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
(I) ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT
(II) ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT

ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT

References are made to the announcement of the Company dated 6 November 2016 and the circular of the Company dated 9 November 2016, in relation to, among others, the continuing connected transactions under the Current Master Agreement entered into between the Company and the CNOOC.

On 4 November 2016, the Company entered into the Current Master Agreement, pursuant to which, the Group has agreed to provide the Oilfield Services to the CNOOC Group, and the CNOOC Group has agreed to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group for the three years ended/ending 31 December 2017, 2018 and 2019, and maximum annual caps have been set for each type of the above-mentioned continuing connected transactions.

ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT

As disclosed in the announcement dated 6 November 2016 and the circular dated 9 November 2016, the Company has entered into the Current Master Agreement with CNOOC on 4 November 2016, the term of which will expire on 31 December 2019.

The Company has entered into a new Master Agreement with CNOOC on 30 October 2019. Pursuant to the Master Agreement, the Group has agreed to continue to provide the Oilfield Services to the CNOOC Group, and the CNOOC Group has agreed to continue to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group for the three years ending 31 December 2020, 2021 and 2022. Upon approval at the EGM, the Master Agreement will be effective from 1 January 2020.

CNOOC holds 50.53% interest in the Company, and is the controlling shareholder of the Company. As such, CNOOC is a connected person of the Company under the Hong Kong Listing Rules, and the Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the Supplemental Service Agreement in connection with the Current Master Agreement, as the highest applicable percentage ratio regarding the existing annual caps for the continuing connected transactions contemplated under the Current Master Agreement as modified by the Proposed Revised Cap exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Supplemental Service Agreement in connection with the Current Master Agreement and the continuing connected transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company and the Independent Board Committee have reviewed (i) the Supplemental Service Agreement in connection with the Current Master Agreement and the Proposed Revised Cap and (ii) the Master Agreement and the Proposed Annual Caps. The Company has appointed Platinum Securities Company Limited as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether (i) the terms, the Proposed Revised Cap of and the transactions contemplated under the Supplemental Service Agreement in connection with the Current Master Agreement; and (ii) the terms, the Proposed Annual Caps of and the transactions contemplated under the Master 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, and to advise the Independent Shareholders on how to vote.

A circular containing, among other things, further details regarding the above-mentioned continuing connected transactions, a letter from the Independent Board Committee and an opinion of the Independent Financial Adviser will be dispatched to the Shareholders in due course.

ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT

Background

References are made to the announcement of the Company dated 6 November 2016 and the circular of the Company dated 9 November 2016, in relation to, among others, the continuing connected transactions under the Current Master Agreement entered into between the Company and the CNOOC.

On 4 November 2016, the Company entered into the Current Master Agreement, pursuant to which, the Group has agreed to provide the Oilfield Services to the CNOOC Group, and the CNOOC Group has agreed to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group for the three years ended/ending 31 December 2017, 2018 and 2019, and maximum annual caps have been set for each type of the above-mentioned continuing connected transactions.

Supplemental Service Agreement

The Company has been monitoring the historical transaction amounts of the continuing connected transactions under the Current Master Agreement. Due to increased transaction volume brought by favorable domestic and overseas market condition accompanied by the reviving oil price during 2018 and 2019, it is expected that the annual cap on the provision of the Oilfield Services by the Group to the CNOOC Group for the year ending 31 December 2019, being RMB23,095 million, may be exceeded. In order to ensure production and operation and protect the interests of the Company and its shareholders, the Company and CNOOC entered into the Supplemental Service Agreement, proposing to increase the existing annual cap of the Oilfield Services for the year ending 31 December 2019 to RMB25,917 million. In addition, as to the prices of the Oilfield Services provided by the Group to the CNOOC Group, the parties agreed that, the prices will be adjusted according to the average international market price on the basis of the pricing basis of the Current Master Agreement. All existing principal terms and conditions under the Current Master Agreement will remain unchanged.

The Company confirmed that, as of Latest Practicable Date, the actual historical transaction amounts of continuing connected transactions under the Current Master Agreement have not exceeded the existing annual caps.

Details of the Supplemental Service Agreement are set out as follows.

Date

30 October 2019

Parties

The Company and CNOOC

Revision of Annual Cap

Based on the actual historical transaction amounts of the parties as of 30 June 2019 and the forecast of the future market trends, and subject to approval by the Independent Shareholders at the EGM, the parties propose to increase the annual cap on the Oilfield Services provided by the Group to CNOOC Group for the year ending 31 December 2019 under the Current Master Agreement to RMB25,917 million from RMB23,095 million.

The other existing annual caps on the continuing connected transactions under the Current Master Agreement for the year ending 31 December 2019 will remain unchanged.

Pricing Basis

As to the prices of the Oilfield Services provided by the Group to the CNOOC Group, the parties agreed that, the prices will be adjusted according to the average international market price on the basis of the pricing basis of the Current Master Agreement.

Term and termination

Subject to the approval by the Independent Shareholders on the EGM on 18 December 2019, the Supplemental Service Agreement will take effect and will expire on 31 December 2019.

Other

The Supplemental Service Agreement, which is a supplement to the Current Master Agreement, and the Current Master Agreement together constitute a complete agreement and has equal legal effect as the Current Master Agreement.

Historical Transaction Amounts and Existing Annual Caps

The existing annual caps for the years ended/ending 31 December 2017, 2018 and 2019 and the historical transaction amounts under the Current Master Agreement for the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 are as follows:

	For the year ended 31 December 2017 *(RMB million)*	**For the year ended 31 December 2018** *(RMB million)*	**For the year ending 31 December 2019** *(RMB million)*
Existing annual caps			
– *Provision by the Group of the Oilfield Services to the CNOOC Group*	14,322	17,695	23,095
– *Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group*	2,118	2,827	3,918
– *Provision by the CNOOC Group of the Property Services to the Group*	340	460	638

	For the year ended 31 December 2017 *(RMB million)*	**For the year ended 31 December 2018** *(RMB million)*	**For the six months ended 30 June 2019** *(RMB million)*
Historical transaction amounts			
– *Provision by the Group of the Oilfield Services to the CNOOC Group*	13,638	16,965	11,025
– *Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group (Note 1)*	1,108	1,574	646
– *Provision by the CNOOC Group of the Property Services to the Group (Note 1)*	130	175	49

Note:

1. The difference between the actual historical transaction amounts and the approved annual caps for the three years ended/ending 31 December 2017, 2018 and 2019 was mainly due to the Company's strategy to control its costs in consideration of the globally oil price in recovery during 2017-2019 following the significant drop since 2014.

Basis for the Proposed Revised Cap under the Supplemental Service Agreement

The Proposed Revised Cap for the Supplemental Service Agreement is determined with reference to (i) the historical transaction amount of Oilfield Services for the six months ended 30 June 2019; (ii) the historical transaction amount of Oilfield Services for the six months ended 31 December 2018; (iii) the estimated 33% increase in transaction amount of Oilfield Services for the six months ending 31 December 2019 as compared with the same period in 2018; and (iv) 20% buffer.

The calculation of the estimated transaction amount of Oilfield Services in 2019 is set out below:

	2018 *(RMB million)*	**2019** *(RMB million)*
Historical/Estimated Transaction Amounts		
For the six months ended 30 June	6,087	11,025
For the six months ended/ending 31 December	10,878	14,421 *(Note 1)*
For the year ended/ending 31 December	16,965	25,446 *(Note 2)*

Notes:

1. The number is calculated based on an estimated increase rate of 33% from the historical transaction amount of Oilfield Services for the six months ended 31 December 2018.

2. The number is calculated based on the historical transaction amount of Oilfield Services for the six months ended 30 June 2019 and the estimated transaction amount of Oilfield Services for the six months ending 31 December 2019.

In view of the above, the estimated transaction amount of the continuing connected transactions in relation to the Oilfield Services for the year ending 31 December 2019 will increase by RMB2,351 million as compared to the existing annual cap RMB23,095 million, while the Proposed Revised Cap is set to RMB25,917 million after adding a 20% buffer to the estimated increase.

The Directors (including the independent non-executive Directors) are of the opinion that the Proposed Revised Cap is fair and reasonable and that the transactions contemplated under the Supplemental Service Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the agreement are fair and reasonable and in the interest of the Shareholders as a whole.

Reasons for and Benefits of the Supplemental Service Agreement

Thanks to favorable national policy and market condition, the Group's transaction volume has increased significantly, and revenue from the continuing connected transactions has been on the rise. Pursuant to the estimation of the Company, the estimated transaction amount from the continuing connected transactions in relation to the Oilfield Services by the Group to CNOOC Group for the year ending 31 December 2019 might exceed the existing annual cap under the Current Master Agreement. Therefore, the Company considers that it is in the interest of the Company to enter into the Supplemental Service Agreement with CNOOC to adjust the existing annual cap.

ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT

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.

As disclosed in the announcement dated 6 November 2016 and the circular dated 9 November 2016, the Company has entered into the Current Master Agreement with CNOOC on 4 November 2016, the term of which will expire on 31 December 2019.

The Company has entered into a new Master Agreement with CNOOC on 30 October 2019. Pursuant to the Master Agreement, the Group has agreed to continue to provide the Oilfield Services to the CNOOC Group, and the CNOOC Group has agreed to continue to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group for the three years ending 31 December 2020, 2021 and 2022. Upon approval at the EGM, the Master Agreement will be effective from 1 January 2020.

Master Services Framework Agreement

Details of the Master Agreement are set out as follows.

Date

30 October 2019

Parties

The Company and CNOOC

Details of the transaction

The terms of the Master Agreement have been reached after arm's-length negotiation between the Company and CNOOC.

Pursuant to the Master Agreement, the Company and the CNOOC Group have agreed to the provision of the following services between the parties:

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

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

(b) *Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group*

In the past, the CNOOC Group has provided the Group with various equipment, communication, warehousing, stevedoring, construction, medical, materials, utilities, labour and other ancillary services. Pursuant to the Master Agreement, the CNOOC Group will continue to provide the Group with such services, and the CNOOC Group will also continue to provide the Group with machinery leasing services.

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

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

Historical Transaction Amounts and Proposed Annual Caps

The existing annual caps for the three years ended/ ending 31 December 2017, 2018 and 2019 and historical transactional amounts of the continuing connected transactions for the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019 under the Current Master Agreement, and the Proposed Annual Caps of the Continuing Connected Transactions for each of the years ending 31 December 2020, 2021 and 2022 are set out as below:

	For the year ended 31 December 2017 *(RMB million)*	For the year ended 31 December 2018 *(RMB million)*	For the year ending 31 December 2019 *(RMB million)*	For the six months ended 30 June 2019 *(RMB million)*	For the year ending 31 December 2020 *(RMB million)*	For the year ending 31 December 2021 *(RMB million)*	For the year ending 31 December 2022 *(RMB million)*
– Provision by the Group of the Oilfield Services to the CNOOC Group							
Proposed Annual Caps	14,322	17,695	23,095		40,044	52,058	67,675
Historical Transaction Amounts	13,638	16,965		11,025			
– Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group							
Proposed Annual Caps	2,118	2,827	3,918		5,397	7,169	9,534
Historical Transaction Amounts (Note 1)	1,108	1,574		646			
– Provision by the CNOOC Group of the Property Services to the Group							
Proposed Annual Caps	340	460	638		600	797	1,059
Historical Transaction Amounts (Note 1)	130	175		49			

Note:

1. The difference between the actual historical transaction amounts and the approved annual caps for the three years ended/ending 31 December 2017, 2018 and 2019 was mainly due to the Company's strategy to control its costs in consideration of the globally oil price in recovery during 2017-2019 following the significant drop since 2014.

Basis for the Proposed Annual Caps

The Proposed Annual Caps were determined with reference to the historical transactional amounts between the CNOOC Group and the Group for the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, and the anticipated business volume between the CNOOC Group and the Group for the three years ending 31 December 2020, 2021 and 2022.

The anticipated business volume between the CNOOC Group and the Group for the three years ending 31 December 2020, 2021 and 2022 are based on (1) revenue forecasts for the next three years ending 31 December 2020, 2021 and 2022 for the existing services offered by the Group to the CNOOC Group; (2) applying the historical percentage of revenue being generated from the CNOOC Group; and (3) 20% buffer.

The transaction amounts of continuing connected transactions are closely linked to oil prices and capital expenditure of the CNOOC Group in exploration and production activities in offshore China. During the years 2018 and 2019, the international oil price dropped sharply by 35% in the fourth quarter of 2018, followed by an increase of 27% in the first quarter of 2019 and a 2.70% drop in the second quarter of 2019. According to the estimation in EIA's short term energy forecast dated 5 September 2019, the Brent oil price will be USD 63.39/bbl for the year 2019 and USD 62.00/bbl for the year 2020, featuring a slow but steady increase in the oil price as a whole. Following the rising oil prices, the capital expenditure in upstream oil exploration and production will also increase.

According to IHS Markit's data, the global expenditure in offshore exploration has increased significantly and is expected to remain a 10% annual increase for the following years. Along with the rising global capital expenditure in the international market, the CNOOC Group will continue to increase their overseas investment in the future. In consideration of the "Seven-year Action Plan" of the CNOOC Group and CNOOC's operation arrangement to "increase reserve and promote production", the Company expect that the domestic and overseas operation volume of the Company from the CNOOC Group will continue to increase in the next three years. Therefore, the market anticipates that oil prices will increase during the next three years, and capital expenditure of the CNOOC Group in exploration and production activities in offshore China will also increase. The Company has compared the Company's past performance with the performance of the Company's peers and the industry reports published by IHS Markit, and the Company is of the view that the Company has been prepared for the continuous increase of the business volume. Therefore, the historical transaction amounts for the two years ended 31 December 2017 and 2018 and six months ended 30 June 2019 as a whole are valuable indicators for future transaction amounts during the next three years, and the anticipated business volume between the Group and the CNOOC Group for the three years ending 31 December 2020, 2021 and 2022 will also increase which is in line with the capital expenditure of the CNOOC Group. The year on year growth rate of Proposed Annual Caps for the three years ending 31 December 2020, 2021 and 2022 is also consistent with the expected trend of oil prices and the capital expenditure of the CNOOC Group.

Additionally, the Company estimates that its revenues from other customers will also increase during the next three years. The provision by the Group of the Oilfield Services to the CNOOC Group during the two years ended 31 December 2017 and 2018 represented approximately 78% of the total revenue of the Group. Since the Oilfield Services have been the main contributor to the Group's revenue, as such, the proposed annual caps and the actual historical transaction amounts being at a similar percentage against the total revenue of the respective period is an appropriate basis to assess the fairness and reasonableness of the proposed annual caps. Hence, the Company has used the same percentage to estimate proposed annual caps. Considering the future capital expenditure plan of the CNOOC Group, it is estimated that the percentage of revenue from the Continuing Connected Transactions during the three years 2020 to 2022 will be slightly higher than that of the year 2019. Therefore, 83%, increased on the basis of 81% contribution by the Continuing Connected Transactions in the total revenue in the first half of 2019, will be used for the estimation of the percentage contribution of the proposed annual caps.

As for the cost of the Continuing Connected Transactions, considering that the Company's operation model will not face significant change and that the cost from the Machinery Leasing, Equipment, Material and Utilities Services and the Property Services provided by the CNOOC Group to the Group will remain relatively stable, the Company expects that the percentage of costs from the Continuing Connected Transactions in the total cost of the Group will not encounter any major changes. Therefore, the Company made the estimation of the amount of cost from the Continuing Connected Transactions for the next three years based on an estimated 8.0% contribution of the cost from the Continuing Connected Transactions in the total cost of the Group (the average contribution during the three years from 2017 to the first half of 2019 is 7.4%), with the effect on the cost of raw material brought by operation volume and oil price taken into consideration. The Company has also taken into consideration the impact of the New Accounting Standards on the Proposed Annual Caps. In addition, based on the average historical percentage of the cost from property lease-related Continuing Connected Transactions in the total cost from the Continuing Connected Transactions during the three years from 2017 to the first half of 2019, being 9.6%, the Company estimated that the cost from property lease-related Continuing Connected Transactions will be 10.0% of the total cost from the Continuing Connected Transactions for the following three years.

The detailed basis of calculating the 20% buffer is based on the historical data of the revenue of the Company as well as CNOOC for the past few years. The revenues of the Company and CNOOC have a noticeable amount of fluctuation for the past few years which implies that the future revenue can also be volatile. In addition, the fluctuation of oil price will also significantly affect the revenue and cost of the Company and CNOOC as explained above. Although the Company has an estimation of the future oil price, there is still a certain degree of uncertainty that may cause an unanticipated huge increase in oil price, thus resulting in a higher than expected sales. Therefore, the Company has set such buffer to allow the Company to have flexibility to cater to the increase of services due to expansions as well as revenue increase from CNOOC without being aggressive and overly optimistic. The Company considers the buffer is fair and reasonable.

Taking the above factors into account, the Company considers that the proposed annual caps are fair and reasonable and in the interest of the Company and Shareholders as a whole.

The estimated revenue of the Group from the Continuing Connected Transactions for the three years ending 31 December 2020, 2021 and 2022 is based on the Company's estimation of the operation volume and may be different at various degrees from the actual revenue to be disclosed in future performance results of the Company. Shareholders and potential investors are advised to exercise caution when dealing in the Shares of the Company.

Term and termination

Upon approval by the Shareholders on the EGM, the Master Agreement will take effect from 1 January 2020 for a term of three years and will expire on 31 December 2022.

Implementation agreements and payments

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

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

Fairness of the Continuing Connected Transactions and Their Impact on the Independency of the Company

The Master Agreement is signed on normal commercial terms which are fair and reasonable, with the prices/fees agreed and confirmed by both parties by negotiating and concluding with arm's length terms, taking into account the then prevailing market conditions, and in any event the terms of the relevant agreement and its transaction under such agreement given to the Group by the CNOOC Group and their associates shall be no less favourable than those offered by independent third parties to the Group for the same or similar type of services. The Group will sign necessary written agreements on detailed transactions with the CNOOC Group and their associates within the range set by the Master Agreement according to actual conditions, and pay and/or charge the relevant prices/ fees based on the agreed method set forth in the relevant agreements.

The Company will, through the Master Agreement and a series of risk management arrangements in accordance with the regulatory requirements, endeavour to maintain its independency in decision-making, the fairness of the prices and the flexibility in contemplating the continuing connected transactions so as to alleviate the independence on its controlling shareholder. Such arrangements shall include without limitation to the Company's right to make independent decisions as to the price and quantity of purchase and to access and obtain market information through various means so that the terms obtained by the Group from the CNOOC Group and their associates will be no less favorable than those available from independent third parties.

Based on the above, the Company is of the opinion that the Master Agreement and the Continuing Connected Transactions under it are in the interests of the Company and the Shareholders as a whole. Meanwhile, the Company has its complete business system and ability to operation independently facing the market, therefore the Master Agreement and the Continuing Connected Transactions under it do not affect the independency of the Company.

Pricing Policy and Measures to Safeguard the Interest of the Independent Shareholders

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

For each type of continuing connected transaction, the specific pricing policies are set out as follows:

The Group is the leading provider of oilfield services in the offshore China market. For the Oilfield Services provided by the Group to the CNOOC Group, the prices are mainly determined through arm's-length negotiation with reference to international oil prices and market prices of oilfield services that are released by major consultancy institutions such as IHS Markit (www.ihsmarkit.com), Clarkson (www.crsl.com) and Rigzone (www.rigzone.com). IHS Markit and Clarkson provide information and analysis to support the decision-making process of businesses and governments in a number of industries, while Rigzone mainly provide information related to the oil & gas industry. In offshore oil & gas sector, IHS Markit, Clarkson and Rigzone provide regional market data on equipment of drilling companies, contract terms, operators, operating areas and blocks, daily rates, estimated project volume and historic operation conditions. IHS Markit and Clarkson update their data on monthly basis, while Rigzone update its data timely when obtaining new drilling rig contract. IHS Markit and Clarkson publish a number of well-known industry reports such as IHS Markit Petrodata World Rig Forecast, IHS Markit Petrodata Seismic Quarterly Report, Clarkson Offshore Drilling Rig Monthly and Clarkson Offshore Intelligence Monthly.

The prices for the Oilfield Services provided by the Group to the CNOOC Group are mainly determined according to the average price of the prices published by the above-mentioned institutions during the last 12 months for nearby or similar areas we operate at, and will be adjusted in a ±10% range with reference to historical transactions and current market supply and demand condition. When determining contract prices for the Oilfield Services provided to the CNOOC Group, the Company will consider specific conditions of contract, including functions of specific equipment, depth of water, complexity of operation and term of contract, etc., market demand and historical transaction prices. The Company will ensure that the prices are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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

For the provision of the Machinery Leasing, Equipment, Material and Utilities Services other than utilities, the prices are primarily determined by market price. In determining such prices, the Company will undergo a tendering process which promotes market competition to obtain best available rate. The tendering process is organized strictly following the requirements under the Tendering and Bidding Law of the PRC. In a typical procurement procedure, the Company invites not less than three bidders to submit its fee proposal and commercial proposal before the designated deadline. The procurement department of the Company that is separated from and independent of other departments will compare proposals and make decision. However, due to the specificity of our industry and in special circumstances, there exists certain situation where only the CNOOC Group can provide the oilfield services equipment that can meet the special sea conditions of certain sea areas in China. In this situation where the bidding process cannot be carried out, the Company will ensure that the price in this case will not be higher than the average price from three independent third-party providers for comparable equipment obtained by the Company through inquiry. The Company will also consider the specific conditions of the contract, including the function of specific equipment, water depth, difficulty of operation, contract period, etc., to ensure the price is fair and reasonable.

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

For the provision of the Property Services by the CNOOC Group to the Group, the prices are primarily determined by market price. The prices for the provision of Property Services are agreed by reference to the leasing of similar properties from nearby locations and/or consult the advice of not less than three reputable local real estate agents for benchmarks of assessment. Where no comparable market price can be taken as a reference, the Group will, having taken into account the location, scope, scale and term of the transaction and historical comparable transactions, determine the price of the relevant transaction based on arm's length negotiations and on terms which are no less favourable from third parties.

Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company. The Company will adopt a series of risk management arrangements, and endeavour to maintain, in relation to each continuing connected transaction, the independence of the Company; the fairness of the price of the transaction; the fairness of the terms of the transaction; and the right of the Company to conduct transactions with independent third parties other than the CNOOC Group. The relevant arrangements include:

- the Continuing Connected Transactions contemplated under the Master Agreement are conducted on a non-exclusive basis;

- Upon the signing of the Master Agreement and its approval by the Independent Shareholders, the marketing department and the procurement department of the Company will be responsible for the execution of the Master Agreement, and before the signing of each individual agreement, functional departments of the Company, including the risk control departments, will evaluate the terms, including the fairness of the price, of the agreement;

- In addition to the annual review of the performance of specific contracts by the independent non-executive Directors and the Company's auditors, 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 and Benefits of Entering into the Master Agreement

The Company, including its predecessors, has been providing Oilfield Services to CNOOC and its associates since 1982. In addition, the CNOOC Group has also since 1982 been providing equipment, material and utilities services to the Group. CNOOC is the single largest customer of the Company, and the business, results of operations and financial condition of the Company depend in large on the performance of the Master Agreement. However, as CNOOC is the largest offshore oil producer in the PRC, holding the dominant position in offshore oil production in China that is the principal market of the Company, the Company will ensure secured revenues and a stable source of supply of equipment, materials and utilities through the performance of the Master Agreement. Therefore, the Company considers that it is in the interest of the Company to continuously enter into the Continuing Connected Transactions with CNOOC.

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

HONG KONG LISTING RULES IMPLICATIONS

CNOOC holds 50.53% interest in the Company, and is the controlling shareholder of the Company. As such, CNOOC is a connected person of the Company under the Hong Kong Listing Rules, and the Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the Supplemental Service Agreement in connection with the Current Master Agreement, as the highest applicable percentage ratio regarding the existing annual caps for the continuing connected transactions contemplated under the Current Master Agreement as modified by the Proposed Revised Cap exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Supplemental Service Agreement in connection with the Current Master Agreement and the continuing connected transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In respect of the Master Agreement, as the highest applicable percentage ratio regarding the Proposed Annual Caps for the Continuing Connected Transactions contemplated under the Master Agreement exceed 5% as calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules, the Master Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Master Agreement) entered into between the Group and the CNOOC Group and its ultimate beneficial owners within a 12-month period or otherwise related, which would, together with transactions under the Master Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.81 of the Hong Kong Listing Rules.

GENERAL INFORMATION

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that (i) the terms, the Proposed Revised Cap of and the transactions contemplated under the Supplemental Service Agreement in connection with the Current Master Agreement; and (ii) the terms, the Proposed Annual Caps of and the transactions contemplated under the Master 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 resolutions in respect of the above matters. Of the Directors attending the Board meetings, Mr. Meng Jun and Mr. Zhang Wukui were considered to have material interests by virtue of being employed by the CNOOC Group, and had thus abstained from voting on the Board resolutions in respect of the continuing connected transactions. Accordingly, the Board recommends that the Shareholders vote in favour of and approve all resolution(s) in relation to the above matters to be proposed at the EGM.

An Independent Board Committee has been formed to advise the Independent Shareholders on the (i) the Supplemental Service Agreement in connection with the Current Master Agreement and the Proposed Revised Cap and (ii) the Master Agreement and the Proposed Annual Caps. The Independent Board Committee has also approved the appointment of Platinum Securities Company Limited as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in accordance with the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the Continuing Connected transaction to be contemplated under Supplemental Service Agreement in connection with the Current Master Agreement and the Master Agreement. A general meeting of the Company will be convened and held to, inter alia, consider and, if thought fit, to approve all resolution(s) in relation to the above matter.

A circular containing, among other things, further details regarding the above-mentioned continuing connected transactions, a letter from the Independent Board Committee and an opinion of the Independent Financial Adviser will be dispatched to the Shareholders in due course.

DEFINITIONS

"Articles of Association"	the articles of association of the Company as amended from time to time;
"A Share(s)"	RMB denominated domestic Share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company which are listed on the Shanghai Stock Exchange;
"associates"	has the same meaning as given to it under the Hong Kong Listing Rules;
"bbl"	a barrel, which is equivalent to approximately 158.988 liters or 0.134 tons of oil (at a API gravity of 33 degrees);
"Board"	the board of Directors;
"Company"	China Oilfield Services Limited, a joint stock company incorporated in the PRC 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;
"CNOOC"	China National Offshore Oil Corporation, a state-owned enterprise 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 PRC;
"CNOOC Group"	CNOOC and its subsidiaries, excluding the Group;

"Continuing Connected Transactions"	the continuing connected transactions under the Master Agreement, including the provision of the Oilfield Services by the Group to CNOOC Group, the provision of the Machinery Leasing, Equipment, Material and Utilities Services by CNOOC Group to the Group, and the provision of the Property Services by CNOOC Group to the Group;
"Current Master Agreement"	the Master Services Framework Agreement entered into between the Company and CNOOC on 4 November 2016, which will expire on 31 December 2019;
"Director(s)"	the director(s) of the Company;
"EGM"	the extraordinary general meeting of the Company to be held at 10:00 a.m. on Wednesday, 18 December 2019 at Room 311, Main Building of COSL, 201 Haiyou Avenue, Yanjiao Economic & Technological Development Zone, Sanhe City, Hebei Province, the PRC or any adjournment thereof;
"Group"	the Company and its subsidiaries;
"H Share(s)"	overseas listed foreign Shares of nominal value of RMB1.00 each in the share capital of the Company which are listed on the main board of the Stock Exchange and subscribed in Hong Kong dollars;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Independent Board Committee"	an independent committee of the Board, comprising the independent non-executive Directors, which has been appointed by the Board to advise the Independent Shareholders on the Supplemental Service Agreement and the Master Agreement and the relevant annual caps in relation to the continuing connected transactions to be contemplated thereunder;

"Independent Financial Adviser"	Platinum Securities Company Limited, a licensed corporation under the SFO licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Service Agreement and the Master Agreement and the relevant annual caps in relation to the continuing connected transactions to be contemplated thereunder;
"Independent Shareholders"	the Shareholders of the Company other than CNOOC and its associates;
"Latest Practicable Date"	30 October 2019, being the latest practicable date prior to the disclosure of this announcement for the purpose of ascertaining certain information for inclusion in this announcement;
"Machinery Leasing, Equipment, Material and Utilities Services"	the supply of machineries for leasing, the supply of equipment, material, labour, utilities and other ancillary services by the CNOOC Group to the Group;
"Master Agreement"	the Master Services Framework Agreement entered into between the Company and CNOOC on 30 October 2019;
"NDRC"	the National Development and Reform Commission;
"Oilfield Services"	the provision of offshore oilfield services by the Group to the CNOOC Group, including drilling services, well services, marine support services and geophysical and surveying services;
"PRC"	the People's Republic of China;
"Property Services"	the leasing of certain properties in relation to the Group's operations from the CNOOC Group;
"Proposed Annual Caps"	the proposed maximum annual aggregate value(s) for each type of the Continuing Connected Transactions under the Master Agreement for each of the three years ending 31 December 2020, 2021 and 2022;
"Proposed Revised Cap"	the proposed revised annual cap on the provision of the Oilfield Services by the Group to the CNOOC Group for the year ending 31 December 2019 under the Current Master Agreement;

"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shares"	the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, the H Shares are listed on the Stock Exchange and the A Shares are listed on the Shanghai Stock Exchange;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supplemental Service Agreement"	the Supplemental Agreement to the Current Master Agreement entered into between the Company and CNOOC on 30 October 2019, pursuant to which the existing annual cap for the continuing connected transactions of the Oilfield Services for the year ending 31 December 2019 as set out in the Current Master Agreement will be adjusted to RMB25,917 million.

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

30 October 2019

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.