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11 November 2022

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2023 TO 2025

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the renewal of the Non-exempt Continuing Connected Transactions and their proposed annual caps for each of the three years ending 31 December 2025 (the "**Proposed Annual Caps**"); and (ii) the term of agreements regarding long-term sales of natural gas and liquefied natural gas to CNOOC and/or its Associates for longer than three years, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 11 November 2022 issued by the Company (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 2 November 2022, the Company entered into the Comprehensive Framework Agreement with CNOOC for the provision (1) by the Group to CNOOC and/or its Associates and (2) by CNOOC and/or its Associates to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its Associates in respect of the Continuing Connected Transactions. The Comprehensive Framework Agreement is valid for a term of three years commencing on 1 January 2023 and they will, upon effective, replace the previous comprehensive framework agreement entered into by the Company and CNOOC on 1 November 2019.

As at the Latest Practicable Date, based on the records of the Company, CNOOC directly and indirectly holding approximately 61.17% of the all of the Shares in issue. CNOOC is therefore a connected person (as defined under the Listing Rules) of the Company and the transactions contemplated under the Comprehensive Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the highest applicable percentage ratios for each of the annual caps under the Non-exempt Continuing Connected Transactions exceed 5%, the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps are subject to, among other things, the approval by the Independent Shareholders. We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. We are not associated with the Company, its subsidiaries, its associates, or their respective substantial shareholders or associates or any other parties to the Comprehensive Framework Agreement, and accordingly, are eligible to give independent advice and recommendations on the terms of the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps. Save for this appointment, we were appointed as the independent financial adviser in relation to a connected transaction regarding vessels charter, details of which were set out in the announcement of the Company dated 25 August 2022. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the Comprehensive Framework Agreement; (ii) the annual reports of the Company for the two years ended 31 December 2020 (the "**2020 AR**") and 31 December 2021 (the "**2021 AR**"); (iii) the interim report of the Company for the six months ended 30 June 2022 (the "**2022 IR**"); (iv) the basis and assumption adopted in determining the Proposed Annual Caps; and (v) the Company's internal control procedures and records in relation to Non-exempt Continuing Connected Transactions. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (the "**Management**"). We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representations and opinions expressed by the Company, its advisers and/or the Directors. We consider that we have been provided with 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 included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

The Group is the largest producer of offshore crude oil and natural gas in China and one of the largest independent oil and gas exploration and production companies in the world. The Group principally engages in the exploration, development, production and sales of crude oil and natural gas.

CNOOC Group principally engages in professional technical services, refining and sales, natural gas and power generation and financial services. CNOOC is the actual controller of the Company.

2. Terms of the Non-exempt Continuing Connected Transactions

The Comprehensive Framework Agreement sets out the major terms such as the pricing basis for the provision of the Non-exempt Continuing Connected Transactions. Except for adjustment of certain pricing policies and adjustment of classification of certain Continuing Connected Transactions due to the new energy business, the terms of Comprehensive Framework Agreement are substantially on the same terms as the previous comprehensive framework agreement entered into by the Company and CNOOC on 1 November 2019 as described in the 2019 Circular. The detailed terms as to (i) specific products and services requested by the relevant party; (ii) detailed technical and other specifications which may be relevant to those products or services; and (iii) the quantities and fees for the products and services will be agreed from time to time based on the major terms as set out in the Comprehensive Framework Agreement. Extracted below are the major terms of the Comprehensive Framework Agreement.

2.1 Categories of the Non-exempt Continuing Connected Transactions

Categories of the Non-exempt Continuing Connected Transactions under the Comprehensive Framework Agreement are as follows. Further details of each category are set out in the section headed "Renewal of Continuing Connected Transactions in respect of 2023 to 2025" in the "Letter from the Board" of this Circular:

- Provision of services by CNOOC and/or its Associates to the Group

(a) Provision of exploration and support services;

(b) Provision of development and support services (including new energy business);

(c) Provision of production and support services (including new energy business);

- Sales of petroleum and natural gas products and other products by the Group to CNOOC and/or its Associates

    (a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas); and

    (b) Long-term sales of natural gas and liquefied natural gas.

2.2 ***Pricing policies***

The basic pricing principle for the Non-exempted Continuing Connected Transactions between the Group and CNOOC and/or its Associates is based on arm's length negotiations, on normal commercial terms or better and with reference to the prevailing local market conditions (including the volume of sales, the term of contracts, the volume of services, overall customer relationship and other market factors).

On the basis of the above basic pricing principle, each type of products or services must be charged in accordance with the following pricing mechanism and in the following sequential order:

(a) government-prescribed price; or

(b) where there is no government-prescribed price, in accordance with market prices, including local, national or international market prices.

The government-prescribed prices are applicable to water supply, electricity supply, gas supply and heat supply. We have reviewed the relevant regulations issued by regulatory authorities in the PRC and noted the such prices will be updated by NDRC and relevant government pricing departments from time to time and published on their official websites.

Where the goods and service to be procured is qualified for tendering and price comparison, the Company will adopt tendering and price comparison process. The Group invites at least two potential independent third-party suppliers/service providers (if applicable) to provide quotations (including proposals such as cost structure of products or services) in respect of the requested products and services. Following the receipt of quotations from at least two potential independent third-party suppliers/service providers, the Group will evaluate and compare the terms of quotations and determine the winning supplier/service provider by taking into account factors such as price quotations, quality of the products or services, ability of the suppliers/service providers in meeting technical specifications and delivery schedules, and qualification and relevant experience of the suppliers/service providers. The contract will be awarded to the supplier/service provider who fulfills the technical requirements and offers the most favourable pricing to the Company after arm's length negotiation and discussion. If there does not exist two or more independent third parties providing such type of products or services, the price will be determined in accordance with the negotiation between the two parties of the transaction. When both parties enter into fair negotiation on pricing, consideration should be given to the reasonableness of the cost structure of the products or service after comparison and analysis of historical purchase price and with reference to factors leading to price changes for such type of products or services to determine the transaction price.

When determining the market price for each type of products and services, the Company makes reference to international industry information from different sources, including (i) Brent, Dubai, Oman and West Texas Intermediate crude oil prices, official prices of national oil companies of oil producing countries and Argus sulfur crude oil price index which are updated regularly; (ii) the reports regularly issued by IHS (IHS Markit Ltd.) for the provision of exploration well operations, drilling and completion well operations and related technical services; (iii) the annual reports of at least three major overseas goods and service providers of the oil and gas industry such as Schlumberger, Halliburton and Baker Hughes; and (iv) the prices charged by other independent suppliers in the local market. This will align the Group's pricing standards with those used in the industry or international markets.

Please refer to the paragraph headed "Price Determination" in the "Letter from the Board" of this Circular for further details in relation to the determination of the government-prescribed price and the market price. We have reviewed nine relevant transactions documents with three transactions from each of exploration, development and production category and we noted that the tender and price comparison process carried out by the Group is consistent with the policy as described above.

In respect of the provision of exploration well operations, drilling and completion well operations and related technical services, the price of well workover platform shall refer to the international market price level, and shall be determined by comparing the market price reports regularly issued by IHS (IHS Markit Ltd.) and the prices quoted by CNOOC and/or its Associates. When determining such prices, the Company will consider specific conditions of different drilling rig types, operating water depths and key equipment capabilities, which shall be fully negotiated between both parties. According to the corporate information from the official website (https://ihsmarkit.com/about/index.html), IHS is a leading business solutions provider belongs to S&P Global Group. It has published a number of well-known industry reports related to oil & gas industry such as IHS Markit Floating Rig Report and IHS Markit Jackup Rig Report. We have obtained and reviewed the reports issued by IHS and consider that IHS is a qualified information provider and their data is commonly used in the industry.

In respect of the other exploration and support services and development and support services (including new energy business) with no comparable markets and satisfy the single source procurement conditions, the contract price is determined through arm's length negotiation by taking reference to the information disclosed in the annual reports of at least three major overseas goods and service providers of the oil and gas industry such as Schlumberger, Halliburton and Baker Hughes to obtain a general understanding of the approximate range of prices charged by these service providers. Schlumberger, Halliburton and Baker Hughes are leading international services providers in oil & gas industry and have been providing the relevant professional services to the Company. We consider the prices charged by Schlumberger, Halliburton and Baker Hughes are representative of the market practice. We have reviewed a sample single source procurement negotiation report of development services provided by CNOOC and/or its Associates to the Group and noted that the historical prices quoted by Schlumberger, Halliburton and Baker Hughes has been considered in the negotiation process of the contract price.

In respect of the sales of petroleum and natural gas products (including long-term sales of natural gas and liquefied natural gas), we understand from the Management that the Group will adopt the same pricing policies (including making references to benchmark prices and determining the pricing based on same set of criteria) for transactions with both CNOOC and/ or its Associates and independent third party customers. The sales price of crude oil is determined by taking reference to the Brent, Dubai, Oman and West Texas Intermediate crude oil prices, official prices of national oil companies of oil producing countries and Argus sulfur crude oil price index which are updated regularly and making adjustments of approximately 20% more or less than the abovementioned reference prices. The sales price of overseas liquefied natural gas under the Company's existing long-term sales contract of liquefied natural gas is calculated based on a price formula linked to the weighted average crude oil import price into Japan (i.e. the Japanese Crude Cocktail (JCC) index, which is then adjusted by two constants determined through arm's length negotiation among the contractual parties. We noticed from the public information that JCC index is a commonly used reference price index for long-term sales contracts of liquefied natural gas in the Asia Pacific region and is available at the website for release of trade statistics by the Ministry of Finance of Japan (https://www.customs.go.jp). We have reviewed a total of six sample contracts of sales of petroleum by the Group to connected person and independent third party and a total of six sample contracts of long-term sales of natural gas and liquefied natural gas by the Group to connected persons and independent third parties in 2022. We noted that the Company has taken reference to the Brent crude oil prices and JCC index with relevant adjustments when determined the market price of petroleum and liquefied natural gas respectively in the sample contracts.

In view of the above and taking account into (i) the internal control measures of the Group as further analysed in the section below headed "Internal Control" and (ii) the pricing policies are referenced to market price quoted or used by international industry players, we consider the pricing policies of the Non-exempt Continuing Connected Transactions are fair and reasonable and on normal commercial terms.

3. Reasons for and benefits of entering into the Non-exempt Continuing Connected Transactions

Prior to the restructuring of CNOOC and establishment of the Company, CNOOC and/or its Associates and the Group operated as an integrated organisation which undertook numerous intra-group transactions each year. As a consequence of the restructuring and upon the listing of the Shares on the Hong Kong Stock Exchange, a number of transactions which have been entered into and which are to be entered into between the Group and CNOOC and/or its Associates constitute continuing connected transactions for the Company under the Listing Rules.

CNOOC Group is the single largest supplier of the Company. Revenues from CNOOC Group contributed approximately 63%, 67% and 62% of the total revenue of the Company for FY2019, FY2020 and FY2021, while purchase from CNOOC Group represented approximately 17%, 18% and 21% of the total purchases of the Group for such periods. The continuous and stable supply of various products and services contemplated under the Comprehensive Framework Agreement depends, to a large extent, on the performance of the CNOOC Group and the performance of transactions contemplated under the Comprehensive Framework Agreement. Nevertheless, CNOOC Group holds a dominant position in providing services in relation to exploration, development and production. The above services are essential to the operations of the Group. The Company will benefit from the CNOOC Group as a secured and stable source of supply of technical services, equipment, materials, utilities, etc. through the performance of the Comprehensive Framework Agreement.

Due to historical relationship between CNOOC Group and the Group, they have better understanding of each other's business and can better ensure the standards of technology, quality, delivery and technical support of the products and services to meet each other's requirements. In general, the entering into the Comprehensive Framework Agreements would provide flexibility for the Group to continue its existing arrangements with CNOOC Group of providing products and services to each other, and facilitate the overall operations and growth of the Groups' business by leveraging the resources and advantages of CNOOC Group.

Taking into account the above and other commercial benefits to the Group, we concur with the Company that the Non-exempt Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

4. Proposed Annual Caps

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the Company about the basis and underlying assumptions used in the determination of the Proposed Annual Caps. The proposed annual caps represent the maximum amounts of transactions the Group would enter into with CNOOC and/or its Associates, rather than the obligation of the Group to accept or provide products and service from or to CNOOC and/or its Associates at that amount. We have discussed and concur with the Management that the Proposed Annual Caps will provide more flexibility to the Group and the Proposed Annual Caps are at the appropriate level after taken into account the historical transaction amounts and expected future growth.

4.1 Historical Amount, Existing and Proposed Annual Caps

The following table sets forth (i) the historical amounts for the two years ended 31 December 2021 and for the six months ended 30 June 2022; (ii) the existing annual caps for each of the two years ended 31 December 2021 and for the year ending 31 December 2022; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2025.

RMB million		Existing Annual Caps for the years ended/ending 31 December			Proposed Annual Caps for the years ending 31 December		
		2020	2021	2022	2023	2024	2025
Provision of exploration and support services by CNOOC and/or its Associates to the Group	Annual Caps	13,892	14,811	15,444	13,959	14,152	13,978
	Actual amounts	8,536	10,982	5,716[1]			
	Utilisation rates	61.4%	74.1%	37.0%[2]			
Provision of development and support services (including new energy business) by the CNOOC and/or its Associates to the Group	Annual Caps	49,083	48,857	58,536	73,715	66,145	64,249
	Actual amounts	36,776	39,696	19,500[1]			
	Utilisation rates	74.9%	81.2%	33.3%[2]			
Provision of production and support services (including new energy business) by CNOOC and/or its Associates to the Group	Annual Caps	18,815	20,651	22,778	20,116	21,715	22,866
	Actual amounts	9,726	11,836	6,643[1]			
	Utilisation rates	51.7%	57.3%	29.2%[2]			
Provision of sales of petroleum and natural gas products (other than long-term sales of natural gas) by the Group to CNOOC and/or its Associates	Annual Caps	229,990	250,736	278,819	298,356	315,545	328,725
	Actual amounts	88,843	136,524	113,905[1]			
	Utilisation rates	38.6%	54.4%	40.9%[2]			
Provision of long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/ or its Associates	Annual Caps	28,270	38,509	51,642	38,382	46,347	61,719
	Actual amounts	14,613	16,194	12,081[1]			
	Utilisation rates	51.7%	42.1%	23.4%[2]			

1. Historical amount for the six months ended 30 June 2022.
2. The utilisation rates for the year ending 31 December 2022 are computed based on the actual amounts up to 30 June 2022.

4.2 *Basis of determination of the Proposed Annual Caps*

4.2.1 Provision of exploration and support services by CNOOC and/or its Associates to the Group

In determining the proposed annual caps in respect of provision of exploration and support services by CNOOC and/or its Associates to the Group under the Comprehensive Framework Agreement, the Company has mainly considered:

(i) previous transactions conducted and transaction amounts in respect of the exploration and support services provided by CNOOC and/or its Associates to the Group;

(ii) the estimated investment in exploration activities; and

(iii) the estimated level of exploration activities by the Group.

In assessing the fairness and reasonableness of the proposed annual caps for the provision of exploration and support services by CNOOC and/or its Associates to the Group, we have reviewed the historical amounts of the relevant services for FY2020 and FY2021 and for 1H2022, which represent the utilisation rates of the existing annual caps of approximately 61.4%, 74.1% and 37.0% for the corresponding periods. The proposed annual cap for 2023 represents an increase of approximately 27.1% to the highest historical transaction amount for FY2021 and a decrease of approximately 9.6% to the existing annual cap for FY2022. The proposed annual caps for 2024 represent annual growth rates of approximately 1.4% and the proposed annual caps 2025 represent a reduction rate of 1.2%.

As set out in the 2021AR, with a tight balance of supply and demand, the international oil prices increased sharply amid fluctuations, as supported by the favorable factors from both supply and demand. According to our research on Wind, the average Brent crude oil price increased by approximately 69.2% from approximately US$42 per barrel in 2020 to approximately US$71 per barrel in 2021, and keep increasing by approximately 52.1% to approximately US$108 per barrel in the first half of 2022 due to, among other reasons such as the impact of the pandemic has been significantly reduced with the growing vaccination rate, the demand for crude oil rebounded as the recovery took hold and major oil producing countries maintained moderate output growth policies. According to the 2021 AR, the exploration expenses of the Company increased by approximately 108.9% to approximately RMB11,702 million, 22 new commercial discoveries were made and 30 successful appraisals of oil and gas structures were achieved in 2021. In offshore China, 4 new mid-to-large sized oil and gas discoveries including Kenli 10-2 were made and 206 exploration wells were drilled. The abovementioned factors have contributed to the increase in aggregate value of the provision of exploration and support services provided by CNOOC and/or its Associates to the Group in 2021 compared to 2020. As set out in the 2022 IR, the exploration expenses of the Company were RMB7.4 billion for six months ended 30

June 2022, representing an increase of approximately 47.4% as compared to same period last year. For the six months ended 30 June 2022, the capital expenditure on exploration amounted to approximately RMB8.67 billion, representing an increase of approximately 5% compared to same period in 2021, mainly due to the increase in workload of geophysical seismic data collection.

According to the 2022 Business Strategy of the Company published on 11 January 2022 (the "**2022 Business Strategy**"), the Company will continue to focus on the exploration of mid-to-large sized oil and gas fields and plans to drill 227 offshore exploration wells and 132 onshore unconventional exploration wells, and acquire approximately 17 thousand square kilometers 3-Dimensional seismic data in 2022. We have also reviewed the internal forecast document provided by the Company in relation to the expected exploration activities of the Group for the coming three years from 2023 to 2025 and we noted that the expected number of wells to be drilled will slightly increase as compared to the expected number of drilled well in 2022 and will stay in a stable level in the coming three years.

Having considered (i) the high utilisation rates of existing annual caps for FY2020 and FY2021; and (ii) the business strategy of focusing on the exploration activities and the estimated number of wells to be drilled in the next three years; we concur with the Company that the proposed annual caps for the provision of exploration and support services by CNOOC and/or its Associates to the Group under the Comprehensive Framework Agreement are in line with their business plan for the three years ending 31 December 2025 and thus are fair and reasonable.

4.2.2 Provision of development and support services (including new energy business) by the CNOOC and/or its Associates to the Group

In determining the proposed annual caps for the provision of development and support services (including new energy business) by CNOOC and/or its Associates to the Group under the Comprehensive Framework Agreement, the Company has mainly considered:

(i) previous transactions conducted and transaction amounts in respect of the oil and gas development and support services provided by CNOOC and/or its Associates to the Group;

(ii) the expected increase in the level of development activities in the coming years as a result of achievements in exploration; and

(iii) the number of ongoing and estimated future development projects and the stage and production schedule of such projects.

In assessing the fairness and reasonableness of the proposed annual caps for the provision of development and support services (including new energy business) by CNOOC and/or its Associates to the Group, we have reviewed the historical amounts of the relevant services for FY2020 and FY2021 and for 1H2022, which represent the utilisation rates of existing annual caps of approximately 74.9%, 81.2% and 33.3% for the corresponding periods. The proposed annual cap for 2023 represents an increase of approximately 53.9% to the highest historical transaction amount for FY2021 and an increase of approximately 25.9% to the existing annual cap for FY2022. The proposed annual caps for 2024 and 2025 represent annual reduction rates of approximately 10.3% and 2.9 % respectively.

According to the 2021 AR and 2022 IR, 22 new commercial discoveries were made and 30 successful appraisals of oil and gas structures were achieved in 2021 and two middle-to-large sized discoveries, namely Bozhong 26-6 and Bozhong 19-2, were made and confirmed in the 1H 2022. For 1H 2022, the capital expenditure on development of the Company amounted to approximately RMB21.87 billion, representing an increase of approximately 15% compared to same period in 2021, mainly due to the increase in workload of projects under construction as compared to that of the same period of last year.

We have reviewed the internal forecast document provided by the Company in relation to the expected development activities of the Group for the coming three years from 2023 to 2025. We noted that currently there are 9 oilfields, 7 gas fields, 2 non-conventional gas fields and 1 shore electricity power project under construction and the Group has 44 projects currently in the early development stage and all of these projects are expected to commence production in the coming few years. We also noted from the internal forecast document that 22 projects are expected to commence production before the end of 2024. As advised by the Management, the majority costs of development activities will concentrate and be recognised in six months to a year before production, therefore the related transaction amount of services to be provided by CNOOC and/or its Associates is expected to decrease after 2023 as the projects commence production gradually.

Having considered (i) the high utilisation rates of existing annual caps for FY2020 and FY2021; (ii) the increasing capital expenditure on development; and (iii) the expected development activities and the number of estimated development projects in the next three years; we concur with the Company that the proposed annual caps for the provision of development and support services (including new energy business) by CNOOC to the Group under the Comprehensive Framework Agreement are in line with their business plan for the three years ending 31 December 2025 and thus are fair and reasonable.

4.2.3 Provision of production and support services (including new energy business) by CNOOC and/or its Associates to the Group

In determining the proposed annual caps for the provision of production and support services (including new energy business) by CNOOC and/or its Associates to the Group under the Comprehensive Framework Agreement, the Company has mainly considered:

(i) previous transactions conducted and transaction amounts in respect of the oil and gas production and support services provided by CNOOC and/or its Associates to the Group; and

(ii) the anticipated commencement of production of oil and gas fields.

In assessing the fairness and reasonableness of the proposed annual caps for the provision of production and support services (including new energy business) by CNOOC and/or its Associates to the Group, we have reviewed the historical amounts of the relevant services for the two years ended 31 December 2021 and for the six months ended 30 June 2022 and noted that (i) the utilisation rates of existing annual caps are approximately 51.7%, 57.3% and 29.2% for the corresponding periods; and (ii) the transaction amount for 1H2022 represents an increase of approximately 40.7% as compared with that for 1H2021. The proposed annual cap for 2023 represents an increase of approximately 70.0% to the highest historical transaction amount for FY2021 and a decrease of approximately 11.7% to the existing annual cap for FY2022. The proposed annual caps for 2024 and 2025 represent annual growth rates of approximately 7.9% and 5.3% respectively.

As set out in the 2021 AR, in 2021, a number of new projects including Caofeidian 6-4 oilfield, Liuhua 29-2 gas field, Weizhou 11-3 oilfield phase II were put into production successfully and the Company achieved a net oil and gas production of approximately 573 million barrels of oil equivalent (BOE). According to the 2022 IR, the net production of the Company reached 304.8 million BOE as at 30 June 2022, representing a year-on-year increase of 9.6%, and Weizhou 12-8 Oilfield East Zone Development Project and Liza Phase II in Guyana have been commissioned successfully. Other major projects under construction such as Enping, Lufeng and Kenli have progressed steadily. For 1H 2022, the capital expenditure on production of the Company amounted to approximately RMB10.42 billion, representing an increase of approximately 24% compared to same period in 2021, mainly due to the increased workload of adjustment wells in offshore China as compared to that of the same period of last year. As set out in the 2022 Business Strategy, the Company's targeted net production for 2022 is 600 million to 610 million BOE. The Company's net production for 2023 and 2024 are estimated to be 640 million to 650 million BOE, and 680 million to 690 million BOE, respectively.

We have reviewed the internal forecast document provided by the Company in relation to the expected commencement of production of the Group for the coming three years from 2023 to 2025. We noted there are currently 19 projects under construction and are expected to commence production before the end of 2024. As discussed in relation to the development activities above, there are total 40 projects in the early development stage are expected to commence production in the coming few years according to the development schedule of the Company.

Having considered (i) the significant increase of transaction amount for 1H2022; (ii) the year-on-year increase of the net production as predicted in the business strategy of the Company; and (iii) the expected commencement of production in the coming three years, and therefore we concur with the Company that the proposed annual caps for provision of production and support services (including new energy business) by CNOOC and/or its Associates to the Group under the Comprehensive Framework Agreement are in line with their business plan for the three years ending 31 December 2025 and thus are fair and reasonable.

4.2.4 Sales of petroleum and natural gas products (other than long-term sales of natural gas) by the Group to CNOOC and/or its Associates

In determining the proposed annual caps in respect of sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) by the Group to CNOOC and/or its Associates under the Comprehensive Framework Agreement, the Company has mainly considered:

(i) previous transactions conducted and transaction amounts in respect of the sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) by the Group to CNOOC and/or its Associates;

(ii) the scheduled production capacity of the Group;

(iii) the estimated resultant increase in the Group's production and sales due to the expected increase in the demand for petroleum and gas products from CNOOC and/or its Associates to facilitate its/their business development plans;

(iv) the forecast of Brent crude oil made by analysts which amounted to approximately US$95, US$90and US$90 per barrel for 2023, 2024 and 2025, respectively;

(v) the extent of the volatility in oil prices as demonstrated in historical Brent crude oil prices in 2021;

(vi) the fact that future oil prices for the coming three years cannot be accurately predicted;

(vii) the need to provide flexibility for the Group to capture the business opportunities offered by CNOOC and/or its Associates should they place more orders with the Group; and

(viii) variations in oil price assumptions as compared to those adopted in estimating the existing 2022 annual caps for this category as set out in the 2019 Circular.

As advised by the Management, nearly all the sales under this category relates to the sales of petroleum. Minimal amount of natural gas products are sold to CNOOC and/or its Associates under this category because natural gas products are mainly sold to CNOOC and/or its Associates under long-term sales contracts as more particularly discussed below.

In assessing the fairness and reasonableness of the proposed annual caps for sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) by the Group to CNOOC and/or its Associates, we have reviewed the historical amounts of the relevant services for FY2020 and FY2021 and for 1H2022 and we noted that (i) the utilisation rates of the existing annual caps are approximately 38.6%, 54.4% and 40.9% for the corresponding periods; and (ii) the transaction amount for 1H2022 represents an increase of approximately 98.1% as compared with that for 1H2021, which is mainly due to the increase of international petroleum price. The proposed annual cap for 2023 represents an increase of approximately 118.5% to the highest historical transaction amount for FY2021 and an increase of approximately 7.0% to the existing annual cap for FY2022. The proposed annual caps for 2024 and 2025 represent annual growth rates of approximately 5.8% and 4.2% respectively.

As set out in the 2021AR, the Company's average realised oil price in FY2021 was US$67.89 per barrel, representing a sharp year-on-year increase of approximately 65.7%, basically in line with uptrend of international oil prices. The Company recorded approximately RMB222.13 billion of oil and gas sales in FY2021, representing an increase of approximately 59.1% as compared to FY2020. As set out in the 2022 IR, the Company achieved oil and gas sales revenue of approximately RMB176.68 billion in 1H2022, representing an increase of approximately 75.6% as compared to 1H2021.

As set out in the 2022 Business Strategy, the Company's net production for 2023 and 2024 are estimated to increase approximately 40 million BOE, respectively. We have reviewed the internal forecast document provided by the Company in relation to the expected sales of petroleum of the Group for the coming three years from 2023 to 2025. We noted that the estimated growth rate in terms of sales volume is expected to increase steadily in the coming three years at around 2% to 4% year-on-year. The Company have also estimated sales prices for crude oil with reference to forecast on Brent crude oil made by analysts which amounted to approximately US$95, US$90 and US$90 per barrel for year 2023, 2024 and 2025 respectively, representing an increase of 1.6% in 2023 and a decrease of 3.7% in 2024 and 2025 as compared to the average Brent crude oil price of US$93.5 per barrel in October 2022. According to a research report published on 3 August 2022 by Fitch Solutions, an authority of country risk and industry research, the Brent crude oil price forecasted with a mean of approximately US$100, US$88 and US$85 per barrel in 2023, 2024 and 2025 respectively, which are generally consistent with the assumption made by the Company when determining the annual caps. Taking account into the volatility in historical international oil prices and the uncertainties in international oil price affected by market factors such as the international situation as well as the fact that future oil prices for the coming three years could not be accurately predicted by the Company, we consider the forecasted prices referenced by the Company to be acceptable.

Having considered (i) the significant increase of transaction amount for 1H2022 due to the rising international oil prices; (ii) the increasing estimated production and demand of petroleum in the coming three years; and (iii) the forecast prices of Brent crude referred by the Company in the estimation is generally in line with the market forecast, we concur with the Company that the proposed annual caps for the sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) by the Group to CNOOC and/or its Associates under the Comprehensive Framework Agreement in line with their business plan for the three years ending 31 December 2025 and thus are fair and reasonable.

4.2.5 Long-term sales of natural gas and liquefied natural gas by the Group to the CNOOC and/or its Associates Group

In determining the proposed annual caps in respect of long-term sales of natural gas and liquefied natural gas by the Group to the CNOOC and/or its Associates under the Comprehensive Framework Agreement, the Company has mainly considered:

(i) previous transactions conducted and transaction amounts in respect of the long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/or its Associates;

(ii) the increase in the availability of natural gas and liquefied natural gas as a result of the expected commencement of production of a number of gas fields in the coming three years;

(iii) the ongoing production of existing gas fields;

(iv) the expected increase of the sales value of natural gas and liquefied natural gas to be sold in the coming three years and the estimated increase in sales to CNOOC and/or its Associates by approximately 20.24% and 32.95% in 2024 and 2025 year-on-year, respectively based on (a) the discussions with CNOOC and/or its Associates on their estimated demand for natural gas and liquefied natural gas products in the coming years, and (b) the Group's estimated quantity of natural gas and liquefied natural gas to be sold in the coming three years based on the business plan and discussions with CNOOC and/or its Associates; and

(v) the sale prices of the Group's natural gas products with reference to historical sales prices, contractual adjustment to gas prices for a particular gas field and estimated growth rate taking into account inflation and other factors.

In assessing the fairness and reasonableness of the proposed annual caps for long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/or its Associates, we have reviewed the historical amounts of the relevant services for FY2020 and FY2021 and for 1H2022 and we noted that (i) the utilisation rates are approximately 51.7%, 42.1% and 23.4% for the corresponding periods; and (ii) the transaction amount for 1H2022 represents an increase of approximately 72.6% as compared with that for 1H2021. The proposed annual cap for 2023 represents an increase of approximately 137.0% to the highest historical transaction amount for FY2021 and a decrease of approximately 25.7% to the existing annual cap for FY2022. The proposed annual caps for 2024 and 2025 represent annual growth rates of approximately 20.8% and 33.2% respectively.

As set out in the 2021AR, the sales volume of the Group's total natural gas was approximately 648.7 billion cubic feet (bcf) in FY2021, representing an increase of approximately 12.4% as compared to approximately 577.2 bcf in FY2020. The Group's realised prices for natural gas was US$6.95 per thousand cubic feet, representing an increase of around 12.6% as compared to that of 2020.

According to the 2021AR, certain gas fields are expected to commence production in 2022, such as Jinzhou 31-1 and Ledong 22-1, or newly production is expected to be stable in the coming few years, such as ultra-deep water large gas field Shenhai-1 which commenced production in 2021. We have reviewed the internal forecast document provided by the Company in relation to the production plan of gas field and we noted several gas fields are expected to commence production in the coming three years, such as Bozhong 19-6 gas fields and Wushi gas fields. Considering the above and the estimated increase in by-products resulting from an increase in production of natural gas, the estimated long-term sales of natural gas and liquefied natural gas will continue to increase in the coming three years. The Company has also estimated the sales values of natural gas and liquefied natural gas to be sold for the coming three years taking into account estimations relating to specific gas field projects including those as mentioned above and the estimated sales to CNOOC and/or its Associates will be increased by approximately 20.24% and 32.95% in 2024 and 2025 respectively. When estimating the sale prices of natural gas, the Management made reference to, among other things, the historical sales prices in 2021 for natural gas produced from each gas field, adjustments mechanism of natural gas prices in relation to a particular gas field pursuant to contract and the estimated growth rate of the products in the coming three years.

Having considered (i) the significant increase of transaction amount for 1H2022; and (ii) the increasing estimated production and demand of natural gas in the coming three years, we concur with the Company that the proposed annual caps for the long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/or its Associates under the Comprehensive Framework Agreement are in line with their business plan for the three years ending 31 December 2025 and thus are fair and reasonable.

5. Internal Control

The Company has formulated a series of internal control measures and procedures, details of which are included in the section headed "Internal control measures to ensure connected transactions are conducted in accordance with the Comprehensive Framework Agreement" in the Letter from the Board. We have reviewed such internal control measures and procedures of the Company, and we are of the view that such internal control measures and procedures could ensure the terms of individual transactions for the Non-exempt Continuing Connected Transactions are in line with market practice.

In respect of the provision of services by CNOOC and/or its Associates to the Group including exploration, development and production category, we have obtained and reviewed three sample transaction documents from each of category during 2021 and 2022. We noted in 7 out of 9 sample transaction documents, there are at least two potential independent third-party service providers were invited to provide quotations in respect of the requested services and the contracts were awarded to the service providers who fulfilled the technical requirements and offered the most favourable pricing to the Company after arm's length negotiation and discussion. For the remaining 2 sample transaction documents, no independent third party can provide such type of products or service. The prices of such transactions were then determined in accordance with arm's length negotiation between the parties of the transactions and with reference to the historical purchase price of relevant transactions.

In respect of the provision of sales of petroleum and natural gas products by the Group to CNOOC and/or its Associates, we have obtained and reviewed six sample transaction documents (including contracts and invoices) for each of the sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) and long-term sales of natural gas and liquefied natural gas, respectively. Each type of sample transaction documents consists of three transactions entered into with independent third parties and three transactions entered into with CNOOC and/or its Associates from April 2022 to July 2022. We noted the market prices in the sample transaction documents were determined by making reference to the benchmark price in the market, and any premium or discount is determined through negotiations between the buyer and the seller with reference to the benchmark price, which is consistent with the pricing policies.

As the sample transaction documents contain all categories of the Non-exempt Continuing Connected Transactions, we are of the view the sample evaluation reports of tender and sample transaction documents represent fair and representative samples of historical transactions.

Pursuant to Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and issue confirmations regarding the continuing connected transactions of the Company each year. We have reviewed the 2020 AR and the 2021 AR, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the Non-exempt Continuing Connected Transactions and provided the relevant confirmations. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Hong Kong Listing Rules on an on-going basis.

Based on the above, we concur with the Company that the Group has effective internal policies in place to continue to monitor the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps, in order to ensure the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable and no less favourable to the Company than the terms available to or from independent third parties, and in the interest of the Company and its Shareholders as a whole, therefore the interests of the Company and its Shareholders would be safeguarded.

6. Duration of agreements regarding long-term sales of natural gas and liquefied natural gas

6.1 Reasons of the duration of agreements exceeding three years

We have discussed with the Management about the rationale for the duration of the agreements regarding the long-term sales of natural gas and liquefied natural gas. Development of a gas field involves several steps including, among others, construction of gas field platform and long-distance pipelines. Huge capital resources are required to meet such capital expenditure requirement. Accordingly, the Group will, during the development phase of the gas field, identify its target customers and sign long-term supply agreements/sales contracts with them to ensure the return on the investment. When determining the duration of the supply agreements/sales contracts for natural gas and liquefied natural gas, it is the Group's practice to make reference to, among other things, the estimated reserves and production profile of the relevant gas field(s) (i.e. the designated gas field(s) for supply/sales as set out in the supply agreement/sales contract) for stable supply. As set out in the Comprehensive Framework Agreement, the duration of medium-to-long term supply agreements/sales contracts for sales of natural gas and liquefied natural gas will be within 3 to 25 years.

We have obtained and reviewed a brief summary from the Company in relation to (i) duration of natural gas/liquefied natural gas supply agreements/sales contracts entered into between the Group and CNOOC and/or its Associates; (ii) duration of natural gas/liquefied natural gas supply agreements/sales contracts entered into between the Group and independent third parties; and (iii) the expected life of the relevant gas fields. We noted that the terms of the long-term sales of natural gas/liquefied natural gas agreements/contracts which exceeded 3 years and entered into between the Group and CNOOC and/or its Associates are between 10 to 25 years and does not exceed the range of the terms of the long-term sales of natural gas/ liquefied natural gas agreements/contracts entered into between the Group and independent third parties between 10 to 31 years. The duration of certain agreements/contracts are determined based on the estimated life (where applicable) of the relevant gas fields.

The expected life of the gas field is determined by the Company based on estimated reserves and production profile of the gas field currently available. As advised by the Management, the term of the supply agreements/sales contracts was determined with reference to the expected life of the designated gas field at the time of signing of the agreements/

contracts. The expected life of a gas field may change from time to time as a result of continuous exploration, development and production activities. For the supply agreements/sales contracts with duration longer than the expected life of the relevant designated gas field, the Group will closely monitor the estimated reserves and production profile of the relevant gas fields. As at the Latest Practicable Date, the Management do not foresee that the Group will not be able to meet the scheduled supply of natural gas to CNOOC and/or its Associates.

We have also conducted market research on natural gas sales and purchase agreement entered into and published relevant news by listed companies with market cap over HKD250 billion during the period of one year prior to the date of Comprehensive Framework Agreement. On a best-effort basis, we have identified 6 comparable sales and purchase agreements which fall within the abovementioned selection criteria. We are of the view that such review period provides us an adequate information of recent terms agreed under natural gas sales and purchase agreement. Details of the comparable sales and purchase agreements are set out below:

Company Name	**Stock Code**	**Announcement date**	**Duration (Years)**
Woodside Energy Group	WDS.US	2022/9/5	6
		2022/8/25	20
Energy Transfer LP	ET.US	2022/5/3	18
		2022/5/2	20
		2022/3/29	20
		2022/1/19	20

Source: *The news published on the official website of Woodside Energy Group (https://www.woodside.com/media-centre/news-stories) and Energy Transfer LP (https://energytransfer.com/newsroom/).*

As illustrated in the table above, the terms of comparable sales and purchase agreements ranged from 6 to 20 years. We consider the terms of long-term supply agreements/sales contracts entered into by the Group with Group and CNOOC and/or its Associates exceeding three years is in line with the market practice.

Considering (i) signing long-term supply agreements/sales contracts could ensure the return on capital investment; (ii) the terms of long-term supply agreements/sales contracts entered into by the Group with Group and CNOOC and/or its Associates are similar to those entered into by the Group with independent third parties; (iii) the terms of long-term supply agreements/sales contracts entered into by the Group with Group and CNOOC and/or its Associates exceeding three years is in line with the market practice, and (iv) the supply agreements/sales contracts will be terminated if the Company fails to obtain the Independent Shareholders' approval regarding the proposed annual caps for the long-term sales of natural gas and liquefied natural gas after 31 December 2025, we are of the view that entering into the agreements of long-term sales of natural gas and liquefied natural gas by the Group and CNOOC and/or its Associates is in the interests of the Company and its Shareholders as a whole and is normal business practice to have a term of longer than 3 years.

7. Recommendation

Having considered the above factors and reasons, we are of the opinion that (i) the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the terms of the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Maxa Capital Limited

Michael Fok
Managing Director

Mr. Michael Fok is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.