HALCYON CAPITAL LIMITED
鎧盛資本有限公司
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9 November 2022

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT

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 Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps). Details of the Framework Agreement and the Proposed Annual Caps in respect of the transactions contemplated thereunder (the "**Transactions**") are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 9 November 2022 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

As of the Latest Practicable Date, CNOOC and its associates hold in aggregate 2,410,849,300 Shares of the Company, which amounts to approximately 50.53% of total issued Shares of the Company, and is the controlling shareholder of the Company. By virtue of CNOOC's shareholding in the Company, CNOOC is therefore a connected person of the Company under the Hong Kong Listing Rules, and the entering into the Framework Agreement and the Transactions constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios in respect of the Framework Agreement are on an annual basis over 5%, the Framework Agreement (including the Proposed Annual Caps) and the Transactions will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the Hong Kong Listing Rules, CNOOC and its associates will abstain from voting on all resolutions relating to the Transactions to be proposed, considered and voted on at the Second EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Chiu Lai Kuen, Susanna, Messrs. Kwok Lam Kwong, Larry and Yao Xin, has been established to advise the Independent Shareholders as to whether the terms of the Framework Agreement (including the Proposed Annual Caps) and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole and how to vote on the relevant resolution in the Second EGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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In the last two years from the date of our appointment we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence. We are therefore independent under Rule 13.84 of the Hong Kong Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the executive Directors and/or the management of the Company and have assumed that all such information, financial information and facts and any representations made to us or referred to in the announcement of the Company dated 27 October 2022 and the Circular, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the executive Directors and/or the management of the Company. We have been advised by the executive Directors and/or the management of the Company that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Company, as permitted under the relevant rules and regulations, including the Framework Agreement and certain published information from the public domain. We have also discussed with the executive Directors and/or the management of the Company with respect to the terms of and reasons for the Transactions (including the Proposed Annual Caps) and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position or prospects of the Group, CNOOC Group, and each of their respective associates, and the parties involved in the Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the Transactions (including the Proposed Annual Caps), we have considered the following principal factors and reasons:

1. Background to and reasons for the entering into of the Framework Agreement

The Company is a joint stock company incorporated in the PRC with limited liability and is listed on both Hong Kong Stock Exchange and Shanghai Stock Exchange. The Company is one of the leading integrated oilfield services providers in the world. Its services cover each phase of oil and gas exploration, development and production.

CNOOC, a state-owned enterprise incorporated under the laws of the PRC, who is the largest offshore oil and gas producer and operator in the PRC. It has become an international energy company with prominent core business, a complete industrial chain and business spreading across 40 countries and regions. The principal businesses of CNOOC include oil and gas exploration and development, engineering and technical services, refining and marketing, natural gas and power generation, financial services and integrated operation services and new energy services. CNOOC Group's core operation areas are Bohai, Western South China Sea, Eastern South China Sea and East China Sea in offshore PRC. For overseas, CNOOC Group has oil and gas assets in Asia, Africa, North America, South America, Oceania and Europe.

The Company, including its predecessors, has been providing Oilfield Services to CNOOC and its associates since 1982. In addition, the CNOOC Group has also since 1982 been providing Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group as well as leasing certain properties to the Group for the Group's daily operation. To govern the on-going co-operation and rental between CNOOC Group and the Group, relevant framework agreements have been entered into and renewed every three years or supplemented when necessary thereafter. As the latest effective agreement in place, the Current Framework Agreement, will expire by the end of 2022, on 27 October 2022, the Company and the CNOOC entered into the Framework Agreement to continue to govern the on-going connected transactions with the CNOOC Group and as well as to set annual caps for the coming three years ending 31 December 2025.

The executive Directors considered that the Framework Agreement provides flexibility, but not an obligation, to the Group or to the CNOOC Group to engage each other in their respective business operation whenever their respective management consider appropriate. Furthermore, the executive Directors are of the view that, given CNOOC Group had been co-operating with the Group since 1982 and as CNOOC is the largest offshore oil and gas producer and operator in the PRC, holding the dominant position in offshore oil and gas production in the PRC which is the principal market of the Company has been providing stable demand for the Group's Oilfield Services and CNOOC Group had also been providing a stable source of supply of Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group, we concur with the Company that, it is in the interest of the Company to continuously enter into the Transactions with CNOOC.

Furthermore, given the properties leased from the CNOOC Group are essential to the Group's operations. Thus, we concur with the Company that it is in the interest of the Company to continue with the Property Services, as relocating to alternative premises would be costly and could lead to interruption to the Group's operations.

Having considered that the Transactions between the Group and CNOOC Group have been and will be carried out in their respective ordinary and usual course of business, we considered that the entering into of the Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and Shareholders as a whole.

2. Principal terms of the Framework Agreement

On 27 October 2022, the Company and CNOOC entered into the Framework Agreement. Set out below are the principal terms of the Framework Agreement:

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Details of the transaction

The terms of the Framework Agreement have been reached after arm's-length negotiation between the Company and CNOOC. Pursuant to the Framework Agreement, the Company and the CNOOC Group have agreed to the provision of the following services between the parties:

(a) Provision by the Group of the Oilfield Services to the CNOOC Group

The Group, and its predecessors, has been providing such oilfield services to the CNOOC Group since 1982. Pursuant to the Framework Agreement, the Group will continue to provide the Oilfield Services to the CNOOC Group in relation to its oil and gas exploration, development and production activities.

(b) Provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group

In the past, the CNOOC Group has been providing the Group with warehousing and storage, supply and transportation of materials, communication, wharf services, construction services, medical services, technical training, accommodation and personnel transportation services, offshore facility monitoring, maintenance and repair services, catering services, insurance arrangements, labour services, energy services, machinery leasing and vehicle leasing. Pursuant to the Framework Agreement, the CNOOC Group will continue to provide the Group with such services.

(c) Provision by the CNOOC Group of the Property Services to the Group

The Group has leased certain properties from the CNOOC Group for office, living quarters, canteen and production premises' uses. Pursuant to the Framework Agreement, the CNOOC Group will continue to lease the properties to the Group and provide the Group with property administration services.

Term and termination

Upon approval by the Shareholders at the Second EGM, the Framework Agreement will take effect from 1 January 2023 for a term of three years and will expire on 31 December 2025.

Implementation agreements and payments

The Company and each subsidiary of the Company may, from time to time and as necessary, enter into separate implementation agreement for each specific transaction contemplated under the Framework Agreement with CNOOC and each subsidiary of CNOOC. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the provision of service as contemplated by the Framework Agreement, and as such, they do not constitute new categories of connected transactions. Any such implementation agreement will stay within the bounds of the Framework Agreement and the annual caps.

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All payments made pursuant to the Framework Agreement and its implementation agreements will be in cash.

Proposed Annual Caps

For terms regarding the Proposed Annual Caps, please refer to the section headed "*4. Basis of the Proposed Annual Caps*" below.

3. Pricing policies and internal control

The basis of determining the prices for the continuing connected transactions will be in accordance with: (1) the State-quoted price (including local government-quoted price), if the pricing of such a transaction is governed by the pricing policies of the PRC; (2) a comparable market price (as compared against local, national or international price), if the transaction is not governed by the pricing policies of the PRC; or (3) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference.

(a) Provision by the Group of the Oilfield Services to the CNOOC Group

The Group is the leading provider of oilfield services in the offshore China. For the Oilfield Services provided by the Group to the CNOOC Group, the prices are mainly determined through arm's-length negotiation with reference to international oil prices and market prices of oilfield services that are released by major consultancy institutions such as IHS Markit (www.ihsmarkit.com), Clarkson (www.crsl.com) and Rigzone (www.rigzone.com). IHS Markit and Clarkson provide information and analysis to support the decision-making process of businesses and governments in a number of industries, while Rigzone mainly provide information related to the oil & gas industry. In offshore oil & gas sector, IHS Markit, Clarkson and Rigzone provide regional market data on equipment of drilling companies, contract terms, operators, operating areas and blocks, daily rates, estimated project volume and historic operation conditions. IHS Markit and Clarkson update their data on monthly basis, while Rigzone updates its data timely when obtaining new drilling rig contract. IHS Markit and Clarkson publish a number of well-known industry reports such as IHS Markit Petrodata World Rig Forecast, IHS Markit Petrodata Seismic Quarterly Report, Clarkson Offshore Drilling Rig Monthly and Clarkson Offshore Intelligence Monthly. The prices for the Oilfield Services provided by the Group to the CNOOC Group are mainly determined according to the average price of the prices published by the above-mentioned institutions during the last 12 months for nearby or similar areas which the Group operate at, and will be adjusted in a ±10% range with reference to historical transactions and current market supply and demand condition. When determining contract prices for the Oilfield Services provided to the CNOOC Group, the Company will consider specific conditions of contract, including functions of specific equipment, depth of water, complexity of operation and term of contract, etc., as well as market demand and historical transaction prices. The Company will ensure that the prices are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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(b) Provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group

For the provision of utilities by the CNOOC Group to the Group, including water, power and gas, the prices are under the guidance of State-quoted price promulgated by NDRC. Such prices are updated by NDRC from time to time and are published on websites of Pricing Bureaus.

For the provision of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services other than utilities, the prices are primarily determined by market price. In determining such prices, the Company will undergo a tendering process which promotes market competition to obtain best available rate. The tendering process is organized strictly following the requirements under the Tendering and Bidding Law of the PRC. In a typical procurement procedure, the Company invites not less than three bidders to submit its fee proposal and commercial proposal before the designated deadline. The procurement department of the Company that is separated from and independent of other departments will compare proposals and make decision.

However, for the provision of the Machinery Leasing and Equipment by the CNOOC Group to the Group, due to the nature of the industry and in special circumstances, only the CNOOC Group has oilfield service machines and equipment that can satisfy special operation conditions in certain offshore areas of China. In this case, a tendering process is not feasible, and the Company will ensure that the price will not be higher than the average price from three independent third-party providers for comparable equipment obtained by the Company through inquiry. The Company will also consider the specific conditions of the contract, including the function of specific equipment, water depth, difficulty of operation, contract period, etc., to ensure the price is fair and reasonable.

According to the Company's procurement policy, in addition to the offer of same or more favourable terms by the counterparty in a transaction, the Company will also consider other factors, including the corporate background of the counterparty; its reputation and reliability; its ability to conduct the transaction in accordance with the terms of the contract; and its understanding of the Company's needs, in order to maximise the Company's interest in the transaction, and at the same time to reduce the Company's time and costs of transaction.

The procurement department of the Company which is separated from and independent of other departments is responsible for comparing no less than three other independent third-party providers who have comparable equipment to that of CNOOC Group and ensure the average price from the other independent third-party providers would be less favourable to the prices offered by CNOOC Group to the Company. Taking into consideration the above mechanism, we consider that the price offered by CNOOC Group is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

(c) Provision by the CNOOC Group of the Property Services to the Group

For the provision of the Property Services by the CNOOC Group to the Group, the prices are primarily determined by market price. The Company will have regard to the then prevailing market rent for similar types of properties in the nearby locations and/or consult not less than three reputable local real estate agents for benchmarks of assessment. Where no comparable market price can be

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taken as a reference, the Group will, having taken into account the location, scope, scale and term of the transaction and historical comparable transactions, determine the price of the relevant transaction based on arm's length negotiations and on terms which are no less favourable from third parties.

Furthermore, we have also reviewed the letter issued by the auditor of the Company regarding the continuing connected transaction of the Company for the year ended 31 December 2021, pursuant to which nothing has come to the attention of the auditor of the Company that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Company.

(d) Internal control review on the Transactions

As stated in the Annual Report of the Company for the year ended 31 December 2020 and 2021, the independent non-executive Directors have reviewed the continuing connected transactions for the respective years and have confirmed that the independent non-executive Directors have reviewed the above transactions and have confirmed that: (i) the transactions were entered into between the Group and the connected persons or their respective associates (where applicable) in the ordinary and usual course of business of the Group; (ii) the transactions were entered into on normal commercial terms or better; (iii) the transactions were executed in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable and in the interests of the shareholders as a whole; and (iv) the above transactions were entered into with the annual aggregate value within the relevant annual cap of each category.

Furthermore, Ernst & Young, the Company's auditor, has been engaged to report on the Group's continuing connected transactions for 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. Ernst & Young has issued their letter (a copy of the auditors' letter has also been provided by the Company to the Stock Exchange) containing their findings and conclusions in respect of the continuing connected transactions as disclosed below by the Group in accordance with Rule 14A.56 of the Hong Kong Listing Rules:

a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d) with respect to the aggregate amount of each of the continuing connected transaction, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

We have also reviewed certain continuing connected transactions documents entered into in 2020, 2021 and during the first eight months of 2022, including but not limited to price list as stipulated in sales contracts, pricing analysis memorandums as well as tender result price analysis of various types of procurement transactions of which such documents form part of the sales, procurement or tender documents of the Group, as the case may be.

For sales contracts entered into between the Group and CNOOC Group in respect of Oilfield Services provided by the Group to CNOOC Group, we noted that the averaged prices on the price list as stipulated in the respective sales contracts were within the ranges of the market prices as stated in the then latest IHS report. IHS report are issued on a monthly basis which provide information on the latest estimated market prices for oilfield services.

For awarding contract by way of tender, we also notice that despite CNOOC Group participated in the tender, the contract was awarded to the lowest price tender participant, which was an independent third party.

Pursuant to the above mentioned transactions documents and relevant explanation from the Management, we noted that the price offered to/by CNOOC Group are no less favourable to the market prices obtained from public sources/to those offered to/by independent third parties.

Taking into account the above-mentioned measure including the internal control arrangements as disclosed in the "Letter From the Board" of this Circular, we concurred with the Board's view that, there are adequate pricing and review procedures in place for governing on-going transactions to ensure the pricing terms are no less favorable from third parties and appropriate measures are in place to ensure that the Transaction will be conducted on normal commercial terms and to safeguard the interests of the Independent Shareholders.

4. Basis of the Proposed Annual Caps

The Transactions are subject to the Hong Kong Listing Rules' requirements and conditions as further discussed under the section headed "*5. Reporting requirements and conditions of the Transactions*" below. In particular, the Transactions are also subject to the Proposed Annual Caps as discussed below.

In assessing the reasonableness of the Proposed Annual Caps, we have discussed with the management of the Group on the basis and assumptions underlying the anticipated volume of business transactions between the Group and CNOOC Group (including pricing) pursuant to the Framework Agreement entered into between the Company and CNOOC for the purpose of determining the Proposed Annual Caps.

(i) Review of the historical figures

Set out below are the historical transactions amounts between the Group and CNOOC Group for the two years ended 31 December 2020 and 2021 and for the 6 months ended 30 June 2022:

		For the year ended 31 December 2020	For the year ended 31 December 2021	For the six months ended 30 June 2022
		RMB' million	*RMB' million*	*RMB' million*
(a)	**Provision by the Group of the Oilfield Services to the CNOOC Group**			
	Historical transaction amount	21,645	25,123	12,764
	Historical annual cap	40,044	52,058	33,837.5 (Six months pro-rata) 67,675 (Historical annual cap)
	Utilization rate	54.1%	48.3%	37.7% (Six months pro-rata)
(b)	**Provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group**			
	Historical transaction amount	1,848	1,992	847
	Historical annual cap	5,397	7,169	4,767 (Six months pro-rata) 9,534 (Historical annual cap)
	Utilization rate	34.2%	27.8%	17.8% (Six months pro-rata)

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	For the year ended 31 December 2020 *RMB' million*	For the year ended 31 December 2021 *RMB' million*	For the six months ended 30 June 2022 *RMB' million*
(c) **Provision by the CNOOC Group of the Property Services to the Group**			
Historical transaction amount	91	155	93
Historical annual cap	600	797	529.5 (Six months pro-rata) 1,059 (Historical annual cap)
Utilization rate	15.2%	19.4%	17.6% (Six months pro-rata)

During the past two and a half years, impacted by multiple factors such as the continuous lingering of the global COVID-19 pandemic, fluctuation in the international oil and gas industry, and accelerated transformation of the energy industry, oil companies remain prudent in the investment in oil and gas exploration and development as well as the oversupply of the international oilfield service market has limited improvement and intense competition in international oilfield service market, the Group's utilization rate of the historical annual caps regarding the provision of the Oilfield Services to the CNOOC Group by the Group continued to decline from 54.1% for the year ended 31 December 2020 to 37.7% for the six months ended 30 June 2022.

As a result of (i) the decline in provision of Oilfield Services to CNOOC Group; (ii) oil price fluctuation in 2020 and 2021; and (iii) pursuant to the 2021 annual report of the Group, the Group had adopted a cost leadership strategy, in which, the Group would enhance the ability of cost control and therefore resulted a lower demand for obtaining Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services as well as Property Services from CNOOC Group and therefore resulted in low utilization rate for the historical annual caps in respect of provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group and the provision by the CNOOC Group of the Property Services to the Group.

(ii) Assessment of the Proposed Annual Caps

When assessing the reasonableness of the Proposed Annual Caps, we have discussed with the management about the basis and assumptions underlying the projection of the Proposed Annual Caps. Set out below are the Proposed Annual Caps being proposed for the Transactions for the three years ending 31 December 2023, 2024 and 2025:

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	For the years ending 31 December		
	2023	2024	2025
	RMB' million	*RMB' million*	*RMB' million*
(a) Provision by the Group of the Oilfield Services to the CNOOC Group	45,104	47,478	49,925
(b) Provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group	6,256	6,837	7,496
(c) Provision by the CNOOC Group of the Property Services to the Group	673	734	804

According to the "Letter From the Board" of this Circular, the Company is of the view that the historical transaction amounts of the continuing connected transactions being significantly lower than the existing annual caps for the three years ended/ending 31 December 2020, 2021 and 2022 could be said to be attributable to the Company's cost control management capacity and the impact caused by the Pandemic. Notwithstanding that these factors could be said to be relevant at the material times due to its specific set of circumstances (in particular the Pandemic impact), they are not the only factors that the Company should be taking into account when determining the proposed annual caps of the continuing connected transactions for the next three years.

In estimating the applied limits for the three years ending 31 December 2023, 2024 and 2025, the Proposed Annual Caps of the continuing connected transactions were determined by the Company with reference to a basket of factors including (i) the historical transaction amounts between the CNOOC Group and the Group for the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2022 (with a particular consideration over the effectiveness and efficiency of the Company's cost control management and the impact caused by the Pandemic at the material times), (ii) the investment considerations of the global oilfield services industry in the post-epidemic era, (iii) the anticipated business volume between the CNOOC Group and the Group for the three years ending 31 December 2023, 2024 and 2025 (based on a combined consideration of (a) the historical percentage of revenue generated from the CNOOC Group, and (b) the revenue forecasts for the next three years ending 31 December 2023, 2024 and 2025 based on the existing services offered by the Group to the CNOOC Group), and (iv) a prudent consideration of a 15% buffer based on the current efficiency of operation (representing a reduction of 5% over the previous estimation).

The transaction amounts of the Transactions are closely linked to oil prices and capital expenditure of the CNOOC Group in exploration and production activities in offshore China. During the years 2021 and 2022, the international oil price fluctuated upward in the fourth quarter of 2021 with the influence of geopolitical conflict, and remained above USD70. The international oil price increased sharply by 55% in the first quarter of 2022 as compared with the beginning of 2022, followed by a slowing rise of approximately 5% in the second quarter of 2022. According to the

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estimation in EIA's short-term energy forecast in September 2022, the Brent oil price will be USD104.21/bbl for the year 2022 and USD96.91/bbl for the year 2023, being stable after featuring a slow but steady downward adjustment. Following the rising oil prices to a relatively high level, the growth rate of capital expenditure in upstream oil exploration and production is also expected to peak in 2023 and remain stable thereafter.

According to Rystad's data, the global expenditure in offshore exploration and development has increased by 21% year-on-year in 2022 with growth expected to reach a peak in 2024 and remain basically stable thereafter. Along with the continuous adjustment of capital expenditure in the international market, the CNOOC Group appropriately increase their overseas investment in the future. In consideration of the "Seven-year Action Plan" of the CNOOC Group and CNOOC's operation arrangement to "increase reserve and promote production", it is expected that the domestic and overseas operation volume of the Company from the CNOOC Group will increase stably in the next three years. Therefore, the market anticipates that oil prices will adjust at high level during the next three years, and capital expenditure of the CNOOC Group in exploration and production activities in offshore China will increase first and then tend to be stable.

The Company has reviewed past performance of the industry, including the performance of the Company's peers and the industry reports published by IHS Markit, and the Company is of the view that the Company has been prepared for the steady growth of the business volume. Therefore, the historical transaction amounts for the two years ended 31 December 2020 and 2021 and six months ended 30 June 2022 as a whole are valuable indicators for future transaction amounts during the next three years, and the anticipated business volume between the CNOOC Group and the Group for the years ending 31 December 2023, 2024 and 2025 will also increase slowly and become stable which is in line with the capital expenditure of the CNOOC Group. The year on year growth rate of the Proposed Annual Caps for the three years ending 31 December 2023, 2024 and 2025 is also consistent with the expected trend of oil prices and the capital expenditure of the CNOOC Group.

Additionally, the Company estimates that its revenues from other customers will also increase during the next three years. The provision by the Group of the Oilfield Services to the CNOOC Group in 2021 represented approximately 86% of the total revenue of the Group. Since the Oilfield Services have been the main contributor to the Group's revenue, the Proposed Annual Caps and the actual historical transaction amounts being at a similar percentage against the total revenue of the respective period is an appropriate basis to assess the fairness and reasonableness of the Proposed Annual Caps. Considering the "Seven-Year Action Plan" and the future capital expenditure expectation of the CNOOC Group, it is estimated that the percentage of revenue from the Transactions during the three years 2023 to 2025 will be slightly higher than that of the year 2022. Therefore, a 86% of revenue contribution, representing an increase as compared with a 84% contribution by the Transactions in the total revenue in the first half of 2022, will be used for the estimation of the percentage contribution of the annual caps.

We have noted from Bloomberg on the data available of the peers of the Company that, in 2020 and 2021 the Group's revenue fluctuation has been less than the peers' average while in the first half of 2022, the Group's revenue growth rate was also higher than the average growth rate of the peers. In view of such, we concur with the Management that estimating a steady growth is appropriate as the Group's performance has been less fluctuated as compare to its peers. The peers of the

Company have been recording revenue growth for the six months ended 30 June 2022, which could be one of the indicator showing a possible recovery of oilfield industry and hence, it is appropriate to estimate that demand from other customers may also increase accordingly.

As for the cost of the Transactions, considering that the Company's production and operation model will not face significant change and that the percentage of total cost accounted from the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services as well as the Property Services provided by the CNOOC Group to the Group will remain relatively stable, the Company expects that the percentage of costs from the Transactions in the total cost of the Group will not encounter any major changes. Therefore, the Company, having taken into account the impact of oil price on the cost of raw materials in projecting the cost of Transactions for the next three years, estimates that percentage of the cost from the Transactions to total costs of the Group from 2023 to 2025 will be 8% (the average percentage from 2020 to the first half of 2022 was 7%).

In addition, based on the average historical percentage of the cost from property lease-related Transactions in the total cost from the Transactions from 2020 to the first half of 2022, being 8%, the Company estimated that the cost from property lease-related Transactions will be 10% of the total cost from the Transactions for the following three years.

The detailed basis of calculating the 15% buffer is based on the historical data of the revenue of the Company as well as CNOOC for the past few years. The revenues of the Company and CNOOC have a noticeable amount of fluctuation for the past few years which implies that the future revenue can also be volatile. In addition, the fluctuation of oil price will also significantly affect the revenue and cost of the Company and CNOOC as explained above.

Although the Company estimated that the future oil price remained relatively stable, future global geopolitical uncertainties still have an impact on the energy security and capital expenditure in global energy market continued to maintain at a high level, thus resulting in an expected increase in sales. Therefore, the Company has set such buffer to allow the Company to have flexibility to cater to the expansion of new energy business and increase in operation volume without being aggressive and overly optimistic.

(a) Provision by the Group of the Oilfield Services to the CNOOC Group

When calculating the Proposed Annual Caps of the Group for provision by the Group of the Oilfield Services to the CNOOC Group, the Group estimated the revenue for the three years ending 31 December 2025 times an estimated percentage of revenue to be contributed by provision of Oilfield Services to the CNOOC Group and a 15% buffer.

We have examined the historical amounts of revenue generated from the Oilfield Services to the CNOOC Group as compared with the total revenues of the Group in the below:

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	For the year ended 31 December		For the six months ended 30 June
	2020	2021	2022
	RMB' million	*RMB' million*	*RMB' million*
Total revenue of the Group	28,925	29,168	15,196
Actual amount of revenue contributed by CNOOC Group	21,645	25,123	12,764
% of revenue contributed by CNOOC Group	74.8%	86.1%	84.0%

We note that the historical transaction amounts of revenue contributed by CNOOC Group represent approximately 74.8%, 86.1% and 84.0% of the total revenue of the Group for the year ended 31 December 2020 and 2021 and for the six months ended 30 June 2022 respectively. Since the Oilfield Services have been the main contributor to the Group's revenue, as such, the Proposed Annual Caps and the actual historical transaction amounts being at a similar percentage against the total revenue of the respective period is an appropriate basis to assess the fairness and reasonableness of the Proposed Annual Caps. We consider that the percentage of approximately 86.1% as applied by the Company for the estimation of the percentage contribution of the Proposed Annual Caps in the next three years to the Group's total revenue which is comparable to the 84.0% recorded during the six months ended 30 June 2022 and representing the same level of contribution in 2021 to be an appropriate estimate.

In terms of estimated revenues, for 2023 the management estimated a growth based on the 2022 annual estimated revenue figure of which took into account the actual financial results of the first half of 2022 and according to the management, the 2022 annual estimate revenue have also factored in the revenue to be contributed from indicated orders of CNOOC Group for the second half of 2022 and for the year ending 31 December 2024 and 2025, the management further estimated a slight growth of 5%.

In assessing the year on year growth estimated by the Group for the three years ending 31 December 2023, 2024 and 2025 respectively, we have:

(i) noted from the result announcement of the Group for the six months ended 30 June 2022 that, in the first half of 2022, the offshore oil and gas industry gradually recovered, and the market demand for drilling rigs increased. The Company continued to consolidate the foundation of safe production, improved the equipment management capability in the whole life cycle, actively responded to the government's call to strengthen reserves and production, continuously planned and expanded overseas markets, and comprehensively improved the operation and management capability of which the Group achieved a growth in revenue for the Company's drilling services segment of 16.3% and the overall revenue of the Group in the first half of 2022 increased 19.4%;

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(ii) as noted from Rystad's data, the global expenditure in offshore exploration has increased by 21% in 2022 with growth expected to gradually reaches a peak in 2024; and

(iii) crude oil price which have a direct relationship to the Group's revenue, despite being volatile, have record an increase in average price, we noted from Bloomberg – (Brent crude futures) that the one-year average between Sept 2020 to 2021 being USD57.12 per barrel while one-year average between Sept 2021 to 2022 being USD89.09 barrel, representing an increase of 56.0%;

In view of the above recovery noted from the Group's operation and the oil market, we concur with the management that, the estimated increase in revenue of the Group to be acceptable.

(b) Provision by the CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group

When calculating the Proposed Annual Caps of the Group for provision CNOOC Group of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group, the Group estimated the total cost of the Group for the three years ending 31 December 2025 times an estimated percentage of cost to be incurred in respect of services provided by CNOOC Group as 8% of the estimated total cost of the Group with an additional buffer of 15%.

Pursuant to the management, the Company's operation model will not face significant change based on the Company's recent development plan and that the cost from the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services will remain relatively stable in terms of the proportion to the total cost of the Group, hence it is expected that the percentage of costs payable to CNOOC Group in respect of the Transactions in proportion to the total cost of the Group will not encounter any substantial changes. We also noted that an increase in the Group's revenue will likely cause a corresponding increase in the amount of Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services demanded by the Group.

As cost would in generally increase in line with the increase in revenue, the Group estimated that the total cost of the Group in the next three years will increase at a similar magnitude as the estimated increase in revenue in the next three years.

We have reviewed the cost of provision of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to the Group by CNOOC Group to the total cost of the Group for the period from 1 January 2018 to 30 June 2022:

	For the year ended 31 December				For the six months ended 30 June
	2018	2019	2020	2021	2022
Contribution of cost by CNOOC Group's provision of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services	8.1%	7.0%	7.7%	7.6%	6.7%

From the above table we noted that the cost contributed by CNOOC Group's (including but not limited to, provision of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services) to the Group accounted for around 7.0% to 8.1% of the total cost of the Group in the past four full financial years and accounted for 6.7% during the six months ended 30 June 2022. Given such percentage of cost contribution have been stable between around 7.0% to 8.1%, we consider applying 8.0% in estimating the Proposed Annual Caps for contribution of cost by CNOOC Group's provision of the Machinery Leasing, Kinetic Energy, Material and Other Ancillary Services to be appropriate.

Furthermore, when estimating the total cost of the Group in the coming three years, the Group have also factored in the potential inflation in materials, cost of raw material brought by operation volume, oil price, utilities, as well as labour cost, of which we concur with the management to be reasonable general estimates for calculating annual caps.

(c) Provision by the CNOOC Group of the Property Services to the Group

As discussed with the management an increase in the Group's revenue will likely cause a corresponding increase in the size of the office and working space demanded by the Group. Based on the average historical percentage of the cost from property lease-related transactions in the total cost from the Transactions during the periods from 2018 to 2021 ranged from 4.7% to 10.0%. As mentioned above, as the management do not consider a change in cost structure as the Company's operation model will not face significant change based on the Company's recent development plan. As by factoring in the potential inflation of land price as well as property services cost when determining the Proposed Annual Caps, we consider adopting a 10.0% ratio, (being the highest ratio in the past four years) in estimating the Proposed Annual Caps for provision of Property Services to the Group by CNOOC Group is acceptable.

(d) The 15% buffer for the Proposed Annual Caps

The detailed basis of calculating the 15% buffer is based on the historical data of the revenue of the Company as well as CNOOC for the past few years. The revenues of the Company and CNOOC have a noticeable amount of fluctuation for the past few years which implies that the future revenue can also be volatile. In addition, the fluctuation of oil price will

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also significantly affect the revenue and cost of the Company and CNOOC as explained above. With oil price trading between USD68.87 per barrel to USD127.98 per barrel represent a fluctuation of 85.8% between the highest and lowest price in the past twelve months from 27 October 2022 (the date of announcement in relation to the entering into the Framework Agreement), we therefore concur with the management that setting such buffer to allow the Company to have flexibility to cater to the expansion of new energy business and increase in operation from both the provision of services or receiving of services or goods perspective from/to CNOOC Group in the future three years.

Having considered all the above factors including the basis from which the executive Directors have determined the Proposed Annual Caps, we consider the Proposed Annual Caps for the three years ending 31 December 2025 are fair and reasonable.

5. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Transaction are subject to the following annual review requirements:

(a) each year the independent non-executive Directors must review the Transactions and confirm in the annual report that Transactions have been entered into:

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

(ii) on normal commercial terms or better; and

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

(b) each year the auditors of the Company (currently, Ernst & Young) must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to the Board's attention that causes them to believe that the Transactions:

(i) have not received the approval of the Board;

(ii) are not in accordance with the pricing policies of the Group (if applicable);

(iii) have not been entered into in accordance with the relevant agreements governing the Transactions; and

(iv) have exceeded the Proposed Annual Caps;

(c) the Company shall allow, and shall procure the relevant counterparties to the Transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (b); and

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(d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Hong Kong Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively. The Stock Exchange may require the Company to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Transactions and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the Transactions and assist to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the terms of the Framework Agreement and the Transactions are in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Framework Agreement (including the Proposed Annual Caps) and the Transactions at the Second EGM.

Yours faithfully,
For and on behalf of
HALCYON CAPITAL LIMITED

Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 22 years of experience in corporate finance industry.

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