
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of 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 professional adviser.

If you have sold or transferred all your shares in **Binhai Investment Company Limited**, you should at once hand this circular, together with the enclosed proxy form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that 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.



濱海投資有限公司
BINHAI INVESTMENT COMPANY LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 2886)

CONTINUING CONNECTED TRANSACTIONS MASTER GAS SUPPLY AGREEMENT WITH SINOPEC GAS

Independent financial adviser to the Independent Board Committee and
the Independent Shareholders



A letter from the Board is set out on pages 7 to 21 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter from Octal, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 45 of this circular.

A notice convening the SGM to be held at 35/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong at 10:10 a.m. (or so soon thereafter as the special general meeting of the Shareholders convened to be held at 10:00 a.m. on the same date and at the same place shall have been concluded or adjourned) on Friday, 3 July 2020 is set out on pages 51 to 52 of this circular. Whether or not you are able to attend the meeting in person, you are recommended to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude you from subsequently attending and voting in person at the meeting or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please refer to pages 1 to 2 of this circular for measures being taken to prevent and control the spread of the Novel Coronavirus (COVID-19) at the SGM, including:

- **compulsory temperature checks**
- **recommended wearing of surgical face masks inside the SGM venue at all times**
- **no distribution of corporate gifts and refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the resolution at the SGM as an alternative to attending the SGM in person.

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PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing Novel Coronavirus (COVID-19) pandemic and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue or be required to leave the SGM venue.
- (ii) The Company encourages attendees to wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats.
- (iii) No refreshments will be served, and there will be no corporate gifts.

To the extent permitted by the laws of Hong Kong, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all stakeholders' health and safety and in line with recent guidelines for prevention and control of COVID-19, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by submitting proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the resolution at the SGM instead of attending the SGM in person.

The proxy form for the SGM is enclosed with this circular. Alternatively, the proxy form can be downloaded from the "Investor Relations — Information Disclosure" section of the Company's website at www.binhainv.com. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of proxy.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

If Shareholders choosing not to attend the SGM in person have any questions about the resolution, or about the Company or any matters which require communication with the Board, they are welcome to contact the Company as follows:

Email: prd@binhaiinv.com

Tel: (852) 2572 9228

Fax: (852) 2572 9283

If Shareholders have any questions relating to the SGM, please contact Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong as follows:

Hong Kong Registrars Limited

Shops 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

E-mail: hkinfo@computershare.com.hk

Tel: (852) 2862 8555

Fax: (852) 2865 0990

DEFINITIONS

Unless the context otherwise requires, the following terms in this circular shall have the meanings set out below:

“associate(s)”	has the meaning ascribed to it by the Listing Rules;
“BHI Tianjin”	Binhai Investment (Tianjin) Company Limited* (濱海投資(天津)有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“BHI Tianjin Group”	BHI Tianjin and its subsidiaries;
“Board”	the board of Directors;
“Company”	Binhai Investment Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 2886);
“connected person(s)”	has the meaning ascribed to it by the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it by the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Disposal”	the sale of 227,796,154 Shares by TEDA HK to Great Wall Gas pursuant to the terms and conditions of the Share Purchase Agreement;
“Great Wall Gas”	Sinopec Great Wall Gas Investment Co., Ltd.* (中石化長城燃氣投資有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Sinopec Corp;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

DEFINITIONS

“Independent Board Committee”	the board committee of the Company comprising all independent non-executive Directors, namely Mr. Ip Shing Hing, <i>J.P.</i> , Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law, established to make a recommendation to the Independent Shareholders in respect of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps);
“Independent Financial Adviser” or “Octal”	Octal Capital Limited, a licensed corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps);
“Independent Shareholders”	the Shareholders who are not prohibited or required to abstain from voting on a resolution approving the Master Gas Supply Agreement and transactions contemplated thereunder at a general meeting of the Company;
“Latest Practicable Date”	8 June 2020, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Gas Supply Agreement”	the agreement dated 23 April 2020 entered into between BHI Tianjin and Sinopec Gas in relation to the purchase of natural gas by the BHI Tianjin Group from the Sinopec Gas Group;
“NDRC”	National Development and Reform Commission of the PRC;
“PRC”	the People’s Republic of China;

DEFINITIONS

“Proposed Annual Caps”	the annual caps for the transactions contemplated under the Master Gas Supply Agreement for each of the two years ending 31 December 2021;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at 35/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong at 10:10 a.m. (or so soon thereafter as the special general meeting of the Shareholders convened to be held at 10:00 a.m. on the same date and at the same place shall have been concluded or adjourned) on Friday, 3 July 2020 to approve, among other things, the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps);
“SGM Notice”	the notice convening the SGM as set out at pages 51 to 52 of this circular;
“Shareholder(s)”	holder(s) of Shares;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company;
“Share Purchase Agreement”	the agreement for the sale and purchase of Shares dated 23 April 2020 entered into between TEDA HK and Great Wall Gas in relation to the Disposal;
“Sinopec Corp”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the main board of the Stock Exchange (Stock Code: 386);
“Sinopec Gas”	China Petroleum & Chemical Corporation Natural Gas Branch Company* (中國石油化工股份有限公司天然氣分公司), a branch company of Sinopec Corp;

DEFINITIONS

“Sinopec Gas Group”	Sinopec Gas and its subsidiaries and associates;
“Specific Mandate”	the specific mandate to be approved by independent Shareholders to allot, issue and deal with 177,676,183 Shares to be subscribed by Great Wall Gas pursuant to the terms and conditions of the Subscription Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription of 177,676,183 Shares by Great Wall Gas pursuant to the terms and conditions of the Subscription Agreement;
“Subscription Agreement”	the subscription agreement dated 23 April 2020 entered into between the Company and Great Wall Gas in relation to the Subscription;
“substantial shareholder(s)”	has the meaning ascribed to it by the Listing Rules;
“TEDA HK”	TEDA Hong Kong Property Company Limited (泰達香港置業有限公司), a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company;
“TEDA Holding”	Tianjin TEDA Investment Holding Co., Ltd.* (天津泰達投資控股有限公司), a state-owned enterprise established in the PRC, the ultimate controlling shareholder of the Company holding approximately 60.19% of the total Shares in issue as at the Latest Practicable Date;
“%”	per cent

* *For identification purposes only*

LETTER FROM THE BOARD



濱海投資有限公司
BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 2886)

Executive Directors:

Mr. ZHANG Bing Jun (*Chairman*)

Mr. GAO Liang

Non-executive Directors:

Mr. WANG Gang

Ms. CAO Hong Mei

Ms. PENG Bo

Mr. YU Ke Xiang

Independent non-executive Directors:

Mr. IP Shing Hing, *J.P.*

Mr. LAU Siu Ki, Kevin

Professor Japhet Sebastian LAW

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal place of business in

Hong Kong:

Suites 3205-07, 32/F

Tower Two

Times Square

1 Matheson Street

Causeway Bay

Hong Kong

12 June 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
MASTER GAS SUPPLY AGREEMENT WITH SINOPEC GAS**

INTRODUCTION

Reference is made to the announcements of the Company dated 23 April 2020, which announced that:

- (i) the Company (as issuer) entered into the Subscription Agreement with Great Wall Gas (as subscriber), pursuant to which the Company conditionally agreed to allot and issue, and Great Wall Gas conditionally agreed to subscribe for, an aggregate of 177,676,183 Shares;

LETTER FROM THE BOARD

- (ii) TEDA HK (as vendor), being a controlling shareholder of the Company, and Great Wall Gas (as purchaser) entered into the Share Purchase Agreement, pursuant to which TEDA HK conditionally agreed to sell, and Great Wall Gas conditionally agreed to purchase, an aggregate of 227,796,154 Shares,

and that BHI Tianjin entered into the Master Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by Sinopec Gas Group to the BHI Tianjin Group.

Following completion of the Subscription and the Disposal, assuming that there is no other change in the issued share capital of Company and the shareholding of Great Wall Gas in the Company, Great Wall Gas will directly or indirectly hold 405,472,337 Shares (representing approximately 29.99% of the total number of Shares then in issue) and will become a substantial shareholder of the Company. Since Great Wall Gas is a wholly-owned subsidiary of Sinopec Corp, Sinopec Corp will then become a connected person of the Company under the Listing Rules.

The main purposes of this circular are to provide you with:

- (i) further details of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps);
- (ii) the advice and recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps);
- (iii) the advice of Octal to the Independent Board Committee and the Independent Shareholders in relation to the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps); and
- (iv) the notice convening the SGM, at which an ordinary resolution will be proposed to consider and, if thought fit, to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

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THE MASTER GAS SUPPLY AGREEMENT

On 23 April 2020, BHI Tianjin entered into the Master Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group after Sinopec Corp becomes a connected person of the Company, with particulars as follows:

Date

23 April 2020

The parties

- (a) BHI Tianjin
- (b) Sinopec Gas

Nature of the transactions

The BHI Tianjin Group will purchase natural gas from the Sinopec Gas Group, pursuant to the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

Term

From the effective date of the Master Gas Supply Agreement to 31 December 2039 (both days inclusive)

The term of the Master Gas Supply Agreement is approximately 20 years. Pursuant to Rule 17 of the Regulation on the Administration of Urban Gas* (城鎮燃氣管理條例) of the PRC, the operator of natural gas network is responsible for supplying natural gas that fulfils the national quality standards in a sustainable, stable and safe manner. It is therefore important for the Group as an operator of natural gas network to obtain a stable and long-term natural gas supply from one of the largest integrated energy and chemical companies in the PRC. Further, the term of the Master Gas Supply Agreement is in line with the terms of certain existing natural gas supply agreements entered into between the Group and independent third party suppliers which are in the range between 17 and 20 years. Securing a long-term stable supply of natural gas from the Sinopec Gas Group, being subsidiaries of China Petrochemical Corporation, the largest oil and petrochemical products supplier

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and the second largest oil and gas producer in China, will benefit the overall natural gas business of the Group. Accordingly, the Directors consider that the term of the Master Gas Supply Agreement is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the taking effect of the Master Gas Supply Agreement

The Master Gas Supply Agreement will take effect subject to the completion of the Subscription and the Disposal having taken place, and approval of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) by the Independent Shareholders in accordance with the requirements under the Listing Rules.

Consideration

The consideration will be the amount as stated in the invoices issued by the relevant member of the Sinopec Gas Group under each of the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

The consideration will be determined in accordance with the manner set out in the section headed “Basis of consideration” below.

Manner of payment

The manner of payment is governed by the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

In general, it is expected that members of the BHI Tianjin Group and the Sinopec Gas Group under such agreements will check and confirm the volume of natural gas received and provided respectively on a monthly basis, upon confirmation of which the relevant member of the Sinopec Gas Group will issue invoices accordingly and the relevant member of the BHI Tianjin Group will pay the consideration by way of bank transfer after receipt of such invoices. The payment will be settled on a monthly basis.

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Basis of consideration

The consideration will be determined based on arm's length negotiations between the relevant parties according to (i) the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the regulatory notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by the NDRC from time to time; and (ii) the volume of natural gas to be purchased by the BHI Tianjin Group.

The pricing provisions in the regulatory notices issued by the NDRC apply to the prices for the sourcing of natural gas by the BHI Tianjin Group. The BHI Tianjin Group and the Sinopec Gas Group strictly comply with the pricing provisions in the regulatory notices issued by the NDRC from time to time, which include:

Name of notice

Relevant pricing provision^(Note)

- | | |
|--|---|
| 1. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform of the National Development and Reform Commission” (National Development and Reform Price [2015] No. 2688)* (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015]2688號)) issued on 18 November 2015 (the “ 2015 Regulatory Notice ”) | (i) With effect from 20 November 2015, the benchmark citygate prices for non-residential users in Tianjin is reduced to RMB2 per cubic meter.

(ii) With effect from 20 November 2016, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.4 per cubic meter. |
|--|---|

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Name of notice	Relevant pricing provision ^(Note)
2. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation [2017] No. 1582)* (《國家發展改革委關於降低非居民用天然氣基準門站價格的通知》(發改價格規[2017]1582號)) issued on 29 August 2017	With effect from 1 September 2017, the benchmark citygate price for non-residential users in Tianjin is reduced by RMB100 per one thousand cubic meter to RMB1.9 per cubic meter.
3. “Notice on Straightening out the Citygate Prices of Natural Gas for Residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation [2018] No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued on 25 May 2018 (the “ 2018 Regulatory Notice ”)	(i) With effect from 10 June 2018, the natural gas price for residential users would be managed with the use of benchmark citygate price in lieu of maximum citygate price. The benchmark citygate price in Tianjin is reduced to RMB1.88 per cubic meter. (ii) With effect from 10 June 2019, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.256 per cubic meter. (iii) Seasonal price difference policy is introduced to encourage market-based transactions, whereby ceiling citygate price can be increased as appropriate (i.e. by more than 20% of the benchmark citygate price) in seasons with high natural gas consumption such as winter.

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Name of notice	Relevant pricing provision ^(Note)
4. “Notice on Adjusting the Benchmark Citygate Prices of Natural Gas of the National Development and Reform Commission” (National Development and Reform Price [2019] No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格[2019]562號)) issued on 27 March 2019 (the “ 2019 Regulatory Notice ”)	With effect from 1 April 2019, the benchmark citygate price in Tianjin is reduced to RMB1.86 per cubic meter.

Note: The regulatory notices issued by the NDRC set out the benchmark citygate prices in respect of all provinces and certain cities in the PRC. Since the principal business of the BHI Tianjin Group is located in Tianjin, the benchmark citygate price in Tianjin is selected and disclosed above for reference.

The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities.

The individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties.

Proposed Annual Caps

The Proposed Annual Caps for the two years ending 31 December 2021 are set out as follows:

Proposed Annual Caps amounts (in RMB)	
For the year ending 31 December 2020	For the year ending 31 December 2021
544,113,000 ^(Notes 1&2)	1,339,181,000

Note:

1. The amount of the Proposed Annual Cap for the year ending 31 December 2020 covers the estimated transaction amounts under the Master Gas Supply Agreement for the period between 1 June 2020 (as the Master Gas Supply Agreement was estimated to take effect in June 2020) and 31 December 2020.
2. The Proposed Annual Cap for the year ending 31 December 2020 is equivalent to approximately 70% of the Proposed Annual Cap for the year ending 31 December 2021 on a pro-rata basis.

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The Company will set the proposed annual caps for the remainder of the term of the Master Gas Supply Agreement as and when appropriate.

Basis of the Proposed Annual Caps

The Proposed Annual Caps were determined after taking into account the following:

1. the historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group, which are set out as follows:

Approximate historical transaction amounts (in RMB)		
For the year ended 31 December 2018	For the year ended 31 December 2019	For the three months ended 31 March 2020
74,643,000	374,402,000	129,357,000

2. estimates on the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the following:
 - (a) the benchmark citygate prices set out in the 2019 Regulatory Notice, being the latest regulatory notice on adjustments to the citygate prices of natural gas issued by the NDRC; and
 - (b) the sale prices of natural gas to be sourced from the Sinopec Gas Group is mainly subject to a mark-up in the range up to 20% above the benchmark citygate prices, according to the 2015 Regulatory Notice and the 2018 Regulatory Notice.
3. estimates on the demands for natural gas by the BHI Tianjin Group based on the following factors:
 - (a) the historical natural gas sales volume by the Group to downstream natural gas users was on the rise, where the sales volume of piped natural gas and income of the Group from the sales of piped natural gas for the year ended 31 December 2019 recorded approximately 25% and 12% year-on-year increase respectively;
 - (b) the BHI Tianjin Group intends to gradually consolidate its natural gas procurement from existing independent third party suppliers that offer less favourable terms to the Sinopec Gas Group after the Master Gas Supply Agreement takes effect, thereby increasing the Group's demands for natural

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gas from the Sinopec Gas Group. Members of the BHI Tianjin Group located in several provinces are expected to change their present suppliers to the Sinopec Gas Group after the Master Gas Supply Agreement takes effect; and

- (c) the estimated transaction amount of natural gas to be purchased by the members of the BHI Tianjin Group located in Tianjin, which is expected to account for over 65% of the total estimated procurement amount by the BHI Tianjin Group for the two years ending 31 December 2021, is anticipated to increase substantially for the year ending 31 December 2021 as compared to that in 2020, primarily attributable to (i) the addition of two major gas supply projects for the development zone and a town in Tianjin, which are expected to require gas supply in 2021; (ii) the new addition of heat boilers in certain districts in Tianjin by non-residential gas users in 2021; and (iii) the resumption of production in full capacity in late 2020 by a major glass producer customer of the Group that is expected to have a relatively higher demand for natural gas.

As the above estimates on the demand for natural gas by the BHI Tianjin Group are based on historical trend, the Group's business plan on natural gas procurement and information obtained from negotiations with some of its current downstream natural gas users, the Directors consider that such factors have substance and relevance to form the bases of the Proposed Annual Caps and are fair and reasonable.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER GAS SUPPLY AGREEMENT

The entering into of the Master Gas Supply Agreement is beneficial to the development of the Group in various aspects, including the following:

- (i) the Group can obtain a stable natural gas supply at more favourable prices, thus bolstering the competitiveness of the Group in the natural gas market and enhancing the development of the Group's natural gas business;
- (ii) transactions under the Master Gas Supply Agreement will facilitate the inter-connection and construction of natural gas infrastructures, strengthen the Group's access to the demand and supply markets, eliminate the bottleneck of guaranteed natural gas supply, enhance the swapping and mutual supply and guarantee abilities of resources, and increase the efficiency of use of facilities and resources allocation of the Group; and

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- (iii) purchasing natural gas from the Sinopec Gas Group will optimise the structure of the Group's natural gas sources and create development opportunities for the Group's subsidiaries that operate outside Tianjin.

The Directors consider that the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Director has a material interest in the transactions contemplated under the Master Gas Supply Agreement and none of them is required to abstain or has abstained from voting at the resolutions of the Board approving the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

INTERNAL CONTROL

To ensure that the transactions contemplated under the Master Gas Supply Agreement will be on normal commercial terms that are fair and reasonable and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties, the Company has adopted the following internal control measures:

- (i) The internal control and legal department of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group. Pursuant to the "Administrative Measures for Connected Transactions"* (《關連交易管理辦法》) of the Company, each department and subsidiary of the Group shall submit an information sheet for each connected transaction, setting out its terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least one natural gas supplier in the market that is an independent third party to the Group, to the functional department, the finance department, the internal control and legal department of the Company and the secretary to the Board for review and approval. The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted.
- (ii) In the event there is no quotation or reference transaction from independent third parties available for comparison, the Group will consider the prevalent pricing policy of the industry (i.e. natural gas being sold at a certain percentage above the benchmark citygate prices of natural gas) and compare the sale prices of natural gas to be sourced from the Sinopec Gas Group with the market price of natural gas in the nearby region in respect of the relevant member of the BHI Tianjin Group.

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- (iii) The internal control and legal department of the Company monitors the carrying out of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group to ensure compliance with the Listing Rules, and is responsible for reporting to the Audit Committee of the Company (which comprises all independent non-executive Directors) on an annual basis.
- (iv) Through reviewing the information gathered from the finance department of the Company, the external auditor of the Company will report to the Board annually on the continuing connected transactions of the Group in relation to their pricing policies and annual caps pursuant to the Listing Rules.

The Directors are of the view that the internal control measures above can ensure that the transactions contemplated under the Master Gas Supply Agreement will be on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 14A.52 of the Listing Rules, given that the duration of the Master Gas Supply Agreement exceeds three years, the Company has engaged Octal as its independent financial adviser to explain why the Master Gas Supply Agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration, details of which are set out in the letter from Octal on pages 24 to 45 of this circular.

INFORMATION ON THE PARTIES

The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquified natural gas for domestic users.

LETTER FROM THE BOARD

Sinopec Gas is a branch company of Sinopec Corp, which is a joint-stock company incorporated in the PRC and is one of the largest integrated energy and chemical companies in the PRC that is mainly engaged in the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

The ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is a state-owned enterprise incorporated in the PRC principally engaged in the exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; and import and export of goods and technology.

LISTING RULES IMPLICATIONS

Following completion of the Subscription and the Disposal, assuming that there is no other change in the issued share capital of Company and the shareholding of Great Wall Gas in the Company, Sinopec Corp will become a substantial shareholder of the Company, holding 405,472,337 Shares (representing approximately 29.99% of the total number of Shares then in issue) through its wholly-owned subsidiary. Thus, Sinopec Corp will become a connected person of the Company under the Listing Rules. Since Sinopec Gas is a branch company of Sinopec Corp, Sinopec Gas and its subsidiaries and associates will also be regarded as connected persons of the Company under the Listing Rules. Therefore, following completion of the Subscription and the Disposal, transactions contemplated under the Master Gas Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at least one of the applicable percentage ratios in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the Master Gas Supply Agreement and the Proposed Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps). Your attention is drawn to the advice from and the recommendation of the Independent Board Committee set out in its letter on pages 22 to 23 of this circular.

Octal has been appointed as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps). Your attention is also drawn to the letter from Octal on pages 24 to 45 of this circular.

THE SGM

The SGM will be convened at which an ordinary resolution will be proposed to consider, and if thought fit, to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Any Shareholder with a material interest in the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) and its associates shall not vote on the resolution to be proposed at the SGM to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Since the SGM will be held on the same date as the special general meeting of the Company to approve the Subscription Agreement (including the grant of the Specific Mandate) and transactions contemplated thereunder and completion of the Subscription will take place on the third business day after all conditions precedent have been satisfied, it is expected that the Subscription and the Disposal will not yet have been completed and Sinopec Corp will not yet have become a Shareholder on the date of the SGM. Accordingly, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is materially interested in the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps). Therefore, no Shareholder is expected to be required to abstain from voting on the resolution approving the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) at the SGM.

LETTER FROM THE BOARD

A notice convening the SGM to be held at 35/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong on Friday, 3 July 2020 at 10:10 a.m. (or so soon thereafter as the special general meeting of the Shareholders convened to be held at 10:00 a.m. on the same date and at the same place shall have been concluded or adjourned) is set out on pages 51 to 52 of this circular. A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

In order to determine the Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 29 June 2020 to Friday, 3 July 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, all completed transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 June 2020.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the meeting will therefore demand a poll for the ordinary resolution put to the vote at the SGM pursuant to Bye-law 66 and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, having taken into account the advice of Octal, considers that (i) the transactions contemplated under the Master Gas Supply Agreement are in the ordinary and usual course of business of the Group; (ii) the Master Gas Supply Agreement is on normal commercial terms; and (iii) the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

LETTER FROM THE BOARD

RECOMMENDATION OF THE BOARD

Taking into account the letter from the Independent Board Committee and all other factors as stated above as a whole, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

** For identification purposes only*

By Order of the Board
BINHAI INVESTMENT COMPANY LIMITED
Gao Liang
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



濱海投資有限公司

BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 2886)

12 June 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS MASTER GAS SUPPLY AGREEMENT WITH SINOPEC GAS

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable.

Octal has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Your attention is drawn to the “Letter from the Board” set out on pages 7 to 21 of the circular which contains, *inter alia*, information about the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps), and the “Letter from Octal” set out on pages 24 to 45 of the circular which contains its advice in respect of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) together with the principal factors taken into consideration in arriving at such.

Having considered the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) and having taken into account the factors and reasons considered by and the advice of Octal, we consider that (i) the transactions contemplated under the Master Gas Supply Agreement are in the ordinary and usual course of business of the Group; (ii) the Master Gas Supply Agreement

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

is on normal commercial terms; and (iii) the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,

For and on behalf of the

Independent Board Committee

IP Shing Hing, J.P.

LAU Siu Ki, Kevin

Japhet Sebastian LAW

Independent Non-executive Directors

LETTER FROM OCTAL

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



801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

12 June 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS MASTER GAS SUPPLY AGREEMENT WITH SINOPEC GAS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Master Gas Supply Agreement and the Proposed Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 June 2020 (the “**Circular**”), of which this letter forms a part. Capitalized terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise requires.

On 23 April 2020, BHI Tianjin entered into the Master Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group.

Following completion of the Subscription and the Disposal, assuming that there is no other change in the issued share capital of Company and the shareholding of Great Wall Gas in the Company, Sinopec Corp will become a substantial shareholder of the Company, holding 405,472,337 Shares (representing approximately 29.99% of the total number of Shares then in issue) through its wholly-owned subsidiary. Thus, Sinopec Corp will become a connected person of the Company under the Listing Rules. Since Sinopec Gas is a branch company of Sinopec Corp, Sinopec Gas and its subsidiaries and associates will also be regarded as connected persons of the Company under the Listing Rules. Therefore, following completion of the Subscription and the Disposal, transactions contemplated under the Master Gas Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM OCTAL

As at least one of the applicable percentage ratios in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the Master Gas Supply Agreement and the Proposed Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An independent board committee comprising the independent non-executive Directors, namely Mr. Ip Shing Hing, *J.P.*, Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law, has been established to advise the Independent Shareholders as to whether the terms of the Master Gas Supply Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, conducted on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the SGM.

We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the transactions contemplated under the Master Gas Supply Agreement and the Proposed Annual Caps in this regard. We are not connected with the directors, chief executive and substantial shareholders of the Group or Sinopec Gas or the Sinopec Gas Group or Sinopec Corp or China Petrochemical Corporation or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, 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 as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Shareholders. During the last two years, we were engaged as the independent financial adviser to the Company in respect of the connected transaction in relation to the issue of new Shares under specific mandate (details of which are set out in the circular of the Company dated 12 June 2020 (the “**Previous Engagement**”)). Under the Previous Engagement, we were required to express our opinion on and give recommendation to the independent board committee of the Company comprising all the independent non-executive Directors and independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us in connection with this appointment and the Previous Engagement, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Group or Sinopec Gas or the Sinopec Gas Group or Sinopec Corp or China Petrochemical Corporation or any of its subsidiaries or their respective associates.

LETTER FROM OCTAL

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussions with the management of the Company regarding the Master Gas Supply Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Sinopec Gas, the Sinopec Gas Group, Sinopec Corp, China Petrochemical Corporation and their respective associates, nor have we carried out any independent verification of the information supplied to us.

BACKGROUND OF AND REASONS FOR ENTERING INTO THE MASTER GAS SUPPLY AGREEMENT

Background of the Group and BHI Tianjin

The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquefied natural gas for domestic users.

LETTER FROM OCTAL

Background of Sinopec Gas, the Sinopec Corp and China Petrochemical Corporation

Sinopec Gas is a branch company of Sinopec Corp, which is a joint-stock company incorporated in the PRC and is one of the largest integrated energy and chemical companies in the PRC that is mainly engaged in the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

The ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is a state-owned enterprise incorporated in the PRC principally engaged in the exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; and import and export of goods and technology.

According to the official website (<http://www.sinopecgroup.com>) of China Petrochemical Corporation, China Petrochemical Corporation is a large petroleum and petrochemical enterprise group with the registered capital of RMB 274.9 billion. It is the largest oil and petrochemical products suppliers and the second largest oil and gas producer in China, the largest refining company and the third largest chemical company in the world. Its total number of gas stations ranks the second place in the world. Sinopec Group ranked third on Fortune's Global 500 List in 2018.

As set out in the Letter from the Board, following completion of the Subscription and the Disposal, assuming that there is no other change in the issued share capital of Company and the shareholding of Great Wall Gas in the Company, Sinopec Corp will become a substantial shareholder of the Company, holding 405,472,337 Shares (representing approximately 29.99% of the total number of Shares then in issue) through its wholly-owned subsidiary. Thus, Sinopec Corp will become a connected person of the Company under the Listing Rules.

LETTER FROM OCTAL

Reasons for entering into the Master Gas Supply Agreement

As set out in the Letter from the Board, by entering into the Master Gas Supply Agreement, the Group can obtain a stable natural gas supply at more favourable prices, thus bolstering the competitiveness of the Group in the natural gas market and enhancing the development of the Group's natural gas business. Transactions under the Master Gas Supply Agreement will facilitate the inter-connection and construction of natural gas infrastructures, strengthen the Group's access to the demand and supply markets, eliminate the bottleneck of guaranteed natural gas supply, enhance the swapping and mutual supply and guarantee abilities of resources, and increase the efficiency of use of facilities and resources allocation of the Group. Purchasing natural gas from the Sinopec Gas Group will optimise the structure of Group's natural gas sources and create development opportunities for the Group's subsidiaries that operate outside Tianjin.

As mentioned in the final results announcement for the year ended 31 December 2019 of the Company dated 25 March 2020, according to the "13th Five-Year Plan for Energy Development (《能源發展十三五規劃》)", in 2020, the total natural gas pipeline mileage in China has reached 100,000 kilometers, with an annual gas transmission capacity of above 400 billion cubic meters. Also, the urban gasification rate has reached 57% and the population with access to natural gas has reached 470 million. The Group will closely follow the national policies and market trend, leverage on the existing geographical advantages of operations, increase the popularization rate of natural gas supply, fully release the industrial and household demand for natural gas and develop scientific planning. The Group made aggressive efforts in exploring new districts and market projects and signed development cooperation agreements with a number of new markets. For the protection of gas sources, the Group is in the process of optimising the deployment of gas resources and resolving various issues such as connectivity of long-haul transmission pipelines, gas transmission for clients, and gas storage and peak shaving for the subsidiaries of the BHI Tianjin Group. Aligning with the requirements of "Opinions on Accelerating the Construction of Gas Storage Facilities and Improving the Market Mechanism of Gas Storage and Peak Shaving Auxiliary Services (《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》)" issued by the NDRC, the Group completed the research on the proposal of gas storage and peak shaving and also reached consensus on cooperation regarding gas storage and peak shaving with third parties. We understand that the Group has currently entered into three long term natural gas supply agreements with independent third parties, including a state-owned petrochemical conglomerate, being one of the largest oil and gas producers and suppliers in the PRC. The terms of the aforesaid natural gas supply agreements for the Group's natural gas business development in Zhejiang, Jiangsu and Tianjin are in the range between 17 and 20 years in order to secure the Group's upstream gas resources in Zhejiang, Jiangsu and Tianjin.

LETTER FROM OCTAL

As mentioned in the section of this letter headed “Consideration”, the pricing under the Master Gas Supply Agreement will be on terms no less favorable to the Group than those available to the Group for the purchase of natural gas from independent third parties. As mentioned in the section headed “Background of Sinopec Gas, the Sinopec Corp and China Petrochemical Corporation”, Sinopec Gas is a branch company of Sinopec Corp and the ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is the second largest oil and gas producer in China. Its total number of gas stations ranks the second place in the world.

In light of the above, we consider that the entering into of the Master Gas Supply Agreement on top of other existing long term gas supply agreements falls within the ordinary and usual course of business of the Group and will also secure a stable upstream natural gas supply for the Group, which will therefore assist in achieving supply chain synergy between the Group and the Sinopec Gas Group.

MAJOR TERMS OF THE MASTER GAS SUPPLY AGREEMENT

Principal terms under Master Gas Supply Agreement

On 23 April 2020, BHI Tianjin entered into the Master Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group with particulars as follows:

The BHI Tianjin Group will purchase natural gas from the Sinopec Gas Group, pursuant to the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

Manner of payment

The manner of payment is governed by the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

In general, it is expected that members of the BHI Tianjin Group and the Sinopec Gas Group under such agreements will check and confirm the volume of natural gas received and provided respectively on a monthly basis, upon confirmation of which the relevant member of the Sinopec Gas Group will issue invoices accordingly and the relevant member of the BHI Tianjin Group will pay the consideration by way of bank transfer after receipt of such invoices. The payment will be settled on a monthly basis.

LETTER FROM OCTAL

As advised by the management, in light of stable pricing and gas supply, the Group mainly relies on long term master gas supply agreements to support its business development. As further advised by the management, there are 10 long-term master gas supply agreements with terms over three years entered into by the Group which represents the exhaustive list in effective as at the Latest Practicable Date (the “**Current Long-term Supply Agreements**”). Upon comparison, we noted that the manner of payment under five out of the ten Current Long-term Supply Agreements are on a weekly basis and majority of the remaining Current Long-term Supply Agreements are on a monthly basis. In addition, we also reviewed the manner of payment of short term natural gas supply agreements with terms less than three years entered by the Group with the regional independent third party suppliers in Tianjin, Jiangsu, Zhejiang, Shandong and Hebei, which are key operating regions of the Group’s natural gas business. We noted that the term of payments include 7 days, 10 days, 15 days and 30 days. Based on the above, we consider that the manner of payment on a monthly basis under the Master Gas Supply Agreement is the longest settlement period among the Current Long-term Supply Agreements and is no less favourable to the current effective natural gas supply agreements entered between the Group and the independent third parties, therefore is on normal commercial terms that are fair and reasonable.

Consideration

As stated in the Letter from the Board, the consideration will be the amount as stated in the invoices issued by the relevant member of the Sinopec Gas Group under each of the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

The consideration will be determined based on arm’s length negotiations between the relevant parties according to (i) the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the regulatory notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by the NDRC from time to time; and (ii) the volume of natural gas to be purchased by the BHI Tianjin Group.

LETTER FROM OCTAL

The pricing provisions in the regulatory notices issued by the NDRC apply to the prices for the sourcing of natural gas by the BHI Tianjin Group. The BHI Tianjin Group and the Sinopec Gas Group strictly comply with the pricing provisions in the regulatory notices issued by the NDRC from time to time, which include:

Name of notice	Relevant pricing provision ^(Note)
1. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform of the National Development and Reform Commission” (National Development and Reform Price [2015] No. 2688)* (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015]2688號)) issued on 18 November 2015 (the “ 2015 Regulatory Notice ”)	(i) With effect from 20 November 2015, the benchmark citygate prices for non-residential users in Tianjin is reduced to RMB2 per cubic meter. (ii) With effect from 20 November 2016, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.4 per cubic meter.
2. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation [2017] No. 1582)* (《國家發展改革委關於降低非居民用天然氣基準門站價格的通知》(發改價格規[2017]1582號)) issued on 29 August 2017	With effect from 1 September 2017, the benchmark citygate price for non-residential users in Tianjin is reduced by RMB100 per one thousand cubic meter to RMB1.9 per cubic meter.

LETTER FROM OCTAL

Name of notice	Relevant pricing provision ^(Note)
3. “Notice on Straightening out the Citygate Prices of Natural Gas for Residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation [2018] No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued on 25 May 2018 (the “ 2018 Regulatory Notice ”)	(i) With effect from 10 June 2018, the natural gas price for residential users would be managed with the use of benchmark citygate price in lieu of maximum citygate price. The benchmark citygate price in Tianjin is reduced to RMB1.88 per cubic meter. (ii) With effect from 10 June 2019, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.256 per cubic meter. (iii) Seasonal price difference policy is introduced to encourage market-based transactions, whereby ceiling citygate price can be increased as appropriate (i.e. by more than 20% of the benchmark citygate price) in seasons with high natural gas consumption such as winter.
4. “Notice on Adjusting the Benchmark Citygate Prices of Natural Gas of the National Development and Reform Commission” (National Development and Reform Price [2019] No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格[2019]562號)) issued on 27 March 2019 (the “ 2019 Regulatory Notice ”)	With effect from 1 April 2019, the benchmark citygate price in Tianjin is reduced to RMB1.86 per cubic meter.

Note: The regulatory notices issued by the NDRC set out the benchmark citygate prices in respect of all provinces and certain cities in the PRC. Since the principal business of the BHI Tianjin Group is located in Tianjin, the benchmark citygate price in Tianjin is selected and disclosed above for reference.

LETTER FROM OCTAL

The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities. We consider that the above pricing mechanism with benchmarks to the citygate prices of natural gas as stipulated by the relevant regulatory authority to the pricing of natural gas supply is appropriate.

As stated in the Letter from the Board, the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties.

As mentioned in the section headed “Regarding the internal control measures governing the transactions under the Master Gas Supply Agreement”, the Group, for each connected transaction, will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least one independent third party natural gas supplier in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. In addition, as part of our due diligence, we have obtained from the Company the breakdown of natural gas procurement cost by the group companies of the BHI Tianjin Group during the recent three months ended 31 March 2020 and compared to the relevant breakdown of natural gas procurement cost for those as supplied by the Sinopec Gas Group during the respective period in order to assess the Group’s recent procurement cost from the Sinopec Gas Group and the independent third parties under the current natural gas market sentiments. We noted that the actual average procurement cost per cubic meter from the Sinopec Gas Group are relatively lower than the Group’s average natural gas procurement cost per cubic meter during the respective period. Therefore, we concurred with the Company that the pricing of the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties under the Group’s internal control mechanism.

LETTER FROM OCTAL

Duration of the Master Gas Supply Agreement

From the effective date of the Master Gas Supply Agreement to 31 December 2039 (both days inclusive). The duration of the Master Gas Supply Agreement with Sinopec Gas is around 20 years. According to Rule 14A.52 of the Listing Rules, the period for the agreement for any continuing connected transactions must not exceed three years, except in special circumstances where the nature of the transaction requires a longer period. In this connection, the Company has engaged us as the independent financial adviser to opine the term of the Master Gas Supply Agreement, which is more than three years, and to confirm that it is normal business practice for agreements of this type to be of such duration.

As mentioned above, in light of stable pricing and gas supply, the Group mainly relies on long term master gas supply agreements to support its business development. Based on our review of the Current Long-term Supply Agreements, we noted that the terms of the aforesaid master gas supply agreements for the Group's natural gas business development in its key operating regions including Shandong, Hebei, Zhejiang, Jiangsu and Tianjin are in the range between 4 and 20 years (7 out of 10: equal to or exceeding 10 years). Taking into account that it is the practice of the Group to sign long duration gas supply agreements with independent third party suppliers in its key operating regions, the term of the Master Gas Supply Agreement is therefore in line with the normal business practice for natural gas delivery period employed by the Group.

To further assess whether or not it is a normal business practice for the Master Gas Supply Agreement with Sinopec Gas to be of a duration for more than three years, we considered natural gas agreements entered into by other listed natural gas supplier (the "**Comparable Companies**") which (i) are principally engaged in the exploration and production of oil and gas; and (ii) had market capitalisation of between HK\$350 billion and HK\$800 billion as at the Latest Practicable Date (given the market capitalisation of Sinopec Corp was approximately HK\$458 billion as at the date of the Company's announcement ("**Announcement Date**"), we consider that companies with market capitalisation between HK\$350 billion and HK\$800 billion represent a similar scale of operation as Sinopec Corp) to be appropriate for the purpose of our analysis. We have identified 3 Comparable Companies which are considered to be representative and exhaustive. Based on the aforesaid selection criteria and our searches conducted on the websites of listing stock exchanges of the Comparable Companies (i.e. the Stock Exchange, Shanghai Stock Exchange, New York Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange), Bloomberg and the company websites of the Comparable Companies, we have identified a list of 9 arrangements for supply of natural gas with tenure equal to or exceeding ten years announced since 1 January 2015 up to the Announcement Date, which

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are considered to be sufficient and exhaustive for our further assessment on whether or not it is a normal business practice for the Master Gas Supply Agreement with Sinopec Gas to be of a duration more than three years. The relevant information of which are set out below:

Company	Background
CNOOC Ltd (“ CNOOC ”)	CNOOC explores, develops, produces, and sells crude oil and natural gas. It is listed on the Stock Exchange, New York Stock Exchange and Toronto Stock Exchange with market capitalisation of approximately HK\$377 billion as at the Announcement Date. CNOOC focuses in the areas such as Bohai, Western South China Sea, Eastern South China Sea and East China Sea in offshore China. Internationally, CNOOC has oil and gas assets in Asia, Africa, North America, South America, and Oceania.
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 HK\$616 billion as at the Announcement Date. It explores 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.
Total SA (“ Total ”)	Total explores, 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 HK\$707 billion as at the Announcement Date. 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

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

Parties	Date of media release	Period of agreement	Details of the transactions
CNOOC and China BlueChemical Ltd.	3 November 2017 Source: website of the Stock Exchange	20 years	CNOOC to supply natural gas to China BlueChemical Limited for its Hainan petrochemical plant for a term of twenty years which commenced between August 2018 and November 2018.
BP and PTT Public Limited Company	29 December 2016 Source: website of BP	20 years	BP to supply approximately 1 million tons of liquefied natural gas per annum to Thailand. The term of the agreement was 20 years and the liquefied natural gas supply commenced in 2017.
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 tons of liquefied natural gas per year which worth up to US\$10 billion over the 20-year term.
BP and Kansai Electric Co., Inc	28 May 2015 Source: website of BP	23 years	BP to supply up to 13 million tons of liquefied natural gas to Japan. The term of the agreement is 23 years.
Total and Chugoku Electric Power Co., Inc.	22 July 2016 Source: website of Total	17 years	Total to supply liquefied natural gas with up to 0.4 million tons per year for a period of 17 years started from 2019.

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Parties	Date of media release	Period of agreement	Details of the transactions
Total and ENN LNG Trading Company Limited	4 February 2016 Source: website of Total	10 years	Total 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 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.
Total and CMA CGM	4 December 2019 Source: website of Total	Over 10 years	Total to supply liquefied natural gas for the use of ultra-large container vessels with approximately 270,000 tonnes per year starting in 2021.
Total and Guanghui International Natural Gas Trading Co., Ltd.	3 April 2019 Source: website of Total	10 years	Total to supply 0.7 million tonnes per year of liquefied natural gas for a period of 10 years to the regasification terminal of the Guanghui International Gas Trading Co., Ltd..

Although the scale of operation, trading prospect, financial performance and capital structure of the above counter-parties of the Comparable Companies may not be exactly the same with that of the Company, we consider the long term gas supply contract to secure a stable and long term source of natural gas is both crucial for business development of the aforesaid counter-parties and the Group. In light of the above, we consider that the term under the Master Gas Supply Agreement of a duration more than three years is in line with normal business practice for natural gas delivery period employed by the Comparable Companies under similar supply contracts.

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In arriving at our opinion, we have also considered the following factors:

- (i) In accordance with Rule 17 of 《城鎮燃氣管理條例》*(Regulation on the Administration of Urban Gas), the operator of natural gas network is liable to provide the qualified natural gas under the national quality standards with the persistency, stableness and high safety to users. Therefore, a gas supply agreement or letter of intent is required from the Group to apply necessary approval from relevant authorities for its construction of gas pipeline networks. The long-term gas supply agreement with the Sinopec Gas Group, which indicates stable and persistent supply of natural gas, will facilitate the approvals assessment process by the relevant authorities;
- (ii) The supply of natural gas by Sinopec Gas Group will be significant to the continuous development of the Group as the business operations of the Group primarily focus on the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas in the PRC. Given that the parent company of Sinopec Corp, China Petrochemical Corporation, is the largest oil and petrochemical products suppliers and the second largest oil and gas producer in China, long-term business cooperation with the Sinopec Gas Group will benefit the business development and the overall natural gas business of the Group; and
- (iii) Through such long-term agreement, the Group would be able to secure a stable source of natural gas, being a key product for the Group's business, to provide to the end users in various provinces and districts in the PRC, and to avoid unnecessary disruption to the Group' operation.

Having taken into account the above as a whole, we consider that the Master Gas Supply Agreement is on normal commercial terms, and the terms of the Master Gas Supply Agreement and transactions contemplated thereunder are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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ANALYSIS ON THE PROPOSED ANNUAL CAPS

The following table summarises (i) the historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group; and (ii) the Proposed Annual Caps for the two years ending 31 December 2021:

	For the		For the		For the
	years ended		three		period/year ending
	31 December		months		31 December
	2018	2019	ended 31	2020	2020
	2018	2019	March	2020	2021
	Historical Transaction Amount			Proposed Annual Cap	
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Approximate transaction amount of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group	74,643	374,402	129,357	544,113 <i>(Notes 1&2)</i>	1,339,181
	Historical Transaction Amount				
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>		
Total approximate transaction amount of natural gas purchased by the BHI Tianjin Group	2,134,661	2,259,600	824,197		

Note:

1. The amount of the Proposed Annual Cap for the year ending 31 December 2020 covers the estimated transaction amounts under the Master Gas Supply Agreement for the period between 1 June 2020 (as the Master Gas Supply Agreement is estimated to take effect in June 2020) and 31 December 2020.
2. The Proposed Annual Cap for the year ending 31 December 2020 is equivalent to approximately 70% of the Proposed Annual Cap for the year ending 31 December 2021 on a pro-rata basis.

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As stated in the Letter from the Board, the above Proposed Annual Caps were determined with reference to:

1. the aforementioned historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group;
2. the estimates on the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the following:
 - (a) the benchmark citygate prices set out in the 2019 Regulatory Notice, being the latest regulatory notice on adjustments to the citygate prices of natural gas issued by the NDRC; and
 - (b) the sale prices of natural gas to be sourced from the Sinopec Gas Group is mainly subject to a mark-up in the range up to 20% above the benchmark citygate prices, according to the 2015 Regulatory Notice and the 2018 Regulatory Notice.
3. estimates on the demands for natural gas by the BHI Tianjin Group based on the historical natural gas sales volume by the BHI Tianjin Group to downstream natural gas users, the information obtained from negotiations with key downstream natural gas users (including the estimated volume of natural gas to be required by such users) and the potential expansion of the PRC's natural gas market in these two years.

To assess the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the management of the Company and were given to understand that the Proposed Annual Caps for the two years ending 31 December 2021 are mainly estimated based on the annual natural gas procurement plans prepared by the BHI Tianjin Group with reference to (i) the latest regulatory notice on adjustments to the benchmark citygate prices of natural gas issued by the NDRC, and (ii) the expansion plan of the Group in the natural gas business which resulted in the growing demands for natural gas by the BHI Tianjin Group in different regions of the PRC.

As mentioned in the section of this letter headed "Reasons for entering into the Master Gas Supply Agreement", according to the "13th Five-Year Plan for Energy Development (《能源發展十三五規劃》)", in 2020, the total natural gas pipeline mileage in China has reached 100,000 kilometers, with an annual gas transmission capacity of above 400 billion cubic meters. Also, the urban gasification rate has reached 57% and the population with access to natural gas has reached 470 million. The Group will closely follow the national policies

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and the market trend, leverage on the existing geographical advantages of operations, increase the popularization rate of natural gas supply, fully release the industrial and household demands for natural gas and develop scientific planning. In addition, the Group made aggressive efforts in exploring new districts and market projects and signed development cooperation agreements with a number of new markets. We consider that the above increasing trend in the Proposed Annual Caps for the natural gas procurement transactions between the BHI Tianjin Group and the Sinopec Gas Group will consummate the Group's above aggressive expansion plan.

Based on the above information provided by the Company, we note that the Proposed Annual Cap for the year ending 31 December 2020 will increase substantially from the historical transaction amounts for the year ended 31 December 2019, and there is a further increase in the Proposed Annual Cap for the year ending 31 December 2021. As stated in the Letter from the Board, the amount of the Proposed Annual Cap for the year ending 31 December 2020 covers the estimated transaction amounts under the Master Gas Supply Agreement for the period between 1 June 2020 (as the Master Gas Supply Agreement is estimated to take effect in June 2020) and 31 December 2020 (i.e. 7 months). The amount of the Proposed Annual Cap for the year ending 31 December 2021 on pro-rata basis of 7 months amounted to approximately RMB 781 million represents an increase of approximately 43.6% to the Proposed Annual Cap for the year ending 31 December 2020 amounted RMB544 million. As stated in the Letter from the Board, the historical natural gas sales volume by the Group to downstream natural gas users was on the rise, where the sales volume of piped natural gas and income of the Group from the sales of piped natural gas for the year ended 31 December 2019 recorded approximately 25% and 12% year-on-year increase respectively. The increasing trend of the Proposed Annual Cap is in line with the growth of the sales of piped natural gas. In addition, we understand that it is the intention of the BHI Tianjin Group to gradually consolidate its natural gas procurements from other suppliers to the Sinopec Gas Group over the coming years. As advised by the management of the Group, the BHI Tianjin Group intends to consolidate the natural gas procurement for group companies located in several provinces to the Sinopec Gas Group after the entering into of the Master Gas Supply Agreement.

As advised by the management of the Group, the Proposed Annual Cap for the year ending 31 December 2020 amounting to approximately RMB544.1 million represents the estimated demand for the natural gas supplied by the Sinopec Gas Group for the period between 1 June 2020 and 31 December 2020. The actual transaction amount of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group for the three months ended 31 March 2020 amounted to approximately RMB129.4 million. The Proposed Annual Cap for the year ending 31 December 2021 will further increase to approximately RMB 1,339.2

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million which is in line with the Group's expansion plan. As advised by the management of the Group, the estimated natural gas procurement amount in Tianjin, which is expected to account for over 65% of the total estimated procurement amount by the BHI Tianjin Group for the two years ending 31 December 2021, will increase substantially during the year ending 31 December 2021 as compared to that in 2020, primarily attributable to (i) the addition of two major gas supply projects for the development zone and a town in Tianjin as secured by the Group which are expected to commence gas supply in 2021, (ii) the new addition of heat boilers in certain districts in Tianjin by enterprise customers which account for additional demand in 2021; and (iii) the resumption of production in full capacity in late 2020 by a major glass producer customer, which is heat intensive by its nature and therefore requires a high level of natural gas supply subsequently.

As mentioned in the section of this letter headed "Consideration", the individual agreements for the sale and purchase of natural gas, to be entered into between the BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties. In addition, Sinopec Gas is a branch company of Sinopec Corp and the ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is the second largest oil and gas producer in China. Having considered (i) the pricing for the individual agreements for the sale and purchase of natural gas to be entered into between the BHI Tianjin Group and the Sinopec Gas Group is on terms no less favourable to the Group than those available to the Group from independent third parties; and (ii) the ultimate holding company of Sinopec Corp is China Petrochemical Corporation which is the second largest oil and gas producer in China with extensive natural gas supply networks, we consider that the Group's intention to consolidate more of its overall procurement of natural gas with the Sinopec Gas Group for its existing demands over the coming years will not only decrease the Group's overall natural gas procurement costs, but will also create supply chain synergy between the Sinopec Gas Group and the BHI Tianjin Group by utilising the extensive natural gas supply networks of the China Petrochemical Corporation for the BHI Tianjin Group's above-mentioned business expansion in the PRC.

Taking into account the above, we consider that the Proposed Annual Caps in respect of the Master Gas Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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Regarding the internal control measures governing the transactions under the Master Gas Supply Agreement

To ensure that the transactions contemplated under the Master Gas Supply Agreement will be on normal commercial terms that are fair and reasonable and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties, the Company has adopted the following internal control measures:

- (i) The internal control and legal department of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group. Pursuant to the “Administrative Measures for Connected Transactions”* (《關連交易管理辦法》) of the Company, each department and subsidiary of the Group shall submit an information sheet for each connected transaction, setting out its terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least one natural gas suppliers in the market that is an independent third party to the Group, to the functional department, the finance department, the internal control and legal department of the Company and the secretary to the Board for review and approval. The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted.
- (ii) In the event there is no quotation or reference transaction from independent third parties available for comparison, the Group will consider the prevalent pricing policy of the industry (i.e. natural gas being sold on a certain percentage above the benchmark citygate prices of natural gas) and compare the sale prices of natural gas to be sourced from the Sinopec Gas Group with the market price of natural gas in the nearby region in respect of the relevant member of the BHI Tianjin Group.
- (iii) The internal control and legal department of the Company monitors the carrying out of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group to ensure compliance with the Listing Rules, and is responsible for reporting to the Audit Committee of the Company (which comprise all independent non-executive Directors) on an annual basis.
- (iv) Through reviewing the information gathered from the finance department of the Company, the external auditor of the Company will report to the Board annually on the continuing connected transactions of the Group in relation to their pricing policies and annual caps pursuant to the Listing Rules.

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In addition, for the purpose of Rule 14A.56 of the Listing Rules, the external auditor of the Company will be engaged to issue a letter to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on "Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

In assessing the effectiveness of the existing internal control measures in governing connected transactions conducted by the Group such as the transactions under the Master Gas Supply Agreement, we have: (i) obtained and reviewed the latest circular of "Administrative Measures for Connected Transactions"* (《關連交易管理辦法》) of the Company in effective since 28 April 2019, which governs the selection process of connected parties as suppliers and/or customers of the Group. In particular, we noted that prior to conducting a connected transaction of the Group, the terms and conditions of the contract to be entered into with connected party will be compared with at least one contract previously entered into with independent third party under similar nature or against public pricing guidance promulgated by relevant government authorities. Subsequently the comparison results will be considered by and approvals will be sought from the management of the contracting subsidiary of the Group, followed by various responsible departments of the Company, to ensure such terms and conditions under the contract with independent third parties shall be no less favourable than those to be entered into with connected party and necessary reporting obligations under the Listing Rules are fulfilled; and (ii) sample checked the historical assessment documents for three connected transactions conducted by the Group during each of 2019 and 2020 and we noted that the Group has followed the aforementioned procedures prior to the entering into of the connected transactions.

Based on the above, the Directors are of the view that the internal control measures above can ensure that the transactions contemplated under the Master Gas Supply Agreement will be on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having reviewed the above mechanism and the Group's historical internal control procedural records, and considered that transactions contemplated under the Master Gas Supply Agreement will be subject to the on-going review by the independent non-executive Directors and the auditors of the Company, we concur with the view of the Directors that the Group have appropriate and adequate internal control measures in place to govern the transactions contemplated under the Master Gas Supply Agreement and thereby safeguarding the interests of the Independent Shareholders.

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RECOMMENDATION

Having considered the above, we are of the opinion that (i) the transactions contemplated under the Master Gas Supply Agreement are in the ordinary and usual course of business of the Group; (ii) the Master Gas Supply Agreement is on normal commercial terms; and (iii) the terms of the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM for approving the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Louis Chan

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 25 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that 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.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND THE CHIEF EXECUTIVES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) 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 were taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules are as follows:

(i) Long position in Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of total issued share capital of the Company
Professor Japhet Sebastian Law	Beneficial owner	100,000	0.01%

(ii) Directors' interest in share options granted by the Company

Name of Director	Number of share options held	Approximate percentage of total issued share capital of the Company
Mr. Gao Liang	1,000,000	0.09%
Mr. Wang Gang	700,000	0.06%
Mr. Ip Shing Hing, <i>J.P.</i>	200,000	0.02%
Mr. Lau Siu Ki, Kevin	200,000	0.02%
Professor Japhet Sebastian Law	200,000	0.02%

Note: Pursuant to the share option scheme of the Company adopted on 20 August 2010 and upon the share consolidation taking effect on 14 May 2015, all the share options stated above were granted on 27 September 2010 and are exercisable at HK\$5.6 per Share at any time between 27 September 2010 and 26 September 2020.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which has an interest or short position in the 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:

Name of Director	Name of company	Position
Mr. Zhang Bing Jun	TEDA Holding	Party Secretary and Chairman
Mr. Wang Gang	TEDA Holding	Assistant General Manager
Ms. Cao Hong Mei	TEDA Holding	Manager in the environmental department
Ms. Peng Bo	TEDA Holding	Manager in the asset management department

3. COMPETING INTERESTS

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or any of their respective close associates had an interest in a business that competes or is likely to compete, either directly or indirectly with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which did not expire or was not determinable by the relevant member of the Group within one year without payment of any compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the 2019 annual report of the Company regarding the outbreak of COVID-19 pandemic in early 2020 that may have possible impacts on the Group, 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 2019, being the date to which the latest published audited accounts of the Group were made up.

6. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTEREST

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, 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 was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

7. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Octal	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Octal has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

The letter given by Octal is given as of the date of this circular for incorporation herein.

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

As at the Latest Practicable Date, Octal did not have any direct or indirect interest in any assets which have been, since 31 December 2019 (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 which are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

In case of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office of the Company at Suites 3205-07, 32/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours up to and including the date of the SGM (and any adjournment thereof):

- (a) The Master Gas Supply Agreement;
- (b) The Subscription Agreement;
- (c) The Share Purchase Agreement;
- (d) The letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 of this circular;
- (e) The letter from Octal, the text of which is set out on pages 24 to 45 of this circular; and
- (f) The consent letter of Octal referred to in the section headed “Expert” of this appendix.

NOTICE OF SPECIAL GENERAL MEETING



濱海投資有限公司

BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 2886)

NOTICE IS HEREBY GIVEN that a special general meeting of Binhai Investment Company Limited (the “**Company**”) will be held on Friday, 3 July 2020, at 10:10 a.m. (or so soon thereafter as the special general meeting of the Shareholders convened to be held at 10:00 a.m. on the same date and at the same place shall have been concluded or adjourned) at 35/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong to consider, and, if thought fit, pass the following resolution (with or without modifications) as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the Master Gas Supply Agreement as defined and described in the circular of the Company dated 12 June 2020 of which this resolution forms part (the “**Circular**”) (a copy of each of the Master Gas Supply Agreement and the Circular having been produced at the meeting and marked “**A**” and “**B**” respectively and each initialed by the chairman of the meeting for the purpose of identification), and transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and/or confirmed;
- (b) the Proposed Annual Caps (as defined and described in the Circular) be and are hereby approved;
- (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the Master Gas Supply Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).”

By Order of the Board

BINHAI INVESTMENT COMPANY LIMITED

Gao Liang

Executive Director

Hong Kong, 12 June 2020

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more ordinary shares of the Company) to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any ordinary share any one of such joint holder may vote, either in person or by proxy, in respect of such ordinary share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
- (4) For determining the entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Monday, 29 June 2020 to Friday, 3 July 2020, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to be eligible to attend and vote at the meeting, all completed transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 June 2020.
- (5) As at the date hereof, the Board comprises two executive Directors, namely, Mr. Zhang Bing Jun and Mr. Gao Liang, four non-executive Directors, namely, Mr. Wang Gang, Ms. Cao Hong Mei, Ms. Peng Bo and Mr. Yu Ke Xiang, and three independent non-executive Directors, namely, Mr. Ip Shing Hing, *J.P.*, Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law.