reporting requirements attached to the Non-exempted Continuing Connected Transactions, in particular, (i) the restriction of the value of the Non-exempted Continuing Connected Transactions by way of the Proposed Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Non-exempted Continuing Connected Transactions, we are of the view that appropriate measures thereof exist to monitor the conduct of the Non-exempted Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider (i) the entering into of the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group) and the Finance Lease Agreement is in the ordinary and usual course of business of the Group and on normal commercial terms; and (ii) together with the Proposed Caps are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Dongfang 13-2 Gasfield Group Natural Gas Sale and Purchase Agreement, the Comprehensive Services and Product Sales Agreement (with respect to provision of services and supplies and sale of products by the Group to CNOOC Group), the Finance Lease Agreement and the Proposed Caps.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited
Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 17 years of experience in corporate finance industry.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility and confirm that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors, supervisors or the chief executive of the Company has interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which are required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save for Mr. Chen Bi, Mr. Meng Jun and Mr. Guo Xinjun concurrently serving as Directors and/or management members of CNOOC, as at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SERVICE CONTRACTS OF THE DIRECTORS

No Director or supervisor of the Company had entered into any service contract with members of the Group, which is not terminable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in other business which competes or is likely to compete with the business of the Group.

EXPERT STATEMENTS

This circular includes statement(s), opinion(s) or advice(s) made by the following expert:

Name	Qualification
Halcyon Capital Limited	Licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO

The above-mentioned expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above-mentioned expert did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

NO MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors, the supervisors of the Company and the above-mentioned expert had any direct or indirect interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company was materially interested in any contract or arrangement subsisting at the date of this circular which was significant in relation to the business of the Group.

NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, the date to which the latest published consolidated audited accounts of the Group had been made up.

MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any material litigation or arbitration and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company and its subsidiaries.

MISCELLANEOUS

(i) The joint company secretaries of the Company are Ms. Wu Xiaoxia and Ms. Ng Sau Mei. Ms. Wu Xiaoxia is also the chief financial officer and a vice president of the Company.

(ii) The registered office and the principal place of business of the Company is No. 1 Zhu Jiang South Street, Dongfang City, Hainan Province, the PRC. The Hong Kong H Share Registrar and H Share transfer office of the Company is Computershare Hong Kong Investor Services Limited situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The H Share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose registered office is at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

(iii) The English language text of this document shall prevail over the Chinese language text.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's representative office in Hong Kong at 65/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong for a period of 14 days (excluding public holidays) from the date of the circular:

(i) the letter from the Independent Board Committee dated 13 November 2017, the text of which is set out on page 23 of this circular;

(ii) the letter from the Independent Financial Adviser dated 13 November 2017, the text of which is set out on pages 24 to 49 of this circular;

(iii) the consent letter dated 13 November 2017 signed by the Independent Financial Adviser in relation to the issue of this circular;

(iv) the 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;

(v) the Comprehensive Services and Product Sales Agreement entered into between the Company and CNOOC dated 3 November 2017; and

(vi) the Finance Lease Agreement entered into between the Company and CNOOC Leasing dated 3 November 2017.

中海石油化学股份有限公司
China BlueChemical Ltd.*

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

(Stock Code: 3983)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of China BlueChemical Ltd. (the "**Company**") will be held at the Meeting Room, 3rd Floor, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC, on Thursday, 28 December 2017 at 10 a.m. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 13 November 2017 (the "**Circular**"). The EGM is for the purposes of considering and, if thought fit, passing the following resolutions:

By way of ordinary resolutions:

"**THAT**:

1. To consider and approve the entering into of 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, details of which are set out in the Circular; and the board of directors of the Company (the "**Board**") is hereby authorized to take such actions as are necessary to implement the Dongfang 13–2 Gasfield Group Natural Gas Sale and Purchase Agreement.

2. To consider and approve the proposed annual caps for the transactions under the Natural Gas Sale and Purchase Agreements for the three financial years commencing on 1 January 2018 and ending on 31 December 2020 as set out in the Circular; and the Board is hereby authorized to take such actions as are necessary to implement the proposed annual caps for the transactions under the Natural Gas Sale and Purchase Agreements.

3. To consider and approve the entering into of the Comprehensive Services and Product Sales Agreement dated 3 November 2017 between the Company and CNOOC, details of which are set out in the Circular; and the Board is hereby authorized to take such actions as are necessary to implement the Comprehensive Services and Product Sales Agreement.

4. To consider and approve the proposed annual caps for the transactions in relation to the provision of services and supplies and sale of products by the Group to CNOOC Group under the Comprehensive Services and Product Sales Agreement for the three financial years commencing on 1 January 2018 and ending on 31 December 2020 as set out in the Circular; and the Board is hereby authorized to

take such actions as are necessary to implement the proposed annual caps for the transactions in relation to the provision of services and supplies and sale of products by the Group to CNOOC Group under the Comprehensive Services and Product Sales Agreement.

5. To consider and approve the entering into of the Finance Lease Agreement between the Company and CNOOC Leasing dated 3 November 2017, details of which are set out in the Circular; and the Board is hereby authorized to take such actions as are necessary to implement the Finance Lease Agreement.

6. To consider and approve the proposed annual caps for the transactions under the Finance Lease Agreement for the three financial years commencing on 1 January 2018 and ending on 31 December 2020 as set out in the Circular; and the Board is hereby authorized to take such actions as are necessary to implement the proposed annual caps for the transactions under the Finance Lease Agreement."

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

Beijing, the PRC
13 November 2017

As at the date of this notice, the executive director of the Company is Mr. Xia Qinglong, the non-executive directors of the Company are Mr. Chen Bi, Mr. Meng Jun and Mr. Guo Xinjun, and the independent non-executive directors of the Company are Ms. Lee Kit Ying, Mr. Lee Kwan Hung and Mr. Yu Changchun.

Notes:

1. In order to determine the list of shareholders who are entitled to attend the EGM, the registers of members will be closed from 28 November 2017 to 28 December 2017, both days inclusive, during which period no transfer of shares will be effected. Shareholders of the Company whose names appear on the registers of members of the Company on 28 December 2017 are entitled to attend the meeting.

   In order to attend and vote at the meeting, holders of H shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:30 p.m. on 27 November 2017. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

* *For identification purposes only*

2. A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company. Where a shareholder has appointed more than one proxy to attend the meeting, such proxies may only vote on a poll.

   The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its attorney or duly authorised attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.

   In order to be valid, in respect of holders of domestic shares or unlisted foreign shares, the proxy form together with the power of attorney or other authorisation document (if any) must be deposited at the Company's Secretary Office of the Board in China (Address: Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC) not less than 24 hours before the time fixed for holding the meeting (i.e., by 10:00 a.m. on Wednesday, 27 December 2017). In respect of the Company's H shares, the said documents together must be lodged at the Company's H share Registrar within the abovementioned period by holders of H shares. Completion and return of the proxy form will not preclude a shareholder from attending and voting in person at the meeting if she/he so wishes. The H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. Shareholders who intend to attend the meeting in person or by proxy should return the reply slip in person, by post or by fax to the Company's Secretary Office of the Board in China (for holders of domestic shares or unlisted foreign shares) or Computershare Hong Kong Investor Services Limited (for holders of H shares) on or before Friday, 8 December 2017. The Company's Secretary Office of the Board in China is Room 1707, Kaikang CNOOC Mansion, No. 15, Sanqu, Anzhenxili, Chaoyang District, Beijing, the PRC (Tel: 0086-10-84527250, Fax: 0086-10-84527254, Post code: 100029). The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

4. Shareholders or their proxy must present proof of their identities upon attending the EGM. Should a proxy be appointed, the proxy must also present copies of his/her proxy form, or copies of appointing instrument and power of attorney, if applicable.

5. The EGM is expected to last not more than one day. Shareholder or proxies attending the EGM are responsible for their own transportation and accommodation expenses.