邁時資本
MAXA CAPITAL

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Sheung Wan
Hong Kong

18 October 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Mesdames,

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS WITH SINOPEC GROUP

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Major Continuing Connected Transactions and their proposed annual caps for each of the three years ending 31 December 2027 (the "**Proposed Annual Caps**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 18 October 2024 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 26 September 2024, the Company entered into (i) the 2024 Mutual Products Supply Framework Agreement, the 2024 General Services Framework Agreement and the 2024 Engineering and Construction Services Framework Agreement with China Petrochemical Corporation; and (ii) the 2024 Financial Services Agreement with the Financial Services Providers (collectively known as the "**Non-exempt Framework Agreements**"). Such framework agreements will become effective on 1 January 2025 for a period of three years and they will, upon effective, replace the 2021 Mutual Products Supply Framework Agreement, the 2021 General Services Framework Agreement, the 2021 Engineering and Construction Services Framework Agreement and the 2021 Financial Services Framework Agreement.

As at the Latest Practicable Date, China Petrochemical Corporation together with its associates held approximately 70.20% of the Company's issued share capital and is therefore the Company's substantial Shareholder. Sinopec Finance and Sinopec Century Bright are subsidiaries of China Petrochemical Corporation and its associates. Under Rules 14A.07(1) and 14A.07(4) of the Hong Kong Listing Rules, China Petrochemical Corporation and its associates are connected persons of the Company. Accordingly, the transactions contemplated under the

Non-exempt Framework Agreements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratios for each of the annual caps under the Major Continuing Connected Transactions exceed 5%, the Major Continuing Connected Transactions and the Proposed Annual Caps are subject to, among other things, the approval by the Independent Shareholders. The deposit services provided by the Financial Services Providers to the Group will also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules.

According to the Hong Kong Listing Rules, the Independent Board Committee has been formed to advise Independent Shareholders on the Major Continuing Connected Transactions and the Proposed Annual Caps. We, Maxa Capital, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Hong Kong Listing Rules, and accordingly, are eligible to give independent advice and recommendations on the terms of the Major Continuing Connected Transactions and the Proposed Annual Caps. Save for this appointment, there was no other engagement between the Company and us in last two years. 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 advices and recommendations, we have reviewed, among others, (i) the Non-exempt Framework Agreements; (ii) the annual reports of the Company for the year ended 31 December 2022 (the "**2022 AR**") and for the year ended 31 December 2023 (the "**2023 AR**") and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 IR**"); (iii) the basis of calculation of the Proposed Annual Caps; and (iv) the Company's internal control procedures and records in relation to 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 Hong Kong 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 or referred to in the Circular and the information and representations as provided to us by the Directors and the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also assumed that all statements of belief, opinion, expectation, and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors' representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that it has, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor do doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, conducted any independent verification on the information provided to us by the Directors and the Company, nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company, China Petrochemical Corporation and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

1.1 Information of the Group

The Company is a large-scale, integrated, and professional oil and gas engineering and technical service company in China and a leader in providing integrated and full industrial-chain oilfield services. The Company has five major business sectors – geophysics, drilling, logging & mud logging, downhole operation service and engineering construction, covering the full industrial-chain from exploration, drilling, completion, oil and gas production, collection and transportation. As at 30 June 2024, the Company provided oilfield services with more than 70 basins and more than 550 blocks in more than 20 provinces in China, while its overseas business scale keeps growing with execution in more than 30 countries and regions.

Set out below is the summarised financial information of the Group for the two years ended 31 December 2022 and 2023 ("**FY2022**" and "**FY2023**", respectively) and for the six months ended 30 June 2023 and 2024 ("**1H2023**" and "**1H2024**", respectively), as extracted from the financial statements prepared in accordance with the International Financial Reporting Standards in the 2023 AR and the 2024 IR:

	For the year ended 31 December		**For the six months ended 30 June**	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(restated)	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	73,772,688	79,980,939	37,133,528	36,821,444
Profit before income tax	837,162	915,207	864,790	1,082,707
Profit for the year/period	583,699	576,083	649,120	752,950

The revenue of the Group was approximately RMB79,980.9 million for FY2023, representing an increase of approximately RMB6,208.3 million or approximately 8.4% as compared to approximately RMB73,772.7 million for FY2022, whereas the profit for the year was approximately RMB576.1 million for FY2023, representing a decrease of approximately RMB7.6 million or approximately 1.3% as compared to approximately RMB583.7 million for FY2022. Such significant increase in the revenue for the year was primarily attributable to increases in exploration and development workload. Such decrease in profit for the year was primarily attributable to the increase in selling, general and administrative, research, and finance expenses.

The revenue of the Group was approximately RMB36,821.4 million for 1H2024, representing a decrease of approximately RMB312.1 million or approximately 0.8% as compared to approximately RMB37,133.5 million for 1H2023, whereas the profit for the period was approximately RMB753.0 million for 1H2024, representing an increase of approximately RMB103.8 million or approximately 16.0% as compared to approximately RMB649.1 million for 1H2023. Such decrease in the revenue for the period was primarily attributable to the decrease in cross-year workload of oil engineering construction business. Such increase in the profit for the period was primarily attributable to (i) the decrease in selling, general and administrative, and finance expenses; (ii) the increase in reversal of provision for expected credit loss; and (iii) the increase in other income.

	As at 31 December		**As at 30 June**
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(restated)	*(audited)*	*(unaudited)*
Cash and cash equivalents	1,801,150	2,788,798	2,978,118
Total assets	71,208,061	75,162,974	75,900,751
Total liabilities	63,778,327	67,139,772	67,176,619
Total equity	7,429,734	8,023,202	8,724,132

The Group's cash and cash equivalents increased substantially from approximately RMB1.8 billion as at 31 December 2022 to approximately RMB3.0 billion as at 30 June 2024. The Group's total assets increased gradually from approximately RMB71.2 billion as at 31 December 2022 to approximately RMB75.9 billion as at 30 June 2024. The Group's total liabilities increased gradually from approximately RMB63.8 billion as at 31 December 2022 to approximately RMB67.2 billion as at 30 June 2024. The Group's total equity has been increasing stably from approximately RMB7.4 billion as at 31 December 2022 to approximately 8.7 billion as at 30 June 2024.

1.2 Information of China Petrochemical Corporation

China Petrochemical Corporation was established in July 1998, and it is a state owned and authorised investment organization. The principal operations of China Petrochemical Corporation include: exploration, production, storage and transportation (including pipeline transportation), sales and comprehensive utilisation of oil and natural gas; oil refining; wholesale and retail of oil products; production, sales, storage, transportation of petrochemical, natural gas chemical, coal chemical and other chemical products; industrial investment and investment management; production, sales, storage, transportation of energy products such as new energy and geothermal energy; exploration, consultation, design and installation of petroleum and petrochemical engineering; repairing and maintenance of petroleum and petrochemical equipment; development, manufacture and sales of mechanical and electrical equipment; manufacture and sales of electricity, steam, water supplies and industrial gas; technology, electronic commerce and information, research and development, application and consultation services of alternative energy products; self-operating and acting as agent for import and export of relevant products and technology; project contracting procurement tendering, labour export; international storage and logistics business etc.

1.3 Information of Sinopec Century Bright

Sinopec Century Bright is a company incorporated in Hong Kong with limited liability. It is a licensed lender under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong). It was approved by the State Administration of Foreign Exchange as an offshore settlement center in 2007 to provide deposits, loans and other financial services to member companies of Sinopec Group.

1.4 Information of Sinopec Finance

Sinopec Finance is a non-banking financial institution incorporated in the PRC in 1988 and is subject to the Administrative Measures on Finance Companies within Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the People's Bank of China and NFRA to provide deposits, loans and other financial services to member companies of Sinopec Group. Sinopec Finance is 51% owned by China Petrochemical Corporation and 49% owned by China Petroleum & Chemical Corporation.

As a non-banking financial institution, Sinopec Finance is subject to various regulatory and capital adequacy requirements, including capital adequacy ratios, loan-to-deposit ratios and deposit reserve thresholds. NFRA amended the Administrative Measures on Finance Companies within Group Enterprises in November 2022, specifying that "the group parent company shall assume the primary responsibility for the prevention and mitigation of risks of the finance company, and shall establish an effective risk segregation mechanism to prevent risks extending from the finance company; and the group parent and the controlling shareholder of the finance company shall supplement capital to the finance company if necessary." China Petrochemical Corporation has provided undertaking in relation to the aforementioned obligations to supplement capital (the "**Parent Undertaking**"): Sinopec Group will supplement capital to Sinopec Finance if necessary and to report annually on its capital supplemental capacity to NFRA or its delegated organisations through Sinopec Finance; Sinopec Group will not withdraw capital from Sinopec Finance in the event that Sinopec Finance has liquidity problems and will provide liquidity support as far as possible.

2. Terms of the Major Continuing Connected Transactions

On 26 September 2024, the Company, China Petrochemical Corporation and Financial Services Providers entered into the Non-exempt Framework Agreements, which will be valid for a term of three years commencing on 1 January 2025. Save for the valid terms and Proposed Annual Caps, other key terms of the Non-exempt Framework Agreements are generally the same as those of the 2021 Mutual Products Supply Framework Agreement, the 2021 General Services Framework Agreement, the 2021 Engineering and Construction Services Framework Agreement and the 2021 Financial Services Framework Agreement, respectively.

2.1 Transactions

Pursuant to the 2024 Mutual Products Supply Framework Agreement, amongst other things, Sinopec Group will provide the following types of products to the Group: crude oil, crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, lubricants, etc.); natural gas (including pipeline gas, CNG, LNG, etc.); steel; chemicals, oilfield chemicals and chemical reagents; petroleum-specific equipment; oil drilling and exploitation equipment accessories; special tools; instrumentation and accessories; engineering machinery; timber, cement and construction materials; electric material (including marine cable); pipeline fittings; paint coating; valve; rubber, rubber products and plastic products; petrochemical-specific equipment and accessories; electrical equipment and accessories; power equipment; general equipment (including compressors, pumps, air separation equipment, etc.); electronic industrial products and components (including computer software, safety control systems, etc.); fire control equipment and devices (including fire trucks and accessories, fire-fighting robots, etc.); coal; chemical fiber processing and textile products (including anti-static coveralls and accessories, safety work shoes, etc.); and other products.

Pursuant to the 2024 General Services Framework Agreement, amongst other things, Sinopec Group will provide the following types of services to the Group: employee training, culture and sports, newspapers and magazines, radio and television broadcasting and other related or similar services; office and factory property management, canteens, dormitories, commuting, reemployment service centers and other related or similar services; collection and payment of administrative service fees, labour, insurance, insurance brokers, shared services (finance, human resources, business travel, and information technology sharing, etc.) and other related or similar services; software applications and information systems with related support and services; product procurement services; other services.

Pursuant to the 2024 Engineering and Construction Services Framework Agreement, the Group will provide to Sinopec Group the following types of engineering services including but without limitation to geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, and marine engineering of oil, natural gas and other mineral resources: engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision; contracting; engineering design; construction; machinery equipment processing and manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labour supply service; testing service; special transportation service; and other engineering supporting services.

Pursuant to the 2024 Financial Services Agreement, the Financial Service Providers, subsidiaries of China Petrochemical Corporation, will provide financial services to the Group. Such financial services primarily include deposits and loans, bill discounting and acceptance, letters of credit, entrusted loans, non-financial guarantees, settlement, foreign exchange and other financial services.

2.2 Pricing policy

2.2.1 2024 Mutual Products Supply Framework Agreement

The pricing of the products provided under the 2024 Mutual Products Supply Framework Agreement shall be determined in accordance with the general principles and order as follows:

(1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product, such product shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price; and

(2) Market price: the price will be determined on normal commercial terms based on the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with independent third party for the same period when determining whether the price for any product provided under this agreement is market price.

Please refer to pages 11 to 14 of the Circular for further details in relation to pricing mechanism to particular products under the 2024 Mutual Products Supply Framework Agreement.

2.2.2 2024 General Services Framework Agreement

The pricing of the general services provided by Sinopec Group to the Group under the 2024 General Services Framework Agreement shall be determined in accordance with the following pricing polices:

Agreed price is applicable to employee training, culture and sports, radio and television broadcasting and other related or similar services; office and factory property management, canteens, dormitories, commuting, re-employment service centers and other related or similar services; product procurement services and other services. The agreed price is determined by adding a reasonable profit (6% or less of a cost) over a reasonable cost. The supplier of the service will provide a cost list which is based on the actual costs incurred in providing the service by Sinopec Group, the purchaser will conduct comparison with the comparable average cost of similar enterprises in the neighbouring areas to negotiate and determine the reasonable cost for the price. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of a general service under the agreement. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

Agreed price is applicable to shared services (finance, human resources, business travel, and information technology sharing, etc.). The reasonable cost is determined on the basis of FTE (full-time labour equivalent). At this stage, the cost and tax are used as the cost benchmark, and the profit rate is controlled within 6% to determine the price of the sharing services. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

Market price is applicable to newspapers and magazines; collection and payment of administrative service fees, labor, insurance, insurance brokers and other related or similar services; software applications and information systems with related support and services. In determining the market prices, the Group will determine the prices through price enquiry and comparison on the relevant price websites or by referring to the prices of similar transactions in surrounding markets or by tender through the e-commerce system. The e-commerce system is a bidding system for sale and purchase of products or services established by Sinopec Group. Sinopec Group and the Group can publish bidding requests or participate in the tender through such e-commerce system.

2.2.3 2024 Engineering and Construction Services Framework Agreement

The pricing of the services provided under the 2024 Engineering and Construction Services Framework Agreement shall be determined in accordance with the principles and order as follows:

(1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be provided at the applicable government-prescribed price. Where a government-guided price standard is available, the price will be agreed within the range of the government-guided price;

(2) Tender and bidding price: where tender and bidding process is required under applicable laws, regulations and rules, the final price shall be determined by the tender and bidding process;

(3) Market price: the price of the same or similar products, technology or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with the independent third party for the same period when determining whether the price for any service under this agreement is market price; and

(4) Agreed price: to be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of any service under this agreement.

On the basis of the above, with respect to the pricing policies of the transactions of engineering and construction services, both parties further agreed as follows:

(1) Prices of the services under this agreement shall be fair and reasonable to both parties and determined according to the principle of market-orientation and based on the nature of the contract. Pricing factors to consider include the operations area, the amount of work, service content, duration of contract, sales strategy, overall customer relationship and subsequent contract opportunities; and

(2) The pricing of a specific service under this agreement shall follow the pricing order as specified above, and be determined on normal commercial terms and conditions through fair negotiation. When there are no sufficient comparable transactions to determine whether the transaction is on normal commercial terms and conditions, the pricing shall be determined on terms and conditions no less favourable than those available to independent third parties.

Please refer to pages 20 to 23 of the Circular for further details in relation to pricing mechanism to particular services under the 2024 Engineering and Construction Services Framework Agreement.

Through discussion with the management of the Company, we understand that majority of the services provided under the 2024 Engineering and Construction Services Framework Agreement shall be determined in accordance with (1) government-prescribed price and government-guided price or (2) tender and bidding price.

2.2.4 2024 Financial Services Agreement

Under the 2024 Financial Services Agreement, the interest rate of the deposit services provided by Sinopec Finance shall be determined in accordance with the relevant interest rate as promulgated by the PBOC and shall not be lower than the interest rates for deposits of the same type and maturity offered by major domestic commercial banks. For deposit services provided by Sinopec Century Bright, the interest rates of the relevant deposit shall not be lower than the interest rates for deposits of the same type and maturity offered by major overseas commercial banks.

2.2.5 Assessment on the pricing policy

In relation to products and services applicable to the government-prescribed price and government-guided price, including crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, etc.), natural gas (including pipeline gas, CNG, LNG, etc.), and project management, we have reviewed the relevant regulations issued by regulatory authorities in the PRC and noted the pricing policies for the aforementioned products and services under the relevant framework agreements are in line with the relevant regulations. As such, we consider the pricing policy for products and services which adopted the government-prescribed price and government-guided price to be fair and reasonable.

In relation to services applicable to the tender and bidding price, including geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, marine engineering of oil, gas and other mineral resources, project contracting, project construction, project construction engineering consulting (solution research, project proposal, feasibility study and early stage project consulting), project supervision, and engineering design, we have reviewed the relevant regulations issued by regulatory authorities in the PRC, the sample documents in relation to the tender and bidding process and the internal bidding regulation of the Company which set out the detailed requirements for the bidding process and the responsibility of departments involved. Based on our review and discussion with the management of the Company, we noted that (i) after passing through several rounds of review by the relevant responsible departments and officers of the Group, each bidding project will then be reviewed by a group of experts, which are selected from a database depends on the nature of the bidding project, before submitting to the senior management committee of the Group for final approval; (ii) the bidding price is determined with reference to the pricing standards set by relevant government department or Sinopec Group and the fixed unit price of engineering project budget list, which is negotiated and formulated by the Group and Sinopec Group together having considered factors including estimated expense, technical requirements, geological conditions etc.; (iii) the tender and bidding process and the price are conducted in accordance with the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) and other applicable PRC laws, rules and regulations; and (iv) the tender and bidding process is an open and transparent process based on market participation. In view of the above, we consider the pricing policy for services which adopted tender and bidding price, including the formation of tendering committee and the tendering process, to be fair and reasonable.

In relation to products and services applicable to market price, including crude oil, oil products (lubricants), chemicals, oilfield chemicals and chemical reagents, coal, steel, petroleum-specific equipment, oil drilling and exploitation equipment accessories, instrumentation and accessories, special tools, and engineering machinery, we have visited the relevant websites mentioned on page 13 of the Circular. Based on our discussion with the management of the Company, we understood that the pricing terms entered into with the Sinopec Group were no less favourable to the Group than those with independent third parties involving comparable type of transaction, and the Group's pricing determination was in accordance with its internal control measures in principle, which will be further analysed in the section below headed "5. Internal Control". For our due diligence, we have, on a randomly sampling basis, obtained and reviewed samples of (i) contracts between Sinopec Group and the Group; and (ii) price quotations/contracts between the Group and independent third parties in respect of products and services provided under the 2021 Mutual Products Supply Framework Agreement and the 2021 Engineering and Construction Services Framework Agreement from 2021 to 2024 which were similar in nature to the extent where possible. Based our review of the aforesaid documents which we consider to be fair and representative, we noted that the pricing terms entered into with the Sinopec Group were no less favourable to the Group than those with independent third parties. As such, we consider the pricing policy for products and services which adopted market price to be fair and reasonable.

In relation to agreed price, we noted the 6% profit margin applies to both products and services provided by the Group to Sinopec Group and products and services provided by Sinopec Group to the Group and consider such pricing principle is not in favour of any party. In addition, the 6% profit margin is not materially deviated from the gross profit margin of approximately 8.4%, 6.8% and 7.6% of the Company for 1H2024, FY2023 and FY2022, respectively, and we consider such profit margin is fair and reasonable.

3. Reasons for and benefits of entering into the Major Continuing Connected Transactions

Sinopec Group is the largest client and supplier of the Group. Revenues from Sinopec Group contributed 61.7% of the total operating revenue of the Company for FY2023, while purchase from Sinopec Group represented approximately 23.7% of the total purchases of the Group for FY2023. Due to historical relationship between Sinopec 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 Non-exempt Framework Agreements would provide flexibility for the Group to continue its existing arrangements with Sinopec Group of providing products and services to each other, and facilitate the overall operations and growth of the Group's business by leveraging the resources and advantages of Sinopec Group. The specific reasons for and benefits of entering into the Non-exempt Framework Agreements are elaborated below.

3.1 2024 Mutual Products Supply Framework Agreement

Provision of products by Sinopec Group to the Group

Prior to the establishment of the Company, it was Sinopec Group that provided products to the Company and its subsidiaries. After its establishment, the Company conducts procurement activities through its developing and independent procurement system. Also, in order to ensure the stable supply, Sinopec Group is required to continue to provide products. As the owner of the Group's projects, Sinopec Group itself or its designated suppliers are required to provide products to the Group.

3.2 2024 General Services Framework Agreement

Provision of general services by the Sinopec Group to the Group

Some offices of the Company and its subsidiaries are located in a building in which Sinopec Group has been providing ancillary administrative and logistical services, including conference facilities, property management services and information technology services, to those of its subsidiaries which occupy the building for a number of years. Given the quality, cost efficiency and convenience of using such ancillary services, it will be beneficial to the Group to continue purchasing such services from Sinopec Group. In addition, the Group has been receiving cultural and educational trainings provided by Sinopec Group since the

Company's establishment, including foreign language and cultural training courses, international project management courses, occupational skills training courses and management skills training seminars, which the Company believes to be beneficial to the professional development of the Group's staff. Sinopec Group has a massive network of global suppliers and an advanced IT platform, which are of great significance to the Group to find premium vendors and reduce acquisition costs. In addition, the Group will receive professional supportive services in relation to finance, human resources, business travel and information technology sharing services from Sinopec Group Sharing Company Limited (中國石化集團共享服務有限公司), which is expected to further optimise the refined management and improve the operation efficiency of the Group.

3.3 2024 Engineering and Construction Services Framework Agreement

Provision of engineering services by the Group to Sinopec Group

The Company was founded with the assets from the oil engineering and technical service segment of Sinopec Group. Prior to its establishment, these assets had been providing Sinopec Group with oil field services and engineering and construction services, such as drilling, oil field technologies, and geophysical prospecting and construction, for its oil and gas exploration, exploitation and production activities. Therefore, the engineering service related connected transactions between the Group and Sinopec Group generally originates from the operating system for the development of the oil industry in China, the history of Sinopec Group and the establishment of the Group through reorganisation. Sinopec Group is promoting its EPC business including product procurement). As an integrated oil engineering and technical services company, the Company has extensive EPC experience and therefore will provide Sinopec Group with product procurement services. These transactions guarantee the rapid development of Sinopec Group's oil and gas exploration and exploitation business on one hand and provide the Group a stable and long-term oil field technical service market on the other hand. In turn, it benefits the operation and growth of the Group and acts as a solid foundation for the Group to explore new markets and new businesses.

3.4 2024 Financial Services Agreement

Deposits services provided by the Financial Services Providers to the Group

(a) Centralised cash management

It is the Group's policy to centralise its cash management function. As the terms offered by the Financial Service Providers are no less favourable than the deposit interest rates published by domestic major commercial banks (in the case of Sinopec Finance) or overseas major commercial banks (in the case of Sinopec Century Bright) for deposits of a similar type for the same period, the terms of placing deposits with the Financial Service Providers are no less favourable to the Group than placing deposits with independent commercial banks. In addition, the centralised deposit of funds with the Financial Service Providers will enable the Group to use the Financial Service Providers as a primary clearing and settlement platform, provide the Group with access to a centralised cash pool (both onshore and offshore), give it the flexibility to make timely withdrawals from time to time to meet its funding needs and reduce the need for the Group to obtain third party financing, which will in turn help the Group to achieve a lower cost of funding and maximise cost and operational efficiencies.

(b) Clearing and settlement platform

In its ordinary course of business, as Sinopec Group is the Group's largest client, the Group transacts with Sinopec Group. In line with Sinopec Group's internal group policy, Sinopec Group generally maintain settlement accounts with the Financial Service Providers. The centralised maintenance of deposits by the Group with the Financial Service Providers will facilitate clearing with other members of the Sinopec Group (some of whom are the Group's clients), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent banks. It would not be efficient for Sinopec Group and the Group to separately maintain bank accounts with independent banks for clearing and settlement.

(c) Familiarity with the Group's business

As the Financial Service Providers only provide financial services to members of the Sinopec Group and the Group, they have over the years acquired extensive knowledge of the industry. In the context of the Group, the Financial Service Providers are familiar with its capital structure, business operations, funding needs and cash flow pattern, which enables them to anticipate better the Group's business needs. As a result, the Financial Service Providers are well-positioned to provide the Group with specialised and cost-efficient services which would not be easy for independent commercial banks to replicate.

(d) Flexibility

The Group has the sole discretion to deposit and withdraw its deposits with the Financial Service Providers from time to time. There is no restriction on its ability to deposit its cash with independent commercial banks in or outside the PRC now or in the future should the Group so wish. Currently, the Group maintains deposits with independent commercial banks in and outside the PRC and expects to continue to do so depending on the contractual and other requirements. The Group chooses to deposit its cash with the Financial Service Providers as it helps the Group centralise its treasury management function.

We have reviewed the licenses of the Financial Services Providers and have been advised by the Company that to their best knowledge, up to the Latest Practicable Date, there is no record of non-compliance with relevant laws, rules and regulations of the PRC and Hong Kong on the Financial Services Providers. Sinopec Century Bright obtained an A2 rating from Moody's and an A rating from Standard & Poor's. The Financial Services Providers only provide financial services to China Petrochemical Corporation and its subsidiaries (including the Group). As mentioned above in the section headed "*1.4 Information of Sinopec Finance*", China Petrochemical Corporation has made the Parent Undertaking towards Sinopec Finance. Meanwhile, Sinopec Century Bright signed a "Keep-well Deed" (《維好協議》) with China Petrochemical Corporation, according to which, China Petrochemical Corporation made an undertaking to Sinopec Century Bright that in case of payment difficulties of Sinopec Century Bright, China Petrochemical Corporation would ensure Sinopec Century Bright to meet the payment needs through various means. In 2023, China Petrochemical Corporation obtained an

A+ long-term issuer credit rating (local and foreign currency) from Standard & Poor's and an A1 long-term issuer credit rating (local and foreign currency) from Moody's. Accordingly, we consider that Sinopec Group's ability to honour its undertaking in favour of the Group is strong and the credit risks of Financial Services Providers are not less controllable as compared to that of public licensed commercial banks. Taking into account the above and the no less favourable interest rates and other commercial benefits to the Group, we concur with the Company that the maintenance of deposits with the Financial Service Providers as an alternative option in addition to commercial banks is beneficial to the Company's 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 Sinopec Group, rather than the obligation of the Group to accept or provide products and services from or to Sinopec Group at that amount. We have discussed and concur with the management of the Company that the Proposed Annual Caps will provide more flexibility to the Group and the Proposed Annual Caps are at the appropriate level after taking into account the historical transaction amounts and expected future growth.

4.1 Historical Amount, Existing and Proposed Annual Caps

The following table sets forth (i) the historical amounts for the two years ended 31 December 2023 and for the six months ended 30 June 2024; (ii) the existing annual caps for each of the two years ended 31 December 2023 and for the year ending 31 December 2024; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2027.

RMB million		Existing Annual Caps for the years ended/ ending 31 December			Proposed Annual Caps for the years ending 31 December		
		2022	**2023**	**2024**	**2025**	**2026**	**2027**
2024 Mutual Products Supply Framework Agreement							
Provision of products by Sinopec Group to the Group	Annual Caps	12,200	12,500	13,200	13,400	13,800	14,200
	Actual amounts	12,181	10,384	4,386[1]			
	Utilisation rates	99.8%	83.1%	33.2%[2]			
2024 General Services Framework Agreement							
Provision of general services by Sinopec Group to the Group	Annual Caps	900	1,050	1,150	1,350	1,350	1,350
	Actual amounts	793	978	500[1]			
	Utilisation rates	88.1%	93.1%	43.5%[2]			

RMB million		Existing Annual Caps for the years ended/ending 31 December			Proposed Annual Caps for the years ending 31 December		
		2022	**2023**	**2024**	**2025**	**2026**	**2027**
2024 Engineering and Construction Services Framework Agreement							
Provision of engineering services by the Group to Sinopec Group	Annual Caps	52,000	54,000	55,000	56,000	58,000	59,000
	Actual amounts	46,776	49,124	22,181[1]			
	Utilisation rates	90.0%	91.0%	40.3%[2]			
2024 Financial Services Agreement							
Provision of deposit services by the Financial Service Providers to the Group (maximum daily balance)	Annual Caps	3,500	3,500	3,500	3,500	3,500	3,500
	Actual amounts	3,094	1,183	1,044[1]			
	Utilisation rates	88.4%	33.8%	29.8%[2]			

1. Historical amount for the six months ended 30 June 2024.

2. The utilisation rates for the year ending 31 December 2024 are computed based on the actual amounts up to 30 June 2024.

4.2 Basis of determination of the Proposed Annual Caps

4.2.1 2024 Mutual Products Supply Framework Agreement

In determining the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2024 Mutual Products Supply Framework Agreement, the Company has mainly considered:

(i) the value of products provided by Sinopec Group during 2022, 2023 and first six months of 2024;

(ii) the estimated crude oil prices from 2025 to 2027 will be USD85/barrel, USD85/barrel and USD85/barrel, respectively;

(iii) the expected business development of the Group and expected business development of Sinopec Group; and

(iv) the possible fluctuation in the price and exchange rates of products to be supplied by Sinopec Group in the next three years, fluctuation in the market price of bulk commodity, upgrade of quality of oil products and other unforeseeable factors.

According to our research conducted on Wind, we noted that key oil price indicators such as Brent crude oil prices were mainly within the range of approximately US$70 to US$90 (the "**Historical Oil Price Range**") during the period from 1 January 2023 and up to the Latest Practicable Date (the "**Recent Period**"). Despite the Brent crude oil prices in September 2024 were at the lower end of the Historical Oil Price Range, we noted that the Organization of the Petroleum Exporting Countries ("**OPEC**") has agreed recently to extend their additional voluntary production cuts of 2.2 million barrels per day until the end of November 2024, which is expected to significantly reduce the global oil inventories and have a positive influence on the crude oil prices. In view of the above, and the fact that the estimated crude oil prices predicted by the Company, being US$85/barrel, US$85/barrel and US$85/barrel in 2025, 2026 and 2027 respectively, fall within the Historical Oil Price Range, we consider the estimated crude oil prices adopted by the Company in determining the proposed annual caps to be with reasonable basis.

We have reviewed the historical amounts for the two years ended 31 December 2023 and for the six months ended 30 June 2024 and noted (i) the historical utilisation rates are high in FY2022 and FY2023; (ii) the proposed annual cap for 2025 represents a buffer of approximately 10.0% to the highest historical transaction amount for FY2022; and (iii) the proposed annual caps for 2026 and 2027 represent annual growth rates of approximately 3.0% and 2.9% respectively. Based on the above, we consider the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2024 Mutual Products Supply Framework Agreement are fair and reasonable.

4.2.2 2024 General Services Framework Agreement

In determining the proposed annual caps in respect of provision of general services by Sinopec Group to the Group under the 2024 General Services Framework Agreement, the Company has mainly considered:

(i) the annual fee to be paid for the training services and conference facilities provided by Sinopec Group which is estimated to be approximately RMB200 million, including estimated training services fee RMB160 million to train about 55,000 employees; and estimated conference service fee RMB40 million upon considered the factors such as conference length, size and locations of the conference rooms, catering and accommodation services;

(ii) the annual fee to be paid for the office and factory area properties management and other relevant services or similar auxiliary services provided by Sinopec Group which is estimated to be approximately RMB300 million. Such annual fee is determined based on the audited cost actually incurred by Sinopec Group in providing cultural, educational, training and auxiliary services in 2020;

(iii) the annual fee to be paid for the miscellaneous services (including information technology system services, etc.) provided by Sinopec Group, including ERP system maintenance fee; OA office system fee; contract management system fee; archives and website service fee; and IT infrastructure (including servers) maintenance fee, which are based on the market rates charged for those services;

(iv) the annual fee regarding to finance, human resources, business travel and information technology sharing services at present is approximately RMB220 million, meanwhile, under the plan, Sinopec Group will promote overseas financial, human resources, business travel and information technology sharing services, thus expenses in connection with such services will further increase;

(v) the provision by Sinopec Group of such services as publicity and news report to the Group at a cost of approximately RMB100 million; and

(vi) the estimated amount of the provision by Sinopec Group to the Group of other general services (i.e. re-employment service centers, insurance, canteen and others) which is approximately RMB200 million.

In assessing the fairness and reasonableness of the proposed annual caps for the general services provided by Sinopec Group to the Group, we have reviewed the historical amounts of the relevant general services for FY2022 and FY2023 and for 1H2024, which represent the utilisation rates of approximately 88.1%, 93.1% and 43.5% for the corresponding periods. Furthermore, we noted that the proposed annual cap for 2025 represents a compound annual growth rate ("**CAGR**") of approximately 17.5% to the historical transaction amount for FY2023, which is lower than the annual growth rate of approximately 23.3% of the historical transaction amount for FY2023 as compared with that for FY2022. As advised by the Company, the increase of proposed annual cap is expected to accommodate the potential increase in demand of general services resulting from the gradual launch of sharing services with the overseas connected entities, the promotion of the Sinopec business travel platform, and the upgrading and maintenance of information technology systems of the Group in the future.

Having considered (i) the high utilisation rates for FY2022 and FY2023; (ii) the expected increasing general services to be provided by Sinopec Group to the Group resulting from the potential increase of demand as mentioned above; and (iii) the annual growth rate of historical transaction amount for FY2023 is higher than the CAGR implied by the proposed annual cap for 2025 and the historical transaction amount for FY2023, we concur with the Company that the proposed annual caps for the general services provided by Sinopec Group to the Group are fair and reasonable.

4.2.3 2024 Engineering and Construction Services Framework Agreement

In determining the proposed annual caps for the provision of engineering services by the Group to Sinopec Group under the 2024 Engineering and Construction Services Framework Agreement, the Company has mainly considered:

(i) the amount of engineering services provided to Sinopec Group during 2022, 2023 and first six months of 2024; and

(ii) considering that Sinopec Group will increase its investment in exploration and development of crude oil, natural gas, shale oil, shale gas, as well as development of new energy such as geothermal resources and hydrogen energy. It is expected that the estimated transaction volume of the Group for 2025 to 2027 will increase as compared to the historical transaction volume.

In assessing the fairness and reasonableness of the proposed annual caps for the engineering services provided by the Group to Sinopec Group and/or its associates, we have reviewed the historical amounts of the relevant engineering services for FY2022 and FY2023 and for 1H2024, which represent the utilisation rates of approximately 90.0%, 91.0% and 40.3% for the corresponding periods. The proposed annual cap for 2025 represents a buffer of approximately 14.0% to the highest historical transaction amount for FY2023; and the proposed annual caps for 2026 and 2027 represent annual growth rates of approximately 3.6% and 1.7% respectively.

As mentioned above, as the Brent crude oil price was mostly within the Historical Oil Price Range in the Recent Period and it is expected to further increase following the voluntary production cuts by OPEC, the management of the Company predicts that the oil prices will be at US$85/barrel in 2025, 2026 and 2027, and thus the engineering services provided by the Group to Sinopec Group are expected to increase along with such oil price increase for the coming three years.

Therefore, the proposed annual caps for 2025 to 2027 are set to satisfy the future business growth of the Group. In addition, after taken into consideration of the specific nature and concentration of the oil engineering and construction market in China, the management of the Company is of the view that provision of engineering services by the Group to Sinopec Group is necessary in terms of the Company's continuous operation. Flexibility should be built into the proposed annual caps for such revenue transactions of the Group and the proposed annual caps represent the transaction volume under an ordinary market condition as estimated by the Company.

Having considered (i) the high utilisation rates for FY2022 and FY2023; (ii) the expected increasing engineering services to be provided by the Group to Sinopec Group resulting from the expected increase of the oil prices for the next three years; and (iii) the specific nature and concentration of the oil engineering and construction market in China, we concur with the Company that the proposed annual caps for the engineering services provided by the Group to Sinopec Group are fair and reasonable.

4.2.3 2024 Financial Services Agreement

In determining the maximum daily balance of deposits and interest income under the 2024 Financial Services Agreement, the Company has mainly considered:

(i) cash and cash equivalent of the Group as at 30 June 2024 together with interest income;

(ii) part of net cash inflow which will be deposited into Financial Services Providers; and

(iii) the accrued interests thereof.

When determining whether funds are placed as deposits with Financial Services Providers, following the principles of maximisation of return, cost control and risk control, the Company has taken into account the following factors: (i) the funding plan which specifies its long term and short term funding needs, operational needs and capital expenditure requirements; (ii) its investment needs with reference to the deposits interest rates; and (iii) the amount of cash inflow from business operations.

In assessing the fairness and reasonableness of the proposed annual caps for the deposits and interest income, we have reviewed the historical amounts of the deposits and interest income for the two years ended 31 December 2023 and for the six months ended 30 June 2024 and noted that the utilisation rates are approximately 88.4%, 33.8% and 29.8% for the corresponding periods. We have also reviewed and discussed the forecast model for determining the proposed annual caps with the Company, and noted that the proposed annual caps represent a buffer of approximately 13.1% to the historical maximum daily balance in FY2022. Furthermore, we noted that although the utilisation rates for FY2023 and 1H2024 are relatively low, (i) there is an expansion in the Group's business scale as the revenue of the Group increased by approximately 8.4% from approximately RMB73,772.7 million for FY2022 to approximately RMB79,980.9 million for FY2023; and (ii) the Group's cash and cash equivalents increased substantially by approximately 65.3% from approximately RMB1.8 billion as at 31 December 2022 to approximately RMB3.0 billion as at 30 June 2024.

In view of the above, and having considered that (i) the proposed annual caps for the deposits and interest income are not substantially deviated from the historical maximum daily balance; (ii) the proposed annual caps for the deposits and interest income are the same as the existing annual caps for each of the two years ended 31 December 2023 and for the year ending 31 December 2024, which were approved by independent shareholders in 2021; (iii) the proposed annual caps for the deposits and interest income are lower than the cash position of the Group as at 30 June 2024; and (iv) the reasons for and benefits of entering 2024 Financial Services Agreement as mentioned under the section headed "3. Reasons for and benefits of entering into the Major Continuing Connected Transactions" of this letter, we concur with the Company that the maximum possibility should be considered based on historical transactions to give sufficient flexibility to the Group and the proposed annual caps for the maximum daily balance of deposits and interest income are fair and reasonable.

5. **Internal Control**

The Company has formulated a series of internal control measures and procedures in order to ensure the pricing mechanism and the terms of the Major 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, details of which are included in the section headed "PROCEDURES AND INTERNAL CONTROL SYSTEM FOR PRICING AND TERMS OF CONTINUING CONNECTED TRANSACTIONS" 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 Major Continuing Connected Transactions are in line with market practice.

In assessing the sufficiency and effectiveness of the internal control measures adopted by the Group, we have also obtained and reviewed the Group's internal control assessment records, the contract review and appraisal records and the internal reports regarding the compliance of continuing connected transactions. From our review, we noted that (i) no material deficiency was discovered throughout the review of the internal control; (ii) the utilisation of annual caps were properly monitored and reported to the Board at least twice a year; and (iii) each contract was reviewed and approved by relevant departments, including but not limited to the operating management department, the finance department and the legal department, to ensure the actual amount will not exceed the approved annual caps and the transactions were entered in accordance to the pricing mechanism as stated in the internal control measures and procedures of the Company.

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 2022 AR and 2023 AR, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the relevant 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 Major Continuing Connected Transactions and the Proposed Annual Caps, therefore the interests of the Company and its Shareholders would be safeguarded.

6. Recommendation

Having considered the above factors and reasons, we are of the opinion that (i) the Major 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 Major 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 Major Continuing Connected Transactions and the Proposed Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Maxa Capital Limited

Dian Deng
Managing Director

Ms. Dian Deng 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 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in corporate finance industry.