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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or transferred** all your shares in CNOOC Limited, you should at once pass this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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### CNOOC Limited (中國海洋石油有限公司)

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*  
(Stock Code: 00883)

#### RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2023 TO 2025 AND NOTICE OF EGM

**Independent Financial Adviser to the Independent Board Committee and the Independent  
Shareholders holding the Hong Kong Shares**



A notice convening an extraordinary general meeting of CNOOC Limited to be held on 29 November 2022 at 2:00 p.m. at Island Shangri-La Hotel Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong.

This circular is only intended to provide notice to the holders of Hong Kong Shares of the arrangements for and contents to be considered at the extraordinary general meeting. A notice of the extra general meeting is set out in Appendix II of this circular. A form of proxy for use at the extraordinary general meeting is published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.cnoocld.com](http://www.cnoocld.com)). Whether or not you intend to attend such meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 36 hours before the time fixed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders of CNOOC Limited from attending and voting in person at the meeting or any adjourned meeting if they so wish.

Holders of RMB Shares shall refer to the public announcement for notice of extraordinary general meeting applicable to holders of RMB Shares as published on the websites of the Shanghai Stock Exchange and the Company.

#### PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In compliance with the regulations and measures of the Hong Kong Government on the prevention and control of the spread of novel coronavirus (COVID-19), the Company will implement the following precautionary measures at the extraordinary general meeting to safeguard the health and safety of the attending holders of Hong Kong Shares, proxy, staff and other attendees:

- all persons must scan the "LeaveHomeSafe" venue QR code and comply with the requirements of the "Vaccine Pass Direction" prior to entry to the extraordinary general meeting venue;
- mandatory wearing of surgical face masks at the extraordinary general meeting venue at all times;
- appropriate distancing and spacing between seats in accordance with the guidance from the Hong Kong Government, thus, the Company may limit the number of attendees at the extraordinary general meeting as may be necessary to avoid over-crowding; and
- no food or drinks will be served.

Any person who does not comply with the precautionary measures will be denied entry to the venue of extraordinary general meeting.

**For the health and safety of the holders of Hong Kong Shares, the Company would like to encourage the holders of Hong Kong Shares to appoint the chairman of the extraordinary general meeting as their proxy to vote on the relevant resolutions, instead of attending extraordinary general meeting in person.**

Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Hong Kong Government and/or regulatory authorities, the Company may announce further updates on the extraordinary general meeting arrangement on the websites of The Stock Exchange of Hong Kong Limited and the Company as and when appropriate.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:*

“2019 Circular”	the circular issued by the Company to its Shareholders in relation to the renewal of the Continuing Connected Transactions for 2020 to 2022 dated 6 November 2019
“2019 EGM”	the extraordinary general meeting of the Company held on 21 November 2019
“Announcement”	the announcement dated 2 November 2022 made by the Company in relation to the renewal of the Continuing Connected Transactions in respect of 2023 to 2025
“Associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油集團有限公司), the actual controller of the Company directly and indirectly holding approximately 61.17% of all of the Shares in issue as at the Latest Practicable Date
“CNOOC BVI”	CNOOC (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, a direct wholly-owned subsidiary of OOGC and the controlling Shareholder of the Company directly holding approximately 60.46% of all the Shares in issue as at the Latest Practicable Date
“CNOOC EnerTech”	CNOOC Energy Technology & Services Limited (中海油能源發展股份有限公司), a company incorporated in the PRC and a subsidiary of CNOOC
“CNOOC Group”	CNOOC and its subsidiaries (excluding the Group)
“CNOOC China”	CNOOC (China) Co., Ltd. (中海石油(中國)有限公司), a wholly-owned subsidiary of the Company
“Company”	CNOOC Limited (中國海洋石油有限公司), a company incorporated in Hong Kong with limited liability, whose Hong Kong Shares are listed on the Hong Kong Stock Exchange and RMB Shares are listed on the SSE
“Comprehensive Framework Agreement”	the comprehensive framework agreement dated 2 November 2022 entered into between the Company and CNOOC in relation to the Continuing Connected Transactions

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## DEFINITIONS

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“Continuing Connected Transactions”	the “continuing connected transactions” under the Listing Rules and the “routine connected transactions” under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, which refer to the continuing connected transactions between the Group and CNOOC and/or its Associates as set out in the section headed “Continuing Connected Transactions under the Comprehensive Framework Agreement” in this circular
“CUCBM”	China United Coalbed Methane Corporation Limited (中聯煤層氣有限責任公司), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held on 29 November 2022 at 2:00 p.m. to approve the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps), or any adjournment thereof
“EGM Notice”	the notice of the EGM dated 11 November 2022 convening the EGM as set out in Appendix II of this circular
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share(s)”	the existing ordinary Share(s) which are listed on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising Mr. Chiu Sung Hong, Mr. Lawrence J. Lau, Mr. Tse Hau Yin, Aloysius, Mr. Qiu Zhi Zhong and Mr. Lin Boqiang, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps), with Mr. Chiu Sung Hong acting as the chairman
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed under the SFO to carry out Type 1 regulated activities (dealing in securities) and Type 6 regulated activities (advising on corporate finance), the independent financial adviser to the Independent Board Committee and the Independent Shareholders holding the Hong Kong Shares

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders of the Company other than OOGC, CNOOC BVI and their respective Associates
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer
“Latest Practicable Date”	4 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“NDRC”	the National Development and Reform Commission of the PRC
“Non-exempt Continuing Connected Transactions”	the Continuing Connected Transactions other than those under the categories of “Provision of sales, management and ancillary services”, “FPSO vessel leases” and “Sales of green power products” as set out in the section headed “Continuing Connected Transactions under the Comprehensive Framework Agreement” in this circular
“OOGC”	Overseas Oil & Gas Corporation, Ltd., a company incorporated in Bermuda with limited liability, a direct wholly-owned subsidiary of CNOOC, the sole shareholder of CNOOC BVI, and a Shareholder directly holding five Hong Kong Shares in issue as at the Latest Practicable Date
“Ordinary Resolution(s)”	the proposed ordinary resolution(s) as referred to in the EGM Notice
“PRC”	the People’s Republic of China
“Proposed Cap(s)”	the proposed maximum annual aggregate value(s) for each category of the Continuing Connected Transactions of the Company in respect of 2023 to 2025 as set out in the section headed “Proposed Caps and Rationale” in this circular
“SSE”	the Shanghai Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Share(s)”	the ordinary Share(s) listed on the main board of the Shanghai Stock Exchange and traded in RMB
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Shares”	issued shares of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“%”	per cent

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## LETTER FROM THE BOARD

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### **CNOOC Limited** **(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*  
**(Stock Code: 00883)**

The Board of Directors comprises:

*Non-executive Directors*

Wang Dongjin (*Chairman*)

Li Yong (*Vice Chairman*)

Xu Keqiang

Wen Dongfen

*Executive Directors*

Zhou Xinhuai

Xia Qinglong

*Independent Non-executive Directors*

Chiu Sung Hong

Lawrence J. Lau

Tse Hau Yin, Aloysius

Qiu Zhi Zhong

Lin Boqiang

Registered office : 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong

11 November 2022

*To the Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2023 TO 2025 AND NOTICE OF EGM**

#### **1. INTRODUCTION**

Reference is made to the Announcement in relation to the renewal of the Continuing Connected Transactions in respect of 2023 to 2025. The purpose of this circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolutions to be proposed at the EGM relating to the approval of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps).

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## LETTER FROM THE BOARD

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### 2. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2023 TO 2025

#### Background

Reference is made to the 2019 Circular in relation to the Continuing Connected Transactions between the Group and CNOOC and/or its Associates. The Independent Shareholders approved the non-exempt continuing connected transactions between the Group and CNOOC and/or its Associates and the relevant annual caps for 2020 to 2022 at the 2019 EGM.

The Company expects to continue the Continuing Connected Transactions after 31 December 2022 and therefore will, in accordance with the Listing Rules and relevant rules of the SSE, re-comply with the provisions of Chapter 14A of the Listing Rules and relevant rules of the SSE in relation to the Continuing Connected Transactions for the next three years (i.e. from 1 January 2023 to 31 December 2025), including disclosing information thereof in this circular and seeking the Independent Shareholders' approval for the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps).

#### Continuing Connected Transactions under the Comprehensive Framework Agreement

The Company entered into the Comprehensive Framework Agreement on 2 November 2022 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 details of which are set out below. The term of the Comprehensive Framework Agreement is for a period of three years commencing from 1 January 2023, and is conditional upon the Independent Shareholders' approval at the EGM. Except for adjustment of certain pricing policies and adjustment of classification of certain Continuing Connected Transactions due to the new energy business, the Comprehensive Framework Agreement is substantially on the same terms as the terms contained in the comprehensive framework agreement entered into by the Company and CNOOC on 1 November 2019, as described in the 2019 Circular.

The Continuing Connected Transactions under the Comprehensive Framework Agreement can be categorised as follows:

- Provision of exploration, development, production as well as sales, management and ancillary 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);
  - (d) Provision of sales, management and ancillary services; and



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## LETTER FROM THE BOARD

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- (e) FPSO vessel leases.
- Sales of petroleum and natural gas products and green power 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);
  - (b) Long-term sales of natural gas and liquefied natural gas; and
  - (c) Sales of green power products.

The categories of “Provision of exploration and support services”, “Provision of development and support services (including new energy business)”, “Provision of production and support services (including new energy business)”, “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” are Non-exempt Continuing Connected Transactions subject to the reporting, announcement and Independent Shareholders’ approval requirements according to the Listing Rules and the relevant rules of the SSE. The other categories of Continuing Connected Transactions are exempt from the Independent Shareholders’ approval requirement according to the Listing Rules, but are subject to the reporting and announcement requirements under the Listing Rules and the relevant rules of the SSE (save and except the category of “Sales of green power products”, which belongs to Continuing Connected Transactions that are fully exempt from the reporting, announcement and Independent Shareholders’ approval requirements, but the Company includes the details of this category of Continuing Connected Transactions in this circular for the purpose of completeness of information disclosure and from the perspective of good corporate governance).

Since the establishment of the Company, certain Associates of CNOOC specialising in exploration, development, production as well as sales, management and ancillary services provided these services to the Group from time to time. The services provided by CNOOC and/or its Associates are set out below.

### **Provision of exploration, development, production as well as sales, management and ancillary services by CNOOC and/or its Associates to the Group**

#### ***(a) Provision of exploration and support services***

The services provided by CNOOC and/or its Associates to the Group on exploration operations include:

- well site survey;
- geophysical prospecting services;
- seismic data processing;

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- seismic test data processing;
- integrated exploration research services;
- geophysical data collection;
- marine geological prediction and data processing;
- well workover;
- oil and gas wells measurement;
- well measurement;
- well cementation;
- exploration well and other related technical services;
- tow-boat, transportation;
- materials/equipment supply;
- exploration technological research and safety services; and
- other related technical and supporting services.

The applicable pricing policies for transactions conducted under this category are based on market price. The Company will analyse whether the goods and service to be procured is qualified for tendering and price comparison, and will adopt tendering and price comparison when the conditions are satisfied. If the conditions are not satisfied, the following pricing principles will be adopted:

- (i) with respect to exploration well operations – the price shall refer to the international market price level, and shall be determined after arm's length negotiation 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 adjustments, 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; and
- (ii) with respect to other exploration and support services – for contracts 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 Limited (“**Schlumberger**”), The Halliburton Company (“**Halliburton**”) and Baker Hughes to obtain a general understanding of the approximate range of prices charged by these

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## LETTER FROM THE BOARD

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service providers. Service providers such as Schlumberger, Halliburton and Baker Hughes have been providing the relevant professional services to the Company. The contract price is determined by: (1) calculating the reference price which is based on the historical prices quoted by the abovementioned overseas goods and service providers for the services provided to the Group plus the historical prices multiplied by the annual movement ratio of the profit margin of the abovementioned overseas goods and service providers, which is calculated by dividing the net operating profit by total operating revenue disclosed in the annual reports of the abovementioned overseas goods and service providers, as well as taking into account specific working environment of the related projects, such as different geographic features, different offshore regions, weather conditions, depth of water, etc. In extreme circumstances when the oil price falls significantly below the Company's cost per barrel, the movement of the oil price would also be considered when determining the reference price; (2) comparing such reference price with the price quoted by CNOOC and/or its Associates; and (3) entering into arm's length negotiation with CNOOC and/or its Associates. Prices will normally be approximately 80% to 100% of the abovementioned reference prices. When determining such adjustments, the Company will consider specific conditions of contracts, nature of specific products and services, complexity of operation, market demand and historical transaction prices.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, the charges for the provision of such exploration and support services payable to CNOOC and/or its Associates were approximately RMB8,536 million, RMB10,982 million and RMB5,716 million, respectively.

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

The services provided by CNOOC and/or its Associates to the Group on development operations include:

- platform survey;
- geological survey;
- well workover;
- drilling and completion well operations;
- oil and gas well surveying, logging, cementing and other related technical services;
- design, construction, installation, testing and commissioning of production facilities;
- shipping transportation;
- provision of materials/equipment;

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## LETTER FROM THE BOARD

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- integrated research on development techniques;
- preliminary survey of new energy projects and wind measurement of wind power projects; and
- other related technical and supporting services.

The applicable pricing policies for the transactions conducted under this category are based on market price. The Company will analyse whether the goods and service to be procured is qualified for tendering and price comparison, and will adopt tendering and price comparison when the conditions are satisfied. If the conditions are not satisfied, the following pricing principles will be adopted:

- (i) with respect to well workover, drilling and completion well operations and related technical services – the price 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 adjustments, 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;
- (ii) with respect to design, construction, installation and commissioning of production facilities, prefabrication of common components/modules for facility structure – the price is determined through arm's length negotiation between both parties with reference to market price, taking into account specific working environment of the related projects, such as complexity of operation, different geographic features, different offshore regions, weather conditions, depth of water, etc.; and
- (iii) with respect to other development and support services – for contracts 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. Service providers such as Schlumberger, Halliburton and Baker Hughes have been providing the relevant professional services to the Company. The contract price is determined by: (1) calculating the reference price which is based on the historical prices quoted by the abovementioned overseas goods and service providers for the services provided to the Group plus the historical prices multiplied by the annual movement ratio of the profit margin of the abovementioned overseas goods and service providers, which is calculated by dividing the net operating profit by total operating revenue disclosed in the annual reports of the abovementioned overseas goods and service providers, as well as taking into account specific working environment of the related projects, such as different geographic features, different offshore regions, weather conditions, depth of water, etc. In extreme circumstances when the oil price falls significantly below the Company's cost per barrel, the movement of the oil price would also be considered when determining the reference

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price; (2) comparing such reference price with the price quoted by CNOOC and/or its Associates; and (3) entering into arm's length negotiation with CNOOC and/or its Associates. Prices will normally be approximately 80% to 100% of the abovementioned reference prices. When determining such adjustments, the Company will consider specific conditions of contracts, nature of specific products and services, complexity of operation, market demand and historical transaction prices.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, the charges for the provision of such oil and gas development services payable to CNOOC and/or its Associates were approximately RMB36,776 million, RMB39,696 million and RMB19,500 million, respectively.

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

The services provided by CNOOC and/or its Associates to the Group on production operations are set out below:

- integrated research on production techniques;
- drilling and workover operations;
- shipping transportation;
- oil tanker transportation;
- provision of materials/equipment;
- maintenance of platform;
- repair of equipment and pipeline;
- production operations;
- oil production operations;
- production labour services;
- production equipment maintenance;
- warehousing and storage;
- lease of equipment and building;
- road transportation services;
- telecommunication and network services;

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- wharf services;
- labour services;
- construction services, including roads, wharf, buildings, factories and water barrier;
- maintenance and repair of major equipment;
- medical and social services;
- supply of water, electricity, gas and heat;
- security and fire prevention services;
- technical training;
- accommodation;
- maintenance and repair of buildings;
- catering services;
- operation and maintenance of new energy projects; and
- other related technical and supporting services.

The applicable pricing policies for the transactions conducted under this category are government-prescribed price or market price. If market price is applicable, the Company will analyse whether the goods and service to be procured is qualified for tendering and price comparison, and will adopt tendering and price comparison when the conditions are satisfied. If the conditions are not satisfied, the following pricing principles will be adopted:

- (i) with respect to the supply of water, electricity, gas and heat – the price is determined by the respective government-prescribed price for water supply, electricity supply, gas supply and heat supply as set out in the paragraph headed “Government-prescribed price” under the section headed “Pricing Determination” below; and
- (ii) with respect to other oil and gas production and support services – the price shall be determined through arm’s length negotiation between both parties with reference to market price. The market price is determined with reference to quotations from at least two comparable independent third-party market participants (if applicable) in similar transactions in surrounding markets providing similar services and taking into account factors such as quality of services and supply and demand of local markets.

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## LETTER FROM THE BOARD

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For the two years ended 31 December 2021 and the six months ended 30 June 2022, the charges for the provision of such production services payable to CNOOC and/or its Associates were approximately RMB9,726 million, RMB11,836 million and RMB 6,643 million, respectively.

*(d) Provision of sales, management and ancillary services*

CNOOC and/or its Associates provide sales, administration and management, management of oil and gas operations and integrated research services to the Group, as well as other ancillary services relating to the exploration, development, production and research activities of the Group, which include:

- sales services;
- entrusted management;
- staff recruitment;
- publishing;
- telecommunication networks;
- leases of properties;
- property management;
- water, electricity and heat supply;
- gas supply;
- car rental;
- integrated services;
- integrated research;
- sewage disposal; and
- other ancillary services.

In addition, as part of the administration and management services provided to the Group, CNOOC and/or its Associates has/have been leasing certain properties (including its headquarters) covering an aggregate floor area of approximately 715,165.77 square meters located throughout the PRC and in Singapore, to the Group for use as office premises and staff quarters. In addition to leasing these properties, CNOOC and/or its Associates has/have also been providing management

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## LETTER FROM THE BOARD

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services in respect of certain properties leased to the Group. CNOOC and/or its Associates which own one or more of the leased properties have entered into individual lease and/or management agreements with the Company. Each agreement is in writing and for a term of less than three years.

As its business continues to expand, the Group may, subject to the relevant Proposed Caps, also enter into additional lease and management agreements with CNOOC and/or its Associates from time to time. JLL, an independent property valuer, has confirmed that the payments due under the lease agreements and the management agreements reflect the fair and reasonable commercial market rent and management fee.

The applicable pricing policies for the transactions conducted under this category are government-prescribed price or market price. If market price is applicable, the Company will analyse whether the goods and service to be procured is qualified for tendering and price comparison, and will adopt tendering and price comparison when the conditions are satisfied. If the conditions are not satisfied, the following pricing principles will be adopted:

- (i) with respect to the supply of water, electricity, gas and heat – the price is determined by the respective government-prescribed price for water supply, electricity supply, gas supply and heat supply as set out in the paragraph headed “Government-prescribed price” under the section headed “Pricing Determination” below; and
- (ii) with respect to other sales, management and ancillary services under this category – the products and services provided by CNOOC and/or its Associates under this category are substantially leases of properties. The rental shall be determined with reference to prevailing market rates and historical transaction amounts which were reviewed by JLL and confirmed as fair and reasonable commercial market rent. The rental will be 3% higher or lower than the current market rates. When determining such adjustment, the Company will consider the conditions of the leased properties, the location of the leased properties, the availability of properties with similar sizes in similar locations and the historical transaction amounts.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, the aggregate charges for the provision of sales, management and ancillary services (including leasing and management of properties) payable by the Group to CNOOC and/or its Associates were approximately RMB1,940 million, RMB2,335 million and RMB705 million, respectively.

**(e) FPSO vessel leases**

The Group leases floating, production, storage and offloading (FPSO) vessels from CNOOC EnerTech, an Associate of CNOOC, for use in oil production operations. The term of FPSO vessel leases are usually determined based on the expected term of oil production. The Company leases six FPSO vessels from CNOOC EnerTech with a term ranging from 2 years to approximately 15 years. The view of the Independent Financial Adviser in accordance with the requirements of Rule 14A.52 of the Listing Rules is set out in the paragraphs headed “View from Independent Financial Adviser” below.



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## LETTER FROM THE BOARD

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The pricing policy of the FPSO vessel leases is the rental which is unanimously determined through arm's length negotiation between the Group and CNOOC and/or its Associates which provides the FPSO vessel leases in accordance with normal commercial terms. The rental usually takes reference to FPSO vessels' fixed daily rent which is determined based on the result of internal economic appraisal during the course of the overall development plan of the oil fields or the floating rent determined by multiplying the oil and gas production volume by a certain ratio (which is determined by the result of internal economic appraisal during the course of the overall development plan of the oil fields and the magnitude of production volumes). The major parameters of the internal economic appraisals include oil price, production of the oil fields, reserve volumes of the oil fields and discount rate, which have significant influence on the revenues and costs of the oil fields. When performing the internal economic appraisals, a net present value can be deduced from these parameters. The FPSO vessel rental can be calculated by deducting the costs of the oil fields of which the FPSO vessel rental forms part from the net present value. The cost of the oil fields of which FPSO rental forms part can be estimated by considering the expected future revenues and the expected returns on investment. The FPSO rental normally accounts for around 10% of the total operating expenses of the oil fields. The Company adopts fixed daily rent or floating rent for all of its FPSO vessel leases. The rentals for FPSO vessels are the most favourable prices in domestic China since there is no third party available who provides FPSO vessel lease services that specifically meet the development of the oil and gas fields in domestic China. Therefore, the Company is of the view that the final rentals for FPSO vessels agreed by the Group and CNOOC and/or its Associates are in the interests of the Company and the Shareholders as a whole.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, the aggregate rentals of FPSO vessels payable by the Group to CNOOC and/or its Associates were approximately RMB1,249 million, RMB1,011 million and RMB 491 million, respectively.

The Company leases FPSO vessels with a term ranging from 2 years to approximately 15 years. From the Company's perspective, the term of the FPSO vessel leases with a term in excess of three years is beneficial to the Company because: (i) such arrangement is in the Group's favour as it enables the Group to constantly equip itself with FPSO vessels throughout substantially the expected term of production of its oil fields without incurring material capital risks; and (ii) it is cost-effective for the Group to have long-term leases because rental charges for long-term leases can usually be negotiated at a lower rate as compared to short-term leases.

### *View from Independent Financial Adviser*

As the term of the FPSO vessel leases exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged Maxa Capital as the independent financial adviser to explain why the FPSO vessel leases require a longer period and to confirm that it is normal business practice for agreements of this type to be of such term.

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## LETTER FROM THE BOARD

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In assessing the reasons why the term of the FPSO vessel leases requires a period longer than three years, Maxa Capital has taken into consideration the information set out in the Announcement, and the following principal factors based on the information provided by, and discussion with, the management of the Company:

- (i) The Group has been leasing FPSO vessels from CNOOC and/or its Associates. FPSO vessels are offshore crude oil processing facilities that integrated production, storage and offloading of crude oil and have advantages of strong wind wave resistance, wide adapt range of water depth, large capacity of oil storage, transferability and reusage. They are particularly effective in remote or deepwater locations where subsea pipelines are not cost-effective because they can eliminate the need to lay expensive long-distance pipelines from the oil well to an onshore terminal. Based on the information provided by the Company, the term of the FPSO vessel leases entered into between CNOOC and/or its Associates and the Group ranges from 2 years to approximately 15 years; and
- (ii) FPSO vessels are precious resources in offshore crude oil development, a longer term of the FPSO vessel leases is beneficial to the Group as (a) such arrangement enables the Group to constantly equip itself with FPSO vessels throughout substantially the expected term of production of its oilfields without incurring material capital risks; and (b) it is cost-effective to have long-term leases because rental charges for long-term leases can usually be negotiated at a lower rate as compared with short-term leases.

In assessing the term of the FPSO vessel leases entered into between CNOOC and/or its Associates and the Group, Maxa Capital has reviewed the 2021 Annual Report of SBM Offshore N.V, a leading company who provides floating production solutions in the offshore energy industry and owns 20 FPSO vessels for leasing and operating as at the end of 2021, and Maxa Capital noted that the initial lease period of FPSO vessels owned by SBM Offshore N.V ranged from 2 years to 26 years taking into account the extension options. The terms of the FPSO vessels leases entered into between CNOOC and/or its Associates and the Group is within the range of the initial lease period of FPSO vessels owned by SBM Offshore N.V.

Based on the above considerations, Maxa Capital is of the view that a period longer than three years is required for the FPSO vessel leases entered into between CNOOC and/or its Associates and the Group and that the term of such leases of longer than three years is in line with normal business practice for agreements of this type.

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## LETTER FROM THE BOARD

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### **Sales of petroleum and natural gas products and green power 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)***

The Group may sell petroleum and natural gas products, including crude oil, natural gas, condensate oil and liquefied petroleum gas, to CNOOC and/or its Associates which engage in downstream petroleum businesses on normal commercial terms or better. Although natural gas will be sold under the long-term sales contracts as described below, the Group also sells certain volumes of natural gas to CNOOC and/or its Associates on a short-term basis for the purpose of peak adjustment and to reap higher profits.

The applicable pricing policies for the transactions conducted under this category are based on market price, more particularly:

- (i) with respect to crude oil – the price shall be 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 20% less than the reference prices adjustment usually happens if the quality of petroleum is not up to the requested standard. Such downward adjustment will also be triggered under similar transactions with independent third parties). When determining such adjustments, the Company will consider the quality of different types of crude oil, shipping freight rates of crude oil and the international market price of crude oil with similar quality (based on the transaction information of the types of crude oil that are publicly traded on the spot markets). Such adjustments are made in accordance with the market-oriented principles; and
- (ii) with respect to domestic natural gas and its by-products – the price of natural gas is determined through arm's length negotiation by taking reference to the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn>) and/or the prices of other competing gas sources in the local markets in accordance with market principles including voluntariness, equality, fairness and good faith. The price of condensate oil is linked to the Brent crude oil price and the price of liquefied petroleum gas is linked to the benchmark price in the local market, and any premium or discount is determined through negotiation between the buyer and the seller with reference to the prices charged by independent suppliers in the local markets supplying products with similar quality. During the above pricing process, the Company will take into account factors such as the quality of products, supply and demand of the local markets, transportation distance and resource supply capacity, and determine the price through market research,

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internal analysis and proposal comparison, on arm's length negotiation with the buyer in accordance with market principles including voluntariness, equality, fairness and good faith.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, 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 were approximately RMB88,843 million, RMB136,524 million and RMB113,905 million, respectively.

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

The Group sells natural gas or liquefied natural gas to CNOOC and/or its Associates which engage in downstream petroleum businesses on normal commercial terms or better. The price of natural gas is determined through negotiation by taking reference to the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn/>) and/or the prices of other competing gas sources in the local markets. During the above pricing process, the Company will take into account factors such as the quality of products, supply and demand of the local markets and resource supply capacity, and determine the price through market research, internal analysis and proposal comparison, on arm's length negotiation between the parties in accordance with market principles including voluntariness, equality, fairness and good faith. Due to the size of investment and the fact that sales are usually made to markets proximate to the production site, and that purchasers tend to utilise the natural gas products in areas close to the production site, and in order to ensure the return on investment from production of natural gas, the Group will usually enter into medium-to-long term sales contracts with a term of 3 to 25 years. The Group classifies sales contracts with a term of 3 years or more as medium-to-long term contracts for sales of natural gas and liquefied natural gas. According to market practice, the term of such sales contracts is normally determined based on the estimated reserves and production profile of the relevant gas fields, and may also be determined based on actual business needs in order to maintain certain market flexibility.

The applicable pricing policies for the transactions conducted under this category are based on market price, more particularly:

- (i) with respect to the long-term sales of overseas liquefied natural gas – the sales price of liquefied natural gas under the Company's existing long-term sales contract of liquefied natural gas is calculated based on a price formula ( $PLNG=A \times JCC+B$ ) linked to the weighted average crude oil import price into Japan (i.e. the Japanese Crude Cocktail (JCC) index). JCC index is a commonly used reference price index for long-term sales contracts of liquefied natural gas in the Asia Pacific region, which is available at <https://www.customs.go.jp>, the website for the release of trade statistics by the Ministry of Finance of Japan. A refers to the slope linked to the JCC index and B refers to the constant, and the values of A and B are determined through negotiations between both parties taking into account the market conditions. The price for some sales contracts is calculated by the straight-line price formula, that is, the slope A and the constant B are both fixed values; whilst the price for some sales contracts is calculated by the "s"

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curve price formula, where the slope A and the constant B are different in different JCC index ranges, in which way the impact of oil price changes on the sales price of liquefied natural gas is mitigated.

- (ii) with respect to domestic natural gas – the price shall be determined with reference to the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn/>) and/or the prices charged by two to three independent natural gas suppliers (depending on whether they have operations in the specific local market) in the local markets who are the other major natural gas suppliers having operations similar to that of the Company and supplying similar products to CNOOC and/or its Associates or other buyers. Once the Company obtains the prices charged by other independent suppliers as mentioned above, the Company will conduct internal comparison and appraisal process. During such process, the Company will take into account factors such as the quality of products, supply and demand of the local markets, transportation distance, market research, internal analysis and proposals comparison, and resource supply capacity. Thereafter, the Company will enter into arm's length negotiation with the parties in accordance with market principles including voluntariness, equality, fairness and good faith, and will consider the rationality of the cost structure. The range of adjustments of the price of natural gas against the international oil price or other benchmark prices cannot be ascertained because the realised gas price and the international oil price or other benchmark prices are not directly comparable. The adjustments will be made after the parties reach an agreement through negotiations based on good faith, reasonableness and fairness.

It is envisaged that individual sales contracts will be entered into from time to time between the Group and CNOOC and/or its Associates in relation to such sales. The Comprehensive Framework Agreement provides that if the Company fails to obtain approval from the Independent Shareholders regarding the annual caps for this category of the Continuing Connected Transactions after 31 December 2025, then the specific transaction agreements falling under this category will be terminated on that date. The view of the Independent Financial Adviser in accordance with the requirements of Rule 14A.52 of the Listing Rules has been included in the Letter from the Independent Financial Adviser as set out on pages 42 to 61 of this circular.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/or its Associates were approximately RMB14,613 million, RMB16,194 million and RMB 12,081 million, respectively.

**(c) Sales of green power products**

The Group may sell green power products to CNOOC and/or its Associates on normal commercial terms or better. Green power products are traded fairly through listing, bidding, bilateral negotiation, rolling matchmaking, etc., amongst which, the price for listing and bidding is open and transparent; the price for bilateral negotiation and rolling matchmaking is mainly determined after arm's length negotiation between the parties with reference to market price, which is determined with reference to the annual or monthly transaction price of green power on the power trading platform in

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the area where the green power project is situated (such as the unified power trading platform in the southern region and the relevant provincial and municipal power trading centers) or the price of other types of transaction (including listing, bidding, etc.), taking into account factors such as market supply and demand.

For the two years ended 31 December 2021 and the six months ended 30 June 2022, there were no sales of green power products by the Group to CNOOC and/or its Associates.

The consideration for the Continuing Connected Transactions set out above have been and will be satisfied in the same way as the payment methods adopted in transactions between the Company and independent third parties. Payment terms will be defined in the specific transaction agreements to be entered into between the Company and CNOOC and/or its Associates.

### **Pricing Determination**

The Comprehensive Framework Agreement details specific pricing principles for the products and services to be provided under the Comprehensive Framework Agreement. The basic pricing principle for the 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.

### **Government-prescribed price**

Government-prescribed price, the price in respect of certain categories of services determined by the laws, regulations, decisions, orders or policies, etc. enacted by governments of the relevant countries or regions (including but not limited to the central government, federal government, provincial government, state/coalition government or any organisation responsible for domestic ruling and foreign affairs with respect to certain specified territory, irrespective of its name, organisation or structure) or other regulatory departments.

For the details of government-prescribed prices, please refer to the pricing catalogues stipulated from time to time by the NDRC (<http://www.ndrc.gov.cn>) and relevant departments of the State Council, local government pricing departments or other relevant departments as published on their websites.

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The relevant basis for water supply, electricity supply, gas supply and heat supply are detailed below:

- (i) Water supply – the Measures for the Administration of Urban Water Supply Prices (Order No. 46) issued by the NDRC on 1 October 2021, the urban water supply price shall be government-prescribed price in principle, and the specific pricing authority shall be executed based on the local price catalogue.
- (ii) Electricity supply – the Electricity Law of the PRC issued by the Standing Committee of the National People’s Congress of the PRC on 28 December 1995 and revised on 29 December 2018, for the on-grid power price of a power network spanning different provinces, autonomous regions, or municipalities directly under the central government, as well as in a provincial power network and an independent power network, a proposal shall be made through negotiations between the enterprises engaged in power production and/or power network operation, and shall be examined and approved by the pricing administrative department of the State Council of the PRC or an authoritative pricing administrative department. If the power produced by locally funded power production enterprises forms an independent power network within different regions of the province or is generated for local use, the price shall be under the control of the people’s governments of the provinces, autonomous regions or municipalities directly under the central government.
- (iii) Gas supply – the Regulation on the Administration of Urban Gas (State Council Order No. 666) issued by the State Council of the PRC on 19 October 2010 and revised on 6 February 2016, which provides that the pricing bureau of the people’s governments above the county level could prescribe and adjust the selling price for pipeline gas.
- (iv) Heat supply – implement the prices for the supply of heat prescribed by the respective local governments.

Save as disclosed above, the macro government-prescribed prices are updated in accordance with the development of national economy and relevant policies to be issued from time to time. The prices prescribed by the people’s governments of the respective provinces, autonomous regions and municipalities directly under the central government are updated in accordance with the local practical situations. The Company will pay close attention to the updates of government-prescribed prices and determine the prices for relevant products and services accordingly.

### **Market Price**

Market price refers to the price determined with reference to the price charged by at least two independent third parties (if applicable) in areas (or nearby areas) providing such type of products or services on normal terms with comparable scale at that time. Market price will be determined in accordance with normal commercial terms through tendering, price comparison or arm’s length negotiation processes between the two parties.

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With respect to the market prices for the goods and services under each of the categories under sub-paragraph (vi) below, the Company will analyse whether the goods and service to be procured is qualified for tendering and price comparison, and will adopt tendering and price comparison as described under the paragraph headed “Procedures regarding tendering process” below when the conditions are satisfied. If the conditions are not satisfied, the pricing principles as set out in items (A) to (F) under sub-paragraph (vi) below will be adopted.

### ***Procedures regarding tendering 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.

### ***Market price for each type of products and services***

- (i) Crude oil – the price 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 20% less than the reference prices adjustment usually happens if the quality of petroleum is not up to the requested standard. Such downward adjustment will also be triggered under similar transactions with independent third parties). When determining such adjustments, the Company will consider the quality of different types of crude oil, shipping freight rates of crude oil and the international market price of crude oil with similar quality (based on the transaction information of the types of crude oil that are publicly traded on the spot markets). Such adjustments are made in accordance with the market-oriented principles.
- (ii) Long-term sales of domestic natural gas – the price is determined with reference to the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn>) and/or the prices charged by two to



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three independent natural gas suppliers (depending on whether they have operations in the specific local market) in the local markets who are the other major natural gas suppliers having operations similar to that of the Company and supplying similar products to CNOOC and/or its Associates or other buyers. Once the Company obtains the prices charged by other independent suppliers as mentioned above, the Company will conduct internal comparison and appraisal process. During such process, the Company will take into account factors such as the quality of products, supply and demand of the local markets, transportation distance, market research, internal analysis and proposals comparison, resource supply capacity. Thereafter, the Company will enter into arm's length negotiation with the parties in accordance with market principles including voluntariness, equality, fairness and good faith, and consideration will be given to the reasonableness of the cost structure of the products. The range of adjustments of the price of natural gas against the international oil price or other benchmark prices cannot be ascertained because the realised gas price and the international oil price or other benchmark prices are not directly comparable. The adjustments will be made after the parties reach an agreement through negotiations based on good faith, reasonableness and fairness.

- (iii) Domestic natural gas (other than long-term sales of domestic natural gas) and its by-products – the price of natural gas is determined through arm's length negotiation by taking reference to the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn>) and/or the prices of other competing gas sources in the local markets. The price of condensate oil is linked to the Brent crude oil price and the price of liquefied petroleum gas is linked to the benchmark price in the local market, and any premium or discount is determined through negotiation between the buyer and the seller with reference to the prices charged by independent suppliers in the local markets supplying products with similar quality. During the above pricing process, the Company will take into account factors such as the quality of products, supply and demand of the local markets, transportation distance, resource supply capacity, and determine the price through market research, internal analysis and proposals comparison, on arm's length negotiation with the buyer in accordance with market principles including voluntariness, equality, fairness and good faith.
- (iv) Long-term sales of overseas liquefied natural gas – the sales price of liquefied natural gas under the Company's existing long-term sales contract of liquefied natural gas is calculated based on a price formula ( $PLNG=A \times JCC+B$ ) linked to the weighted average crude oil import price into Japan (i.e. the Japanese Crude Cocktail (JCC) index). JCC index is a commonly used reference price index for long-term sales contracts of liquefied natural gas in the Asia Pacific region, which is available at <https://www.customs.go.jp>, the website for the release of trade statistics by the Ministry of Finance of Japan. A refers to the slope linked to the JCC index and B refers to the constant, and the values of A and B are determined through negotiations between both parties taking into account the market conditions. The price for some sales contracts is calculated by the straight-line price formula, that is, the slope A and the constant B are

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both fixed values; whilst the price for some sales contracts is calculated by the “s” curve price formula, where the slope A and the constant B are different in different JCC index ranges, in which way the impact of oil price changes on the sales price of liquefied natural gas is mitigated.

- (v) Green power products - traded fairly through listing, bidding, bilateral negotiation, rolling matchmaking, etc., amongst which, the price for listing and bidding is open and transparent; the price for bilateral negotiation and rolling matchmaking is mainly determined after arm’s length negotiation between the parties with reference to market price, which is determined with reference to the annual or monthly transaction price of green power on the power trading platform in the area where the green power project is situated (such as the unified power trading platform in the southern region and the relevant provincial and municipal power trading centers) or the price of other types of transaction (including listing, bidding, etc.), taking into account factors such as market supply and demand.
- (vi) Provision of exploration and support services, provision of development and support services (including new energy business), provision of production and support services (including new energy business), provision of sales, management and ancillary services, and FPSO vessel leases:
  - (A) 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 prices disclosed in the 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
  - (B) Design, construction, installation and commissioning of production facilities, prefabrication of common components/modules for facility structure – the price is determined through arm’s length negotiation between both parties with reference to market price, taking into account specific working environment of the related projects, such as complexity of operation, different geographic features, different offshore regions, weather conditions, depth of water, etc.
  - (C) Other exploration and support services and development and support services (including new energy business) – for contracts 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. Service providers such as Schlumberger, Halliburton and Baker Hughes have been providing the relevant professional services to the

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Company. The contract price is determined by: (1) calculating the reference price which is based on the historical prices quoted by the abovementioned overseas goods and service providers for the services provided to the Group plus the historical prices multiplied by the annual movement ratio of the profit margin of the abovementioned overseas goods and service providers, which is calculated by dividing the net operating profit by total operating revenue disclosed in the annual reports of the abovementioned overseas goods and service providers, as well as taking into account specific working environment of the related projects, such as different geographic features, different offshore regions, weather conditions, depth of water, etc. In extreme circumstances when the oil price falls significantly below the Company's cost per barrel, the movement of the oil price would also be considered when determining the reference price; (2) comparing such reference price with the price quoted by CNOOC and/or its Associates; and (3) entering into arm's length negotiation with CNOOC and/or its Associates. Prices will normally be approximately 80% to 100% of the abovementioned reference prices. When determining such adjustments, the Company will consider specific conditions of contracts, nature of specific products and services, complexity of operation, market demand and historical transaction prices.

- (D) Other oil and gas production and support services (including new energy business) – the price is determined through arm's length negotiation between both parties with reference to market price. The market price is determined with reference to quotations from at least two comparable independent third-party market participants (if applicable) in similar transactions in surrounding markets providing similar services and taking into account factors such as quality of services and supply and demand of local markets.

Above items (A) to (D) are not applicable to the exploration and support services, development and support services (including new energy business), and production and support services (including new energy business) between CUCBM, a subsidiary of the Company, and CNOOC and/or its Associates. The pricing for the aforesaid types of services is in accordance with the principle of arm's length negotiation, with reference to the price information of the same/similar professional contracts of the adjacent blocks of PetroChina Company Limited, China Petroleum & Chemical Corporation or external cooperation projects in the unconventional oil and gas industry. The final transaction price is determined by comparing the quotations from CNOOC and/or its Associates with the aforesaid reference prices.

- (E) Sales, management and ancillary services – the products and services provided by CNOOC and/or its Associates under this category are substantially leases of properties. The rental is determined with reference to prevailing market rates and historical transaction amounts which were reviewed by JLL and confirmed as fair and reasonable commercial market rent. The rental will be 3% higher or lower than the current market rates. When determining such adjustment, the Company

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will consider the conditions of the leased properties, the location of the leased properties, the availability of properties with similar sizes in similar locations and the historical transaction amounts.

- (F) FPSO vessel leases – the consideration of the FPSO vessel leases is the rental which is unanimously determined through arm's length negotiation between the Group and CNOOC and/or its Associates which provides the FPSO vessel leases in accordance with normal commercial terms. The rental usually takes reference to FPSO vessels' fixed daily rent which is determined based on the result of internal economic appraisal during the course of the overall development plan of the oil fields or the floating rent determined by multiplying the oil and gas production volume by a certain ratio which is determined by the result of the internal economic appraisal during the course of the overall development plan of the oil fields and the magnitude of production volumes. The major parameters of the internal economic appraisals include oil price, production of the oil fields, reserve volumes of the oil fields and discount rate, which have significant influence on the revenues and costs of the oil fields. When performing the internal economic appraisals, a net present value can be deduced from these parameters. The FPSO vessel rental can be calculated by deducting the costs of the oil fields of which the FPSO vessel rental forms part from the net present value. The cost of the oil fields of which FPSO rental forms part can be estimated by considering the expected future revenues and the expected returns on investment. The FPSO rental normally accounts for around 10% of the total operating expenses of the oil fields. The Company adopts fixed daily rent or floating rent for all of its FPSO vessel leases. The rentals for FPSO vessels are the most favourable prices in domestic China since there is no third party available which provides FPSO vessel lease services that specifically meet the development of the oil and gas fields in domestic China. Therefore, the Company is of the view that the final rentals for FPSO vessels agreed by the Group and CNOOC and/or its Associates are in the interests of the Company and the Shareholders as a whole.

### **Internal control measures to ensure connected transactions are conducted in accordance with the Comprehensive Framework Agreement**

The Company has a comprehensive internal control system to ensure that the terms of the Continuing Connected Transactions are fair and reasonable, and the Continuing Connected Transactions are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include:

- The Group has strict internal control measures for evaluation and selection of suppliers, tendering process and contract execution. In terms of provision of products and services, during the tendering process, the Group will request CNOOC and/or its Associates to provide, along with other potential independent suppliers/service providers, quotations (including proposals) in respect of the requested products or services. Following the

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receipt of quotations from CNOOC and/or its Associates, and other potential independent 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. Accordingly, CNOOC and/or its Associates may or may not be awarded the contracts. On the other hand, should CNOOC and/or its Associates consider that the terms of the contracts offered by the Group are not commercially acceptable, CNOOC and/or its Associates may also choose not to accept the terms of the contracts.

- The controller's department of the Company regularly monitors the actual amounts incurred for each type of the Continuing Connected Transactions for the purpose of ensuring the relevant annual caps are not exceeded.
- The internal control and risk management team of the Company organises and runs internal control tests regularly to evaluate the comprehensiveness and effectiveness of the internal control measures in relation to continuing connected transactions.
- The Board conducts annual review on the implementation of the Continuing Connected Transactions and conducts review of financial statements which include the disclosure and analysis of the implementation of the Continuing Connected Transactions every six months. The review mainly includes a review on whether the Company and the connected parties have fulfilled the Continuing Connected Transaction agreements during the relevant year or half-year and whether the actual transaction amounts incurred between the Company and the connected parties are within the annual caps approved by the Shareholders.
- The independent non-executive Directors conduct annual review of the Continuing Connected Transactions and provide annual confirmations in the Company's annual report on whether the Continuing Connected Transactions are conducted (i) in the Company's ordinary course of business; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interests of the Company and the Shareholders as a whole.
- The audit committee of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of the Continuing Connected Transactions and opine on the Continuing Connected Transactions as disclosed in such financial statements and reports, including whether the terms of the Continuing Connected Transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps.

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## LETTER FROM THE BOARD

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- To assist the Company in complying with the applicable rules listed in Chapter 14A of the Listing Rules, the external auditors of the Company perform work in accordance with the regulations in the Hong Kong Standard on Assurance Engagements 3000 – “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to the “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, on the Company’s Continuing Connected Transactions and issue a letter in respect of the Continuing Connected Transactions disclosed in the Company’s annual report in accordance with the applicable accounting standards and the Listing Rules.

### **Reasons for and benefits of the 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. 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 the production and operation of oil, gas and petrochemical such as ancillary production services, engineering construction services, information consulting services, supply services and financial services. 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.

The Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Company. These transactions will continue to be agreed on an arm’s length basis with terms that are fair and reasonable to the Company. Due to the long-term relationship between the Group and the CNOOC Group, the Directors (excluding the independent non-executive Directors) consider that: (a) it is beneficial for the Company to continue to enter into the Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Company’s business; and (b) all the above Continuing Connected Transactions have been conducted on normal commercial terms or better, under prevailing local market conditions, and were entered into in the ordinary and usual course of business of the Group, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the relevant Proposed Caps for each type of the above Continuing Connected Transactions are fair and reasonable.

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## LETTER FROM THE BOARD

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In particular, it should be noted that the independent non-executive Directors constituting the Independent Board Committee have given their view in support of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) after considering the advice from the Independent Financial Adviser. Please refer to the Letter from the Independent Board Committee on page 41 of this circular and the Letter from the Independent Financial Adviser from pages 42 to 61 of this circular for further details.

### Proposed Caps and rationale

The Board has considered and proposed the following Proposed Caps in respect of the Continuing Connected Transactions which will serve as the maximum annual value of the relevant transactions above for the period from 1 January 2023 to 31 December 2025:

Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
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*Provision of exploration, development, production as well as sales, management and ancillary services by CNOOC and/or its Associates to the Group*

(a) Provision of exploration and support services	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB8,536 million, RMB10,982 million and RMB5,716 million, respectively	For the three years ending 31 December 2022, RMB13,892 million, RMB14,811 million and RMB15,444 million, respectively	For the three years ending 31 December 2025, RMB13,959 million, RMB14,152 million and RMB13,978 million, respectively	The annual Proposed Caps for the provision of exploration and support services have been determined with reference to previous transactions conducted and transaction amounts in respect of the exploration and support services provided by CNOOC and/or its Associates to the Group; the estimated investment in exploration activities; and the estimated level of exploration activities by the Group. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.
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The reasons for the differences between the annual caps and the actual amounts from 2020 to 2021 and the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) the global macro-economy adversely affected downstream demand for petroleum and natural gas in 2020 and 2021; (ii) there are uncertainties in exploration investment, exploration workload and the extent to which CNOOC and/or its Associates participate in exploration operations; (iii) despite the aforementioned uncertainties, in order to achieve the goal of increasing reserves and production, the Company expects to maintain a relatively large exploration intensity in the next three years; and (iv) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps.

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## LETTER FROM THE BOARD

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Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
(b) Provision of development and support services (including new energy business)	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB36,776 million, RMB39,696 million and RMB19,500 million, respectively	For the three years ending 31 December 2022, RMB49,083 million, RMB48,857 million and RMB58,536 million, respectively	For the three years ending 31 December 2025, RMB73,715 million, RMB66,145 million and RMB64,249 million, respectively	The annual Proposed Caps for the provision of development and support services (including new energy business) have been determined with reference to 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; the expected increase in the level of development activities in the coming years as a result of achievements in exploration; and the number of ongoing and estimated future development projects and the stage and production schedule of such projects. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.

The reasons for the differences between the annual caps and the actual amounts from 2020 to 2021 and the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) the global macro-economy adversely affected downstream demand for petroleum and natural gas in 2020 and 2021; (ii) the Company cannot fully foresee the development activities over a three-year period at the time of making the estimates; (iii) despite the aforementioned uncertainties, in order to achieve the goal of increasing reserves and production, the Company expects to increase the level of development activities in the next three years; and (iv) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps.



## LETTER FROM THE BOARD

Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
(c) Provision of production and support services (including new energy business)	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB9,726 million, RMB11,836 million and RMB6,643 million, respectively	For the three years ending 31 December 2022, RMB18,815 million, RMB20,651 million and RMB22,778 million, respectively	For the three years ending 31 December 2025, RMB20,116 million, RMB21,715 million and RMB22,866 million, respectively	<p>The annual Proposed Caps for the provision of production and support services (including new energy business) have been determined with reference to 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 the anticipated commencement of production of oil and gas fields. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.</p> <p>The reasons for the differences between the annual caps and the actual amounts from 2020 to 2021 and the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) the global macro-economy adversely affected downstream demand for petroleum and natural gas in 2020 and 2021; (ii) affected by changes in downstream demand for oil and gas, there are uncertainties in the scale of petroleum and natural gas production; (iii) despite the aforementioned uncertainties, the Company expects that according to the current development progress, several oil and gas fields will be put into production in the next three years; and (iv) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps.</p>
(d) Provision of sales, management and ancillary services	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB1,940 million, RMB2,335 million and RMB705 million, respectively	For the three years ending 31 December 2022, RMB2,773 million, RMB3,004 million and RMB3,231 million, respectively	For the three years ending 31 December 2025, RMB6,202 million, RMB6,627 million and RMB6,880 million, respectively <sup>1</sup>	<p>The annual Proposed Caps for the provision of sales, management and ancillary services have been determined with reference to previous transactions conducted and transaction amounts in respect of the sales, management and ancillary services provided by CNOOC and/or its Associates to the Group; the continued expansion of the Group's business and sales of oil and gas in view of the expected commencement of production for a total of 40 projects which are currently in early development stage in the coming few years and the estimated increase in net oil and gas production in 2023 and 2024 to 640 million to 650 million barrels of oil equivalent (BOE), and 680 million to 690 million BOE, respectively, as compared to 573 million BOE in 2021; and the estimated increase in staffing by approximately 10%, 4% and 3%, respectively, for the three years ending 31 December 2025. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.</p>

<sup>1</sup>: Leased properties will be recognised as right-of-use assets where applicable.

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## LETTER FROM THE BOARD

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Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
				<p>The reasons for the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) affected by upstream development and production and changes in downstream demand, there are uncertainties in oil and gas sales; (ii) despite the uncertainties, the Company expects to increase investment in scientific research by focusing on increasing reserves and production and implementing technological innovation in the next three years; and (iii) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps.</p>
(e) FPSO vessel leases	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB1,249 million, RMB1,011 million and RMB491 million, respectively	For the three years ending 31 December 2022, RMB1,663 million, RMB1,394 million and RMB1,316 million, respectively	For the three years ending 31 December 2025, (i) in respect of fixed daily rent, the annual caps for the total value of right-of-use asset are RMB634 million, RMB 613 million and RMB637 million, respectively; and (ii) in respect of floating rent, the annual caps are RMB471 million, RMB429 million and RMB391 million, respectively <sup>2</sup>	The annual Proposed Caps for the FPSO vessel leases have been determined with reference to previous transactions conducted and transaction amounts in respect of the FPSO vessel leases provided by CNOOC and/or its Associates to the Group; the anticipated number of FPSO vessels to be leased to accommodate the business plan of the Group; and the anticipated commencement of production of oil and gas fields. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.

<sup>2</sup>. The Company adopts fixed daily rent or floating rent for all of its FPSO vessels leases. According to HKFRS 16 Leases, the Group is required to recognise a right-of-use asset and a lease liability for the fixed daily rent under the FPSO vessels leases and the Company will set annual caps based on the total value of right-of-use assets relating to the fixed daily rent under the FPSO vessels leases. In addition, the floating rent under the FPSO vessels leases will be recognised as expenses incurred by the Group, and the Company will set the annual caps for floating rent which are determined with reference to the estimated annual maximum amount of floating rent payable by the Group in respect of the FPSO vessels leases for each of the three years ending 31 December 2025.

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## LETTER FROM THE BOARD

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Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
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*Sales of petroleum and natural gas products and green power 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)	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB88,843 million, RMB136,524 million and RMB113,905 million, respectively	For the three years ending 31 December 2022, RMB229,990 million, RMB250,736 million and RMB278,819 million, respectively	For the three years ending 31 December 2025, RMB298,356 million, RMB315,545 million and RMB328,725 million, respectively	The annual Proposed 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 have been determined with reference to 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; the scheduled production capacity of the Group; 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; the forecast of Brent crude oil made by analysts which amounted to approximately US\$95, US\$90, and US\$90 per barrel for 2023, 2024 and 2025, respectively; the extent of the volatility in oil prices as demonstrated in historical Brent crude oil prices in 2021; the fact that future oil prices for the coming three years cannot be accurately predicted; 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 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. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.
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The reasons for the differences between the annual caps and the actual amounts from 2020 to 2021 and the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) the global macro-economy adversely affected downstream demand for petroleum and natural gas in 2020 and 2021, resulting in a drop in actual oil prices and a large difference in the sales amount of crude oil compared to the estimated annual caps; (ii) the scale of enterprise is large and the trend of oil and gas prices is uncertain, and the amount of connected party transactions is greatly affected by price fluctuations in the international crude oil market; (iii) to facilitate its business development plans, the increased demand for oil and gas products from CNOOC and/or its Associates is expected to lead to an increase in the production and sales of the Group; and (iv) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps.

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## LETTER FROM THE BOARD

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Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
(b) Long-term sales of natural gas and liquefied natural gas	For the two years ended 31 December 2021 and the six months ended 30 June 2022, approximately RMB14,613 million, RMB16,194 million and RMB12,081 million, respectively	For the three years ending 31 December 2022, RMB28,270 million, RMB38,509 million and RMB51,642 million, respectively	For the three years ending 31 December 2025, RMB38,382 million, RMB46,347 million and RMB61,719 million, respectively	<p>The annual Proposed Caps for long-term sales of natural gas and liquefied natural gas by the Group to CNOOC and/or its Associates have been determined with reference to 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; 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; the ongoing production of existing gas fields; based on (i) the discussions with CNOOC Group on their estimated demand for natural gas and liquefied natural gas products in the coming years, and (ii) 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 Group, 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; and 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. Further, in estimating the Proposed Cap for 2023, historical transaction amounts for 2020 and 2021 and their proportion to the respective annual caps for the corresponding years as set out in the 2019 Circular were also considered. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.</p> <p>The reasons for the differences between the annual caps and the actual amounts from 2020 to 2021 and the differences between the Proposed Caps and the actual amounts in 2020 and 2021 are primarily (i) the global macro-economy adversely affected downstream demand for natural gas and liquefied natural gas in 2020 and 2021; (ii) there are uncertainties in the price trend of natural gas and liquefied natural gas; (iii) according to the business plan and discussions with CNOOC Group, the Company expects an increase in the sales of natural gas and liquefied natural gas products to be sold by the Group in the next three years; and (iv) for the above reasons, in order to cope with possible emergencies and taking into account the needs of the Company's production and operation changes, the Company makes full estimates in accordance with a commercially feasible plan when applying for the annual caps</p>

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## LETTER FROM THE BOARD

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Continuing Connected Transactions	Historical amounts	Historical Caps	Proposed Caps	Basis of determination of the Proposed Caps
(c) Sales of green power products	For the two years ended 31 December 2021 and the six months ended 30 June 2022, there were no sales of green power products by the Group to CNOOC and/or its Associates	Not applicable <sup>3</sup>	For the three years ending 31 December 2025, nil, RMB220 million and RMB220 million, respectively	The annual Proposed Caps for the sales of green power products by the Group to CNOOC and/or its Associates have been determined with reference to the possible total green power production of the Group in the next three years and the electricity demand of CNOOC and/or its Associates in the region where it is situated. The Directors are of the view that the Proposed Caps provide sufficient flexibility for the Group's future anticipated business activities.

### Disclosure and/or Independent Shareholders' approval requirements

The Continuing Connected Transactions under the category of "Sales of green power products" are fully exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules and relevant rules of the SSE, but the Company includes the details of this category of Continuing Connected Transactions in this announcement for the purpose of completeness of information disclosure and from the perspective of good corporate governance. In addition, as each of the percentage ratios under Rule 14.07 of the Listing Rules (other than the profits ratio), where applicable, in relation to each of the following categories of Continuing Connected Transactions is, on an annual basis, expected to be less than 5% under Rule 14A.76(2) of the Listing Rules, and according to relevant rules of the SSE, such categories of Continuing Connected Transactions are exempt from the Independent Shareholders' approval requirement but are subject to the reporting and announcement requirements set out under the Listing Rules:

- Provision of sales, management and ancillary services by CNOOC and/or its Associates to the Group; and
- FPSO vessel leases from CNOOC and/or its Associates to the Group.

Under the Listing Rules, the Non-exempt Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements, as each of the percentage ratios (other than the profits ratio), where applicable, in relation to each category of the Non-exempt Continuing Connected Transactions is, on an annual basis, expected to be equal to or

<sup>3</sup>. The comprehensive framework agreement entered into by the Company and CNOOC on 1 November 2019 did not include sales of green power products.

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## LETTER FROM THE BOARD

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exceeding 5%. The Company will seek the Independent Shareholders' approval at the EGM for the Non-exempt Continuing Connected Transactions and the relevant Proposed Caps on the condition that:

1. the annual amount of each category of the Non-exempt Continuing Connected Transactions shall not exceed the relevant Proposed Caps;
2. (i) the Non-exempt Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better; and  
(ii) the Non-exempt Continuing Connected Transactions will be entered into in accordance with the Comprehensive Framework Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules and relevant rules of the SSE in relation to each category of the Non-exempt Continuing Connected Transactions.

### **Connected transaction agreements**

After obtaining the Shareholders' approval in the EGM regarding the Comprehensive Framework Agreement and the Proposed Caps for the three years ending 31 December 2025, the Company and CNOOC and/or its Associates will enter into or implement corresponding contracts or agreements according to the business development situation. Amongst them, the connected transaction agreements with a term of more than three years which have been signed and are expected to continue to be implemented in the future are set out as follows:

#### ***(a) FPSO vessels leases agreements***

Amongst the FPSO vessels currently leased, there are five FPSO vessels of which the corresponding lease agreements have lease terms of more than three years, and it is expected that these agreements will continue to be implemented after 1 January 2023. Such specific agreements are set out as follows:

No.	Lessor	Lessee	Lease Commencement Dates	Lease Expiry Dates
1	CNOOC EnerTech	CNOOC China	31 July 2018	30 July 2028
2	CNOOC EnerTech	CNOOC China	31 July 2018	30 July 2028
3	CNOOC EnerTech	CNOOC China	1 January 2019	30 April 2033
4	CNOOC EnerTech	CNOOC China	1 January 2019	31 December 2033
5	CNOOC EnerTech	CNOOC China	1 January 2021	31 December 2025

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## LETTER FROM THE BOARD

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The contents of the abovementioned five FPSO vessels lease agreements are summarized as follows:

- (i) Leased property: floating, production, storage and offloading (FPSO) vessels
- (ii) Application: used in oil field production, storage and unloading
- (iii) Rental payment: fixed daily rent or floating rent

The pricing policy of the FPSO vessel leases is the rental which is unanimously determined through arm's length negotiation between the Group and CNOOC and/or its Associates which provides the FPSO vessel leases in accordance with normal commercial terms. The rental usually takes reference to FPSO vessels' fixed daily rent which is determined based on the result of internal economic appraisal during the course of the overall development plan of the oil fields or the floating rent determined by multiplying the oil and gas production volume by a certain ratio (which is determined by the result of internal economic appraisal during the course of the overall development plan of the oil fields and the magnitude of production volumes). The major parameters of the internal economic appraisals include oil price, production of the oil fields, reserve volumes of the oil fields and discount rate, which have significant influence on the revenues and costs of the oil fields. When performing the internal economic appraisals, a net present value can be deduced from these parameters. The FPSO vessel rental can be calculated by deducting the costs of the oil fields of which the FPSO vessel rental forms part from the net present value. The cost of the oil fields of which FPSO rental forms part can be estimated by considering the expected future revenues and the expected returns on investment. The FPSO rental normally accounts for around 10% of the total operating expenses of the oil fields. The Company adopts fixed daily rent or floating rent for all of its FPSO vessel leases.

**(b) Natural gas long-term sales agreements**

Currently there are in total ten natural gas sales agreements with terms of more than three years which have been signed and are expected to continue to be implemented after 1 January 2023. Such specific agreements are set out as follows:

No.	Purchasers	Signing Dates	Expiry Dates
1	Offshore Oil Fudao Co., Ltd. (海洋石油富島有限公司)	28 July 2003	30 September 2023
2	CNOOC Kingboard Chemical Co., Ltd. (中海石油建滔化工有限公司)	10 March 2005	15 October 2026
3	Offshore Oil Fudao Co., Ltd. Methanol Branch (海洋石油富島有限公司甲醇分公司)	26 March 2010	31 December 2025
4	Offshore Oil Fudao Co., Ltd. (海洋石油富島有限公司) CNOOC Kingboard Chemical Co., Ltd. (中海石油建滔化工有限公司)	18 May 2015	31 December 2033

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## LETTER FROM THE BOARD

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No.	Purchasers	Signing Dates	Expiry Dates
5	Offshore Oil Fudao Co., Ltd. (海洋石油富島有限公司) CNOOC Kingboard Chemical Co., Ltd. (中海石油建滔化工有限公司)	17 November 2017	31 December 2038
6	CNOOC Gas & Power Group Co., Ltd. Guangdong Sales Branch (中海石油氣電集團有限責任公司廣東銷售分公司) CNOOC Gas & Power Group Co., Ltd. Guangdong Branch (中海石油氣電集團有限責任公司廣東分公司)	30 June 2011	31 December 2030
7	CNOOC Gas & Power Group Co., Ltd. Guangdong Sales Branch (中海石油氣電集團有限責任公司廣東銷售分公司) CNOOC Gas & Power Group Co., Ltd. Guangdong Branch (中海石油氣電集團有限責任公司廣東分公司)	22 July 2017	31 December 2034
8	CNOOC Gas & Power Group Co., Ltd. Guangdong Sales Branch (中海石油氣電集團有限責任公司廣東銷售分公司) CNOOC Gas & Power Group Co., Ltd. Guangdong Branch (中海石油氣電集團有限責任公司廣東分公司)	6 July 2013	31 December 2026
9	CNOOC Fujian LNG Co., Ltd. (中海福建天然氣有限責任公司)	27 June 2006	31 December 2034
10	Guangdong Dapeng LNG Company Ltd (廣東大鵬液化天然氣有限公司)	18 December 2004	31 March 2031

The price of the abovementioned ten natural gas sales agreements is determined through negotiation by taking into account factors such as the quality of products and supply and demand of the local markets, as well as taking reference to various conditions including the price of the relevant local provincial/municipal gate station (there being only one gate station in each province or municipality) prescribed by the NDRC from time to time and published on its website (<http://www.ndrc.gov.cn>), the downstream product prices and/or the prices of other competing gas sources in the local markets. During the above pricing process, the Company will organize market research, internal analysis and proposal comparison, and determine the price based on arm's length negotiation between the parties in accordance with market principles including voluntariness, equality, fairness and good faith.



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## LETTER FROM THE BOARD

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### 3. GENERAL

The principal business activity of the Company is investment holding. 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.

### 4. EGM

Approval from the Independent Shareholders will be sought at the EGM for the renewal of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps). A notice convening the EGM is set out in Appendix II of this circular. Voting will be conducted by poll at the EGM as required under the Listing Rules.

CNOOC BVI is a direct wholly-owned subsidiary of OOGC and holds approximately 60.46% interest in the Company. OOGC, in turn, is a direct wholly-owned subsidiary of CNOOC. Accordingly, the interest of CNOOC BVI in the Company is recorded as the interests of OOGC and CNOOC.

In view of the equity interest held directly and indirectly by CNOOC in OOGC and CNOOC BVI, OOGC, CNOOC BVI and their respective Associates will abstain from voting in relation to the resolutions approving the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) at the EGM.

There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon CNOOC; and (ii) no obligation or entitlement of CNOOC as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.cnoocltd.com](http://www.cnoocltd.com)). Shareholders are requested to complete the form of proxy and return it to the Company's Hong Kong share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong in accordance with the instructions printed thereon not less than 36 hours before the time fixed for holding the EGM, if they do not intend to be present in person at the EGM.

Holders of RMB Shares should refer to the public announcement for notice of the extraordinary general meeting applicable to holders of RMB Shares as published by the Company on the websites of the Shanghai Stock Exchange and the Company.

### 5. RECOMMENDATION OF THE BOARD

The Directors are of the opinion that the terms of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM.

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## LETTER FROM THE BOARD

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Taking into account their positions at CNOOC, none of Mr. Wang Dongjin, Mr. Li Yong, Mr. Xu Keqiang, Ms. Wen Dongfen and Mr. Zhou Xinhui participated in the voting on the resolutions approving the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) at the relevant board meeting.

### **6. RECOMMENDATIONS OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps), and Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders holding the Hong Kong Shares.

Maxa Capital considers the terms of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) are fair and reasonable and the Non-exempt Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group. Maxa Capital also considers that the entering into of the Non-exempt Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole. Accordingly, Maxa Capital recommends the Independent Shareholders holding the Hong Kong Shares to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps). The full text of the Letter from the Independent Financial Adviser issued by Maxa Capital containing its recommendation in respect of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) is set out on pages 42 to 61 of this circular.

The Independent Board Committee, having taken into account the advice of Maxa Capital, considers the terms of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) are fair and reasonable and the Non-exempt Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group. The Independent Board Committee also considers that the entering into of the Non-exempt Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps). The full text of the Letter from the Independent Board Committee is set out on page 41 of this circular.

Yours faithfully,  
For and on behalf of the Board  
**CNOOC Limited**  
**Wang Dongjin**  
*Chairman of the Board of Directors*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**CNOOC Limited**  
**(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*  
**(Stock Code: 00883)**

11 November 2022

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular of the Company dated 11 November 2022 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board as the Independent Board Committee to consider and advise you in connection with the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps), details of which are set out in the Letter from the Board contained in the Circular. We also wish to draw your attention to the Letter from the Independent Financial Adviser as set out on pages 42 to 61 of the Circular.

Having considered the information set out in the Letter from the Board, the terms of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) and the advice of the Independent Financial Adviser in relation thereto as set out on pages 42 to 61 of the Circular, we are of the unanimous view that the terms of the Non-exempt Continuing Connected Transactions (including the relevant Proposed Caps) are fair and reasonable and the Non-exempt Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group. We are also of the unanimous view that the entering into of the Non-exempt Continuing Connected Transactions will not damage the interests of the Company and the minority Shareholders, is in the interests of the Company and the Shareholders as a whole, and will not affect the independence of the Company.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and the relevant Proposed Caps.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee  
**CNOOC Limited**  
**Chiu Sung Hong**  
*Chairman of the Independent Board Committee*  
*Independent Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders holding the Hong Kong Shares, which has been prepared for the purpose of inclusion in this circular.*



Unit 1908, Harbour Center  
25 Harbour Road  
Wan Chai  
Hong Kong

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 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 <sup>1</sup>			
	Utilisation rates	61.4%	74.1%	37.0% <sup>2</sup>			
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 <sup>1</sup>			
	Utilisation rates	74.9%	81.2%	33.3% <sup>2</sup>			
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 <sup>1</sup>			
	Utilisation rates	51.7%	57.3%	29.2% <sup>2</sup>			
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 <sup>1</sup>			
	Utilisation rates	38.6%	54.4%	40.9% <sup>2</sup>			
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 <sup>1</sup>			
	Utilisation rates	51.7%	42.1%	23.4% <sup>2</sup>			

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

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### *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.

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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\$90 and 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;



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- (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

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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

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- (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-

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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

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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/

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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.

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### 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.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Hong Kong Stock Exchange were as follows:

Name of Director	Nature of interest	Hong Kong Shares held	Approximate percentage of total issued Hong Kong Shares	RMB Shares held	Approximate percentage of total issued RMB Shares	Approximate percentage of total issued Shares
Chiu Sung Hong	Beneficial interest	1,650,000	0.004%	-	-	0.003%
Lawrence J. Lau	Beneficial interest	400,000	0.000%	-	-	0.000%

All the interests stated above represent long positions. Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the total issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, were as follows:



		Approximate percentage of total issued Hong Kong Shares		Approximate percentage of total issued RMB Shares	Approximate percentage of total issued Shares
	Hong Kong Shares held		RMB Shares held		
CNOOC BVI	28,772,727,268	64.51%	-	-	60.46%
OOGC	28,772,727,273	64.51%	-	-	60.46%
CNOOC	29,112,507,273	65.27%	-	-	61.17%

*Note:* CNOOC BVI is a direct wholly-owned subsidiary of OOGC, which is a direct wholly-owned subsidiary of CNOOC. Accordingly, CNOOC BVI's interests are recorded as the interests of OOGC and CNOOC.

All the interests stated above represent long positions. As at the Latest Practicable Date, save as disclosed above, the Directors and chief executive of the Company were not aware of any other person having interests or short positions (other than the Directors or chief executive of the Company) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### 4. PROFESSIONAL QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given their opinions or advices which are contained or referred to in this circular:

<b>Names</b>	<b>Qualifications</b>
Maxa Capital Limited	A corporation licensed under the SFO to carry out Type 1 regulated activities (dealing in securities) and Type 6 regulated activities (advising on corporate finance)
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer

- (a) As at the Latest Practicable Date, neither Maxa Capital nor JLL had any beneficial interest in the share capital of any member of the Group, did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) Maxa Capital and JLL have given and have not withdrawn their respective written consents to the issue of this circular with inclusion of their opinions and letters, as the case may be, and the references to their names included herein in the form and context in which they respectively appear.

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company have been made up.

**6. SERVICE CONTRACTS OF THE DIRECTORS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group referred to in Rule 13.68 of the Listing Rules (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**7. INTERESTS OF DIRECTORS**

- (a) The Directors were not aware that any Director or his respective Associates had, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) No Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.
- (c) As at the Latest Practicable Date, none of the Directors has, or has had, any direct or indirect interest in any assets which have been, since 31 December 2021, being the date of the latest published audited consolidated accounts of the Company, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**8. GENERAL**

- (a) The registered office of the Company is situated at 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong.
- (b) The Company's Hong Kong share registrar is Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**9. DOCUMENTS ON DISPLAY**

Copies of the following documents will be posted on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.cnooc ltd.com>) for at least 14 days from the date of this circular:

- (a) the Comprehensive Framework Agreement entered into between the Company and CNOOC (Chinese version only);
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 41 of this circular;
- (c) the letter of advice issued by Maxa Capital, the text of which is set out on pages 42 to 61 of this circular;
- (d) the letter issued by JLL confirming certain matters set forth in the Letter from the Board referred to on pages 14 and 25 of this circular; and
- (e) the written consents referred to in paragraph 4 of this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **CNOOC Limited** **(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*  
**(Stock Code: 00883)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of CNOOC Limited (the “**Company**”) will be held on 29 November 2022 at 2:00 p.m. at Island Shangri-La Hotel Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modification, each of the following resolutions as an Ordinary Resolution:

#### **ORDINARY RESOLUTIONS**

1. “**THAT** the Non-exempt Continuing Connected Transactions as described in the circular of the Company dated 11 November 2022, which the Company expects to occur on a regular and continuous basis in the ordinary and usual course of business of the Company and its subsidiaries, as the case may be, and to be conducted on normal commercial terms, be and are hereby generally and unconditionally approved and confirmed and that any Director of the Company be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions.”
2. “**THAT** the relevant Proposed Caps for each category of the Non-exempt Continuing Connected Transactions as set out in the circular of the Company dated 11 November 2022, be and are hereby approved, ratified and confirmed.”

By Order of the Board  
**CNOOC Limited**  
**Wu Xiaonan**  
*Joint Company Secretary*

Hong Kong, 11 November 2022

*Registered Office:*  
65th Floor, Bank of China Tower  
1 Garden Road  
Hong Kong

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. Holders of RMB Shares should refer to the public announcement for notice of the extraordinary general meeting applicable to holders of RMB Shares as published on the websites of the Shanghai Stock Exchange and the Company. This notice is only intended to provide notice to the holders of Hong Kong Shares of the arrangements for the extraordinary general meeting.
2. Every member entitled to attend and vote at the EGM (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and the class of Shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy for holders of Hong Kong Shares duly completed and signed in accordance with the instructions printed thereon, together with the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be completed and returned to the Company's Hong Kong share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 36 hours before the time fixed for the holding of the EGM or any adjournment thereof (as the case may be).
4. Completion and delivery of the form of proxy will not preclude a shareholder of the Company entitled to attend and vote at the EGM from attending and voting in person at the EGM or any adjournment thereof if the shareholder so desires and, in such event, the relevant form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any Shares, any one of such persons may vote at the EGM (or at any adjournment thereof), either personally or by proxy, in respect of such Shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
6. Pursuant to Rule 13.39(4) of the Listing Rules, voting for the ordinary resolutions set out in this notice of the EGM will be taken by poll, except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.
7. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 24 November 2022 (Thursday) to 29 November 2022 (Tuesday) (both days inclusive), during which period no transfer of Hong Kong Shares will be registered. In order to be eligible to attend and vote at the EGM, holders of Hong Kong Shares are reminded to ensure that all instruments of transfer of Hong Kong Shares accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 23 November 2022 (Wednesday).
8. Capitalised terms used in this notice have the same meaning as is set out in the section entitled "Definitions" on pages 1 to 4 of the circular of the Company dated 11 November 2022.
9. In compliance with the regulations and measures of the Hong Kong Government on the prevention and control of the spread of novel coronavirus (COVID-19), the Company will implement the following precautionary measures at the extraordinary general meeting to safeguard the health and safety of the attending holders of Hong Kong Shares, proxy, staff and other attendees:
  - all persons must scan the "LeaveHomeSafe" venue QR code and comply with the requirements of the "Vaccine Pass Direction" prior to entry to the extraordinary general meeting venue;
  - mandatory wearing of surgical face masks at the extraordinary general meeting venue at all times;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- appropriate distancing and spacing between seats in accordance with the guidance from the Hong Kong Government, thus, the Company may limit the number of attendees at the extraordinary general meeting as may be necessary to avoid over-crowding; and
- no food or drinks will be served.

Any person who does not comply with the precautionary measures will be denied entry to the venue of extraordinary general meeting.

**For the health and safety of the holders of Hong Kong Shares, the Company would like to encourage the holders of Hong Kong Shares to appoint the chairman of the extraordinary general meeting as their proxy to vote on the relevant resolutions, instead of attending the extraordinary general meeting in person.**

Subject to the development of the COVID-19 pandemic and the requirements or guidelines of the Hong Kong Government and/or regulatory authorities, the Company may announce further updates on the extraordinary general meeting arrangement on the websites of The Stock Exchange of Hong Kong Limited and the Company as and when appropriate.