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COSL

中海油田服务股份有限公司
China Oilfield Services Limited

(Incorporated in the People's Republic of China as a joint stock limited liability company)
(Stock Code: 2883)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS ENTERING INTO THE DEPOSIT AND SETTLEMENT AGREEMENT

ENTERING INTO THE DEPOSIT AND SETTLEMENT AGREEMENT

As disclosed in the announcement dated 27 April 2017, the Company has entered into the current deposit and settlement agreement with CNOOC Finance on 8 May 2017, the term of which will expire on 7 May 2020.

The Company expects to enter into a new Deposit and Settlement Agreement with CNOOC Finance on 8 May 2020. Pursuant to the Deposit and Settlement Agreement, CNOOC Finance has agreed to continue to provide the Cash Depository Services as well as the Settlement Services to the Group.

CNOOC Finance is a non-bank financial institution which is wholly-owned by CNOOC and its associates. CNOOC is the controlling shareholder of the Company holding as at the date of this announcement approximately 50.53% of the issued share capital of the Company. As such, CNOOC Finance is a connected person of the Company under the Listing Rules, and the Deposit and Settlement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

In respect of the proposed annual caps under the Deposit and Settlement Agreement, as the highest applicable percentage ratio exceeds 0.1% but is below 5% as calculated in accordance with Rule 14.07 of the Listing Rules, the Deposit and Settlement Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements but exempted from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Background

The Company is one of the leading integrated oilfield services providers in the world. Its services cover each phase of oil and gas exploration, development and production.

CNOOC is the largest offshore oil producer in the PRC. CNOOC is the controlling shareholder of the Company. As at the date hereof, CNOOC holds 50.53% interest in the Company. CNOOC Finance is a non-bank financial institution which is wholly-owned by CNOOC and its associates.

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Deposit and Settlement Agreement

Date

8 May 2020

Parties

The Company and CNOOC Finance

DETAILS OF THE TRANSACTION

The terms of the Deposit and Settlement Agreement have been reached after arm's length negotiation between the Company and CNOOC Finance.

Pursuant to the Deposit and Settlement Agreement:

(a) Cash Depository Services

Pursuant to the Deposit and Settlement Agreement, CNOOC Finance will provide the Cash Depository Services to the Group subject to the maximum daily balance of deposits (including interest receipts in respect of these deposits) placed by the Group with CNOOC Finance for the Relevant Period will not exceed the followings:

	Maximum daily balance of deposit			
	For the period from 8 May 2020 to 31 December 2020 <i>RMB' million</i>	For the financial year ending 31 December 2021 <i>RMB' million</i>	For the financial year ending 31 December 2022 <i>RMB' million</i>	For the period from 1 January 2023 to 7 May 2023 <i>RMB' million</i>
Cash Depository Services	1,200	1,200	1,200	1,200

The cap amounts are determined with reference to the Group's historical cash flow movements and level of deposits placed with CNOOC Finance and the anticipated business volume of the Company and the members of the Group for the Relevant Period. During the period from 8 May 2017 to 31 December 2017, the two years ended 31 December 2019 and the three months ended 31 March 2020, the deposits that the Group has placed with CNOOC Finance has not exceeded the maximum daily deposit amount. For illustration purpose, the deposits that the Group has placed with CNOOC Finance on 31 December 2017, 31 December 2018, 31 December 2019 and 31 March 2020 were as follows:

	31 December 2017	31 December 2018	31 December 2019	31 March 2020
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Daily cash deposit cap amount	1,500.0	1,500.0	1,500.0	1,500.0
Actual amount	1,497.4	1,471.7	1,498.7	1,491.1

The depository interest rates that CNOOC Finance will provide to the Group in respect of the Cash Depository Services will be the maximum floating interest rates based on the benchmark rate on deposits as published by the People's Bank of China from time to time, subject to adjustments to be further discussed between CNOOC Finance and the Group in the event of any change in the relevant policy of the PRC government. As the People's Bank of China is the central bank of China and its published interest rates are the guidance rates which commercial banks in the PRC must follow, the Directors (including the independent non-executive Directors) are of the view that the depository interest rates offered by CNOOC Finance to the Group are at the prevailing market rates and on terms no less favourable to the Group than those offered by independent financial institutions.

All payments made pursuant to the Cash Depository Services will be in cash.

(b) Settlement Services

Pursuant to the Deposit and Settlement Agreement, CNOOC Finance will provide the Settlement Services for account settlement and other relevant settlement services between the Group and CNOOC Group and/or other third parties. The Settlement Services are related to the settlement of account payables and account receivables between members of the Group and CNOOC Group and/or third parties. No deposit would need to be placed under the account of CNOOC Finance to facilitate payment and no cash received will be placed under the account of CNOOC Finance. No service fee will be charged by CNOOC Finance for the Group to utilise the Settlement Services.

As no deposit will be involved and no service fee is payable, cap amount for the Settlement Services will not be applicable.

Term and termination

Upon execution and seal by legal representative or authorized representative of each party, the Deposit and Settlement Agreement will take effect from 8 May 2020 for a term of three years and will expire on 7 May 2023.

Measures taken to safeguard the interests of the Company and Independent Shareholders in the deposit transactions with CNOOC Finance

The Company considers that the risk of placing deposits with CNOOC Finance can be effectively controlled and monitored basing on the following factors: (i) CNOOC Finance is a non-bank financial institution subject to the regulation of China Banking and Insurance Regulatory Commission. The daily operations of CNOOC Finance are in compliance with the relevant rules and regulations in the PRC. During the course of its development, CNOOC Finance has all long endeavoured to prevent financial risks and has established and implemented an effective internal control mechanism which is in compliance with the regulatory requirements of China Banking and Insurance Regulatory Commission in relation to risk control ratios; and (ii) The Group also places deposits with other commercial banks, and the proposed annual caps represents only approximately 11.35% of the bank deposits, cash and wealth management products as at 31 March 2020 and 11.44% of the bank deposits, cash and wealth management products as at 31 December 2019.

The Directors and senior management of the Company will monitor closely and review regularly the deposit transactions of the Company. The Company will adopt a series of risk management arrangements, and endeavour to maintain, in relation to the deposit transactions, the independence of the Company; the fairness of the amount of deposits; the fairness of the terms of the transactions; and the right of the Company to place deposits with independent third parties other than CNOOC Finance.

The reporting and record systems and internal control procedures taken by the Company include:

- (i) the transactions under the Deposit and Settlement Agreement are conducted on a non-exclusive basis;
- (ii) the Planning and Finance Department of the Company will on a weekly basis, obtain terms and trend of interests etc. relating to placing deposits from major commercial banks e.g. Bank of China Limited, Industrial and Commercial Bank of China Limited, China Construction Bank Corporation and Agricultural Bank of China Limited within the PRC, and based on the interest rate promulgated by the People's Bank of China make comparisons, in order to allow the Company to obtain the most favourable terms relating to placing deposits, maximise the Company's interest in transactions and reduce the transactional costs and time of the Company;
- (iii) before placing deposit, the Planning and Finance Department of the Company will check the outstanding daily balance of the deposits placed with CNOOC Finance to avoid exceeding the cap;
- (iv) the Company will conduct quarterly checking and clearing with related parties (including CNOOC Finance) in relation to the operational fund transfers in order to ensure the safety of funds;

- (v) the contract management department will strictly review contracts, the contract enforcement department will timely monitor the amount of connected transactions, and the relevant functional departments will supervise the compliance monitoring during the performance of the transactions. In addition to the annual review of the performance of agreements by the independent non-executive Directors and the Company's auditors, the independent non-executive Directors will also review and confirm whether the Company's deposit transactions with CNOOC Finance are fair, whether the amount and interest rate are reasonable and whether are in the interests of the Company's shareholders as a whole. The Company's supervisors will also monitor the working arrangements involved in the Company's continuing connected transactions, and review whether the Company's transactions are fair, and whether the transaction prices are reasonable.

Reasons for entering into the Deposit and Settlement Agreement and its benefits to the Company

CNOOC Finance is a non-bank financial institution established in 2002 with the approval of China Banking and Insurance Regulatory Commission (the Former China Banking Regulatory Commission). It is a subsidiary of CNOOC and it provides financial services and financial management services to the CNOOC Group. It is also the only financial institution in the CNOOC Group which can offer account settlement and cash depository services to the member companies. CNOOC Finance is rated A+ (Negative) by The Standard & Poor's and A1 (Negative) by Moody's.

CNOOC Finance has been providing cash depository services and settlement services to the Group since 2008. As the current Deposit and Settlement Agreement is due to expire on 7 May 2020, it is proposed that the Deposit and Settlement Agreement be entered into to govern the Continuing Connected Transactions so that the Group could continue to utilise the Cash Depository Services and the Settlement Services.

Given that CNOOC Finance (1) is providing Settlement Services to the Group on a free-of charge basis; (2) has in-depth knowledge about the operation of the Group and could provide more convenient and effective services to the Group than other financial institutions; (3) is a non-bank financial institution licensed by the China Banking and Insurance Regulatory Commission with customers primarily comprised of members of the CNOOC Group, which means it is exposed to lower risks than other financial institutions and hence could offer better security to the deposits of the Group; and (4) is rated A+ (Negative) by The Standard & Poor's and A1 (Negative) by Moody's, and the risk exposure to the Group would not be greater when compared with other financial institutions, the Directors, including the independent non-executive Directors, are of the view that it is in the interests of the Company and the Shareholders of the Group to continue the Continuing Connected Transactions with CNOOC Finance. As the Cash Depository Services and the Settlement Services provided by CNOOC Finance to the Group are being conducted in the ordinary course of business of the Group, the cash depository rates are at rates published by the People's Bank of China, the Directors, including the independent non-executive Directors, consider that the Deposit and Settlement Agreement is entered into in the ordinary and usual course of business of the Company, the terms of which are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

CNOOC Finance is a non-bank financial institution which is wholly-owned by CNOOC and its associates. CNOOC is the controlling shareholder of the Company holding as at the date of this announcement approximately 50.53% of the issued share capital of the Company. As such, CNOOC Finance is a connected person of the Company under the Listing Rules, and the Deposit and Settlement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

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GENERAL INFORMATION

The Directors (including the independent non-executive Directors) consider that the terms, proposed annual caps of and the transactions contemplated under the Deposit and Settlement Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

The Board has resolved and approved the Deposit and Settlement Agreement and the proposed annual caps thereto on 29 April 2020. Of the Directors attending the board meeting, Mr. Meng Jun and Mr. Zhang Wukui were considered to have material interests by virtue of being employed by CNOOC, and had thus abstained from voting on the board resolution(s) in respect of the Deposit and Settlement Agreement and the proposed annual caps thereto.

DEFINITIONS

“associates”	has the same meaning as given to it under the Listing Rules;
“Board”	the board of Directors;
“Cash Depository Services”	the cash depository services provided by CNOOC Finance to the Group under the Deposit and Settlement Agreement;
“Company”	China Oilfield Services Limited, a joint stock company incorporated in the People's Republic of China with limited liability, the A shares of which are listed on the Shanghai Stock Exchange and the H shares of which are listed on main board of the Stock Exchange;

“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules;
“CNOOC”	China National Offshore Oil Corporation, a state-owned enterprises incorporated under the laws of the PRC, the controlling shareholder of the Company, as well as the controlling shareholder of two companies listed in Hong Kong, namely, CNOOC Limited (HKSE: 0883.HK) and China BlueChemical Limited (HKSE: 3983.HK), and three companies listed in mainland of PRC;
“CNOOC Finance”	CNOOC Finance Corporation Limited, a non-bank financial institution which is wholly-owned by CNOOC and its associates;
“CNOOC Group”	CNOOC and its subsidiaries, excluding the Group;
“Continuing Connected Transactions”	Cash Depository Services and Settlement Services;
“Deposit and Settlement Agreement”	the agreement which will be entered into between the Company and CNOOC Finance on 8 May 2020;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholder(s)”	the Shareholders of the Company other than CNOOC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;

“Settlement Services”	the settlement services provided by CNOOC Finance to the Group under the Deposit and Settlement Agreement;
“Shareholders”	holders of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

By Order of the Board of
China Oilfield Services Limited
Wu Yanyan
Company Secretary

29 April 2020

As at the date of this announcement, the executive directors of the Company are Messrs. Qi Meisheng (Chairman) and Cao Shujie; the non-executive directors of the Company are Messrs. Meng Jun and Zhang Wukui; and the independent non-executive directors of the Company are Messrs. Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert.