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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

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As disclosed in the announcement dated 29 April 2014, the Company has entered into the current Deposit and Settlement Agreement with CNOOC Finance on 8 May 2014, the term of which will expire on 7 May 2017.

The Company expects to enter into a new Deposit and Settlement Agreement with CNOOC Finance on 8 May 2017. 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 Hong Kong 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 Hong Kong Listing Rules.

In respect of the proposed annual caps under the Deposit and Settlement Agreement, as one or more of the applicable percentage ratios exceed 0.1% but all are below 5% as calculated in accordance with Rule 14.07 of the Hong Kong 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 Hong Kong Listing Rules.

Background

The Company is one of the leading integrated oilfield services providers in the world. Its services cover each phase of offshore 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 2017

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 2017 to 31 December 2017 <i>RMB' million</i>	For the financial year ending 31 December 2018 <i>RMB' million</i>	For the financial year ending 31 December 2019 <i>RMB' million</i>	For the period from 1 January 2020 to 7 May 2020 <i>RMB' million</i>
Cash Depository Services	1,500	1,500	1,500	1,500

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 2014 to 31 December 2014, the two years ended 31 December 2016 and the three months ended 31 March 2017, 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 2014, 31 December 2015, 31 December 2016 and 31 March 2017 were as follows:

	31 December 2014	31 December 2015	31 December 2016	31 March 2017
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Daily cash deposit cap amount	1,860.0	1,860.0	1,860.0	1,860.0
Actual amount	1,504.0	1,505.0	1,801.0	1,542.0

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 Deposit and Settlement Agreement 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 2017 for a term of three years and will expire on 7 May 2020.

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: (i) CNOOC Finance is a non-bank financial institution subject to the regulation of CBRC. 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 CBRC in relation to risk control ratios; and (ii) The Group also places deposits with other commercial banks, the proposed annual caps represents only approximately 22.63% of the cash at bank and on hand as at 31 March 2017 and 24.71% of the cash at bank and on hand as at 31 December 2016.

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 CNOOC Finance Framework Agreement are conducted on a non-exclusive basis;
- (ii) the Finance Department of 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 PBOC 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 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;

- (vi) if deposit interest and commercial terms are less favourable than those offered by independent third parties for similar services to the Company in the PRC, the Company will not place deposit with CNOOC Finance.

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 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 Aa3 (Negative) by Moody's.

CNOOC Finance has provided 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 2017, 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 Regulatory Commission with customers primarily comprised of members of the CNOOC Group, 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 Aa3 (Negative) by Moody's, 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 for 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.

Hong Kong 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 Hong Kong 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 Hong Kong Listing Rules.

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GENERAL INFORMATION

The 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 27 April 2017. Of the Directors attending the board meeting, Mr. Lv Bo, Mr. Qi Meisheng, Mr. Dong Weiliang, Mr. Li Feilong and Mr. Xie Weizhi 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 provision of cash depository services 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 two companies listed in 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 2017;
“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;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Settlement Services”	the provision of settlement services 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
Jiang Ping
Company Secretary

27 April 2017

As at the date of this announcement, the executive directors of the Company are Messrs. Qi Meisheng, Dong Weiliang and Li Feilong; the non-executive directors of the Company are Messrs. Lv Bo (Chairman) and Xie Weizhi; and the independent non-executive directors of the Company are Messrs. Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert.