

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

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

If you have sold or transferred all your shares in China Oilfield Services Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---

# **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)**

**(1) CONTINUING CONNECTED TRANSACTIONS  
(I) ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT  
(II) ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT  
(2) PROPOSED US DOLLAR LOAN BY THE OVERSEAS SUBSIDIARY,  
COSL MIDDLE EAST FZE, AND THE PROVISION OF GUARANTEE  
BY THE COMPANY  
(3) PROPOSED ISSUANCE OF US DOLLAR BONDS BY AN OVERSEAS  
SUBSIDIARY IN 2020  
(4) PROPOSED PROVISION OF GUARANTEE FOR THE ISSUANCE OF US  
DOLLAR BONDS BY AN OVERSEAS SUBSIDIARY  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



**PLATINUM**  
Securities

---

A letter from the Board is set out on pages 5 to 21 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 22 of this circular.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 47 of this circular.

A notice convening an EGM 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 is set out on page 53 to 54 of this circular. A proxy form for use by the Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and return the same to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

H Share Shareholders who intend to attend the EGM must complete and return the written replies for attending the EGM to the Company's office in Hong Kong by facsimile or post no later than 27 November 2019.

11 November 2019

---

## CONTENT

---

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	22
<b>Letter from the Independent Financial Adviser</b> .....	23
<b>Appendix I – General Information</b> .....	48
<b>Notice of EGM</b> .....	53

---

## DEFINITIONS

---

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

“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;

---

## DEFINITIONS

---

“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 printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;

---

## DEFINITIONS

---

“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;

---

## DEFINITIONS

---

“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;

“US dollar” or “USD”

United States dollars, the lawful currency of the United States.

---

LETTER FROM THE BOARD

---

**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)

*Board of Directors:*

Qi Meisheng (*Chairman*)  
Cao Shujie  
Meng Jun\*  
Zhang Wukui\*  
Law Hong Ping, Lawrence\*\*  
Fong Chung, Mark\*\*  
Wong Kwai Huen, Albert\*\*

\* *Non-executive Director*

\*\* *Independent non-executive Director*

*Legal address in the PRC:*

No.1581, Haichuan Road,  
Tangu Ocean Hi-tech Zone,  
Binhai Hi-tech  
Development District, Tianjin  
The PRC

*Registered Office in Hong Kong:*

65/F, Bank of China Tower  
1 Garden Road  
Hong Kong

*To the Shareholders*

11 November 2019

Dear Sir/Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS**  
**(I) ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT**  
**(II) ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT**  
**(2) PROPOSED US DOLLAR LOAN BY THE OVERSEAS SUBSIDIARY,**  
**COSL MIDDLE EAST FZE, AND THE PROVISION OF GUARANTEE**  
**BY THE COMPANY**  
**(3) PROPOSED ISSUANCE OF US DOLLAR BONDS BY AN OVERSEAS**  
**SUBSIDIARY IN 2020**  
**(4) PROPOSED PROVISION OF GUARANTEE FOR THE ISSUANCE OF US**  
**DOLLAR BONDS BY AN OVERSEAS SUBSIDIARY**  
**AND**  
**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement made by the Company on 30 October 2019 in relation to (i) entering into the Supplemental Service Agreement; and (ii) entering into the Master Agreement.

The purpose of this circular is to provide you with, among other things, further information in relation to (i) the Supplemental Service Agreement; (ii) the Master Agreement; (iii) proposed US dollar loan by the overseas subsidiary, COSL Middle East FZE, and the provision of guarantee by the Company; (iv) proposed issuance of US dollar bonds by an overseas subsidiary in 2020; (v) proposed provision of guarantee for the

---

## LETTER FROM THE BOARD

---

issuance of US dollar bonds by an overseas subsidiary; (vi) the recommendation from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the continuing connected transactions; and (vii) a notice of the EGM.

### **(1) CONTINUING CONNECTED TRANSACTIONS**

#### **(I) 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.



---

## LETTER FROM THE BOARD

---

### *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:

---

## LETTER FROM THE BOARD

---

	For the year ended 31 December 2017 <i>(RMB million)</i>	For the year ended 31 December 2018 <i>(RMB million)</i>	For the year ending 31 December 2019 <i>(RMB million)</i>
<b>Existing annual caps</b>			
– 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
	<b>For the year ended 31 December 2017 <i>(RMB million)</i></b>	<b>For the year ended 31 December 2018 <i>(RMB million)</i></b>	<b>For the six months ended 30 June 2019 <i>(RMB million)</i></b>
<b>Historical transaction amounts</b>			
– 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:

- 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.

---

## LETTER FROM THE BOARD

---

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

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

*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.

---

## LETTER FROM THE BOARD

---

### (II) 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:

---

## LETTER FROM THE BOARD

---

*(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:

## LETTER FROM THE BOARD

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

*Note:*

- 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

---

## LETTER FROM THE BOARD

---

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

---

## LETTER FROM THE BOARD

---

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



---

## LETTER FROM THE BOARD

---

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.

---

## LETTER FROM THE BOARD

---

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](http://www.ihsmarkit.com)), Clarkson ([www.crsl.com](http://www.crsl.com)) and Rigzone ([www.rigzone.com](http://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  $\pm 10\%$  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

---

## LETTER FROM THE BOARD

---

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.

---

## LETTER FROM THE BOARD

---

### **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,

---

## LETTER FROM THE BOARD

---

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.

**(2) PROPOSED US DOLLAR LOAN BY THE OVERSEAS SUBSIDIARY, COSL MIDDLE EAST FZE, AND THE PROVISION OF GUARANTEE BY THE COMPANY**

In order to satisfy the needs of overseas production and operation and the requirements to repay principal and interests of the US dollar debt in the future, COSL Middle East FZE, a wholly-owned subsidiary of the Company, proposes to apply for a revolving loan of USD400 million from the bank. The Company proposes to provide guarantee support for the loan according to bank requirements and to further reduce financing costs. The guarantee provided by the Company should be approved by the EGM, due to the reasons of the asset-liability ratio of COSL Middle East FZE exceeds 70%, etc. Upon approval by the Shareholders at the EGM, the Board will authorize executive director or chief financial officer of the Company to deal with, in its absolute discretion, matters relating to the US dollar revolving loan and its guarantee (including but not limited to selecting lending bank, determining interest rate, signing relevant legal documents, loan extension and its guarantee, etc.).

**(3) PROPOSED ISSUANCE OF US DOLLAR BONDS BY AN OVERSEAS SUBSIDIARY IN 2020**

In order to satisfy the needs of overseas production and operation and the requirements to repay principal and interests of the US dollar debt in the future, a wholly-owned subsidiary of the Company proposes to issue offshore US dollar bonds of not exceeding USD800 million. Upon approval by the Shareholders at the EGM, the Board will authorize executive director or chief financial officer of the Company to deal with, in its absolute discretion, matters relating to the issuance of US dollar bonds (including but not limited to determining the issuer, issue method, issue amount, issue rate, bond term, signing relevant legal documents, etc.)

**(4) PROPOSED PROVISION OF GUARANTEE FOR THE ISSUANCE OF US DOLLAR BONDS BY AN OVERSEAS SUBSIDIARY**

In order to satisfy the needs of overseas production and operation and the requirements to repay principal and interests of the US dollar debt in the future, the Company proposes to provide guarantee for the offshore US dollar bonds issued by overseas wholly-owned subsidiary (including entity of which the asset-liability ratio exceeds 70%) of not exceeding USD800 million. Upon approval by the Shareholders at the EGM, the Board will authorize executive director or chief financial officer of the Company to deal with, in its absolute discretion, matters relating to the guarantee (including but not limited to determining the object of guarantee, specific terms of guarantee, signing relevant legal documents, etc.).

---

## LETTER FROM THE BOARD

---

### EGM

A notice convening the EGM 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 is set out on page 53 to 54 of this circular.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll. Accordingly, all resolutions to be proposed at the EGM will be voted by poll.

A form of proxy for the EGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

Shareholders who intend to attend the EGM must complete and return the written replies for attending the EGM to the Company's office in Hong Kong by facsimile or post no later than 27 November 2019.

Pursuant to the Hong Kong Listing Rules, CNOOC and its associates will abstain from voting on all resolutions relating to the continuing connected transactions to be proposed, considered and voted on at the EGM. As of the Latest Practicable Date, CNOOC and its associates hold in aggregate 2,410,849,300 Shares of the Company, which amounts to approximately 50.53% of total issued Shares of the Company.

Other than set out above and as of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, there is no connected person of the Company, Shareholder and their respective associates (other than CNOOC and its associates) with a material interest in the continuing connected transactions to be proposed, considered and approved at the EGM required to abstain from voting at the EGM, and there is no connected person of the Company, Shareholder and their respective associates with a material interest in the other matters to be proposed, considered and approved at the EGM required to be abstain from voting at the EGM.

### RECOMMENDATION

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



---

## LETTER FROM THE BOARD

---

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 Directors also believe that, (i) proposed US dollar loan by the overseas subsidiary, COSL Middle East FZE, and the provision of guarantee by the Company; (ii) proposed issuance of US dollar bonds by an overseas subsidiary in 2020; and (iii) proposed provision of guarantee for the issuance of US dollar bonds by an overseas subsidiary 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. The Independent Board Committee has been formed according to Hong Kong Listing Rules and voted on the Board resolutions in respect of the continuing connected transactions. 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. 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.

Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to above continuing connected transactions. Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion 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. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the above matters to be proposed at the EGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 22, the letter from the Independent Financial Adviser set out on pages 23 to 47 and the other information set out in the appendices to this circular.

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

**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)**

11 November 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**  
**(I) ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT**  
**(II) ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, (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 how to vote.

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 23 to 47 of this circular, we are of the opinion 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.

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the above agreements to be proposed at the EGM.

Yours faithfully, For and on behalf of  
**The Independent Board Committee of**  
**China Oilfield Services Limited**

**Law Hong Ping, Lawrence**      **Fong Chung, Mark**      **Wong Kwai Huen, Albert**  
*Independent Non-executive Directors*



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM** Securities Company Limited

21/F LHT Tower  
31 Queen's Road Central  
Hong Kong

Telephone (852) 2841 7000  
Facsimile (852) 2522 2700  
Website [www.platinum-asia.com](http://www.platinum-asia.com)

11 November 2019

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**  
**(I) ENTERING INTO THE SUPPLEMENTAL SERVICE AGREEMENT**  
**(II) ENTERING INTO THE MASTER SERVICES FRAMEWORK AGREEMENT**

### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Service Agreement and the Master Agreement, as well as the transactions contemplated thereunder. Details of the Supplemental Service Agreement and the Master Agreement are contained in the circular of the Company dated 11 November 2019 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the terms and the Proposed Revised Cap under the Supplemental Service Agreement in connection with the Current Master Agreement and (ii) the terms and the Proposed Annual Caps 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 the Shareholders as a whole and to give independent advice to the Independent Board Committee and the Independent Shareholders.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things:

- (i) the Supplemental Service Agreement;

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (ii) the Master Agreement;
- (iii) the announcement of the Company dated 30 October 2019;
- (iv) the announcement of the Company dated 6 November 2016 (the “**Previous Announcement**”) and the circular of the Company dated 9 November 2016 (the “**Previous Circular**”);
- (v) the annual report of the Company for the financial year ended 31 December 2018 (“**2018 Annual Report**”);
- (vi) the interim report of the Company for the six months ended 30 June 2019 (“**2019 Interim Report**”); and
- (vii) the internal control manual of the Group.

We have assumed that all information, facts, opinions and representations contained in the Circular and all information, statements and representations provided to us by the Directors and/or the management of the Company, which we have relied on, are true, complete and accurate and not misleading in all material respects as at the date hereof. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters not contained in the Circular, the omission of which would make any statement in the Circular misleading or deceptive.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Supplemental Service Agreement and the Master Agreement.

Platinum Securities Company Limited had no past engagement with the Group in the last two years from the date of the Circular. As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Supplemental Service Agreement and the Master Agreement, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly,

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

are considered eligible to give independent advice on the Supplemental Service Agreement and the Master Agreement. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Service Agreement and the Master Agreement. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Supplemental Service Agreement and the Master Agreement or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. Law Hong Ping, Lawrence, Mr. Fong Chung, Mark and Mr. Wong Kwai Huen, Albert, has been formed to advise 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.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

#### **1. Background of entering into the Supplemental Service Agreement**

As disclosed in the Previous Circular, 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 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.

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. Therefore, in order to protect the production and operation and protect the interests of the Company and the 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

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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.

### **2. Background of entering into the Master Services Framework Agreement**

As disclosed in the Previous Announcement and the Previous Circular, 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 years ending 31 December 2020, 2021 and 2022. Upon approval at the EGM, the Master Agreement will be effective from 1 January 2020.

### **3. Information on the Company and CNOOC**

#### *Information on the Company*

The Company is a joint stock company incorporated in the PRC with limited liability, and is listed on both Hong Kong Stock Exchange and Shanghai Stock Exchange. 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.

#### *Information on CNOOC*

CNOOC, a state-owned enterprise incorporated under the laws of the PRC, who is the largest offshore oil and gas producer in PRC. It has become an international energy company with prominent core business, a complete industrial chain and business spreading across 40 countries and regions. The principal businesses of CNOOC include oil and gas exploration and development, engineering and technical services, refining and marketing, natural gas and power generation and financial services.

CNOOC Group's core operation areas are Bohai, Western South China Sea, Eastern South China Sea and East China Sea in offshore PRC. For overseas, CNOOC Group has oil and gas assets in Asia, Africa, North America, South America, Oceania and Europe.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 4. The Supplemental Service Agreement

#### 4.1 Principal terms of the Supplemental Service Agreement

The principal terms 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.

##### **Principal 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 4.2 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:

	<b>For the year ended 31 December 2017 <i>(RMB million)</i></b>	<b>For the year ended 31 December 2018 <i>(RMB million)</i></b>	<b>For the year ending 31 December 2019 <i>(RMB million)</i></b>
<b>Existing annual caps</b>			
– 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
	<b>For the year ended 31 December 2017 <i>(RMB million)</i></b>	<b>For the year ended 31 December 2018 <i>(RMB million)</i></b>	<b>For the six months ended 30 June 2019 <i>(RMB million)</i></b>
<b>Historical transaction amounts</b>			
– 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 <i>(Note 1)</i>	1,108	1,574	646
– Provision by the CNOOC Group of the Property Services to the Group <i>(Note 1)</i>	130	175	49

*Note:*

- The difference between the actual historical transaction amounts and the approved annual caps for the 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 4.3 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:

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

*Notes:*

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

Based on the above, the estimated transaction amount of the continuing connected transactions in relation to the Oilfield Services for the year ending 31 December 2019 might 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.

### Our views on the Proposed Revised Cap:

According to the 2019 Interim Report, the revenue of the Group which comprises of drilling services, well services, marine support services and geophysical and surveying services, has been increased by approximately 66.7% to RMB13,552 million for the six months ended 30 June 2019 as compared with RMB8,128 million for the six months ended 30 June 2018. We note that the transaction amount in relation to the provision by the Group of the Oilfield Services to the CNOOC Group had reached

---

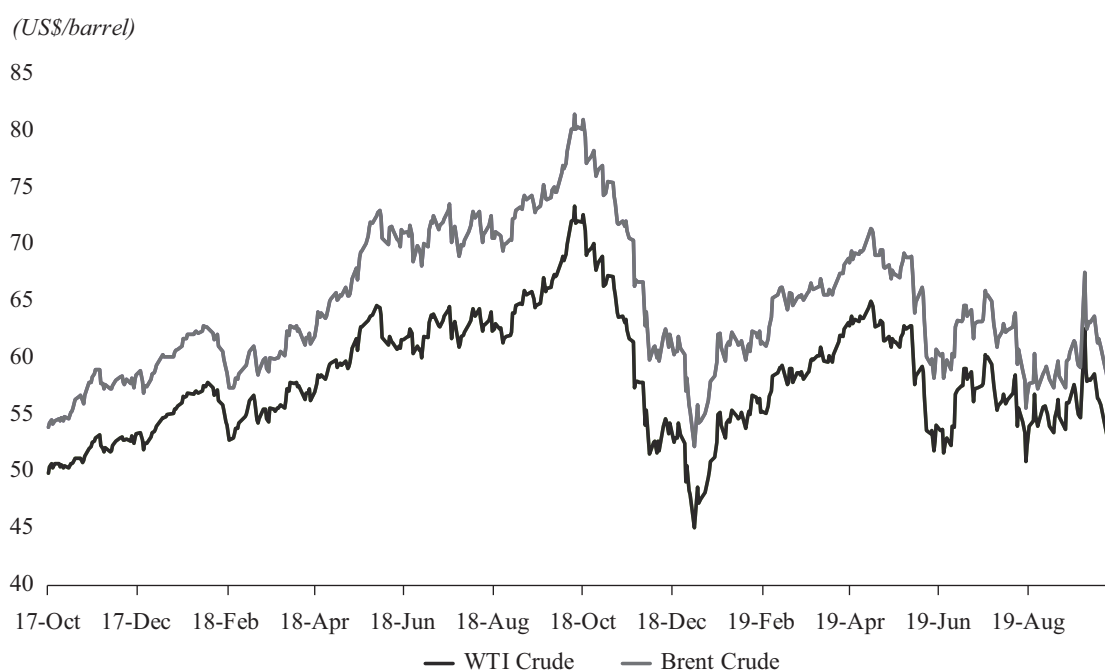
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

RMB11,025 million for the six months ended 30 June 2019, represented an increase of approximately 81.4% as compare with RMB6,087 million for the six months ended 30 June 2018.

Looking at the global oil prices of recent years, it has been volatile due to unexpected swings in supplies and demands. For example, Brent oil prices had fallen to a 13-year low of US\$26.55 per barrel on January 2016. Six months before that, prices had averaged US\$60.00 per barrel. A year earlier in June 2014, they had averaged US\$100.26 per barrel. We have especially looked into the past two years oil price which is illustrated in the below chart:

### 2-Yr WTI and Brent Crude Oil Spot Price Movements



Source: Bloomberg

As can be seen from the above, the Brent oil price hit a four-year high of US\$81.20 per barrel on September 2018 and subsequently experienced a substantial drop of approximately 35.7% in the fourth quarter of 2018 to the lowest of US\$52.24 per barrel in December 2018 due to the Organization of the Petroleum Exporting Countries (“OPEC”) decided to cut 1.2 million barrels per day. However, the Brent oil averaged monthly price has been rebounded for approximately 27% in the first quarter of 2019, while the U.S. Energy Information Administration (“EIA”) forecasted that the Brent spot prices will average US\$60.00 per barrel in the fourth quarter of 2019 and US\$63.39 per barrel for the year of 2019, and US\$62.00 per barrel in 2020<sup>1</sup>.

<sup>1</sup> <https://www.eia.gov/outlooks/steo/report/prices.php>



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Following the recovery of the global oil prices, we think that the demand of oilfield service would be increasing as a result of the increasing demand of drilling activity. We understand from the management of the Company that the Company expected a continuing growth in the second half of 2019 on the revenues, where it forecasts that the estimated transaction amount of Oilfield Services in 2019 of the Group for the six months ending 31 December 2019 might be RMB14,421 million, representing an increase of 32.6% as compared with the same period of last year of RMB10,878 million, therefore, resulting in the estimated continuing connected transactions amounts would be RMB25,446 million for the year ending 31 December 2019 and it would exceed RMB2,351 million based on the existing annual cap of Oilfield Services under the Current Master Agreement. We consider that adding 20% buffer on the exceeded amount of RMB2,351 million is fair and reasonable as to ensure the ultimate transactions amounts would not exceed the Proposed Revised Cap and for the Company to capture the opportunities if the market and the oil price is outperforming the Company's estimations, taking into account of the (i) substantial growth in revenues of the Group by 81.1% for the six months ended 30 June 2019 for provision of the Oilfield Services to the CNOOC Group and (ii) the rebound of the global oil price resulting in the increasing demand of the drilling activities, we are of the view that the Proposed Revised Cap is fair and reasonable so far as the Independent Shareholders are concerned.

#### **4.4 Reasons for and Benefits of the Supplemental Service Agreement**

As disclosed in the Circular that, due 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 be exceed the existing annual cap under the Current Master Agreement. Therefore, we concur with the Company that it is in the interest of the Company to enter into the Supplemental Service Agreement with CNOOC to adjust the existing annual cap.

### **5. The Master Agreement**

#### **5.1 Principal terms of the Master Agreement**

The principal terms of the Master Agreement are set out as follows:

**Date**

30 October 2019

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 5.2 Historical Transaction Amounts and Proposed Annual Caps

The existing annual caps for the years ended/ending 31 December 2017, 2018 and 2019 and historical transactional amounts of the continuing connected transactions for the years ended 31 December 2017 and 2018 and for 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:

Existing annual caps/ Historical Transaction Amounts	For the year ended 31 December 2017 <i>(RMB million)</i>	For the year ended 31 December 2018 <i>(RMB million)</i>	For the year ending 31 December 2019 <i>(RMB million)</i>	For the six months ended 30 June 2019 <i>(RMB million)</i>
– Provision by the Group of the Oilfield Services to the CNOOC Group <b>Historical Transaction Amounts</b>	14,322	17,695	23,095	11,025
– Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group <b>Historical Transaction Amounts (Note 1)</b>	2,118	2,827	3,918	646
– Provision by the CNOOC Group of the Property Services to the Group <b>Historical Transaction Amounts (Note 1)</b>	340	460	638	49

*Notes:*

- The difference between the actual historical transaction amounts and the approved annual caps for the 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

	For the year ending 31 December 2020 <i>(RMB million)</i>	For the year ending 31 December 2021 <i>(RMB million)</i>	For the year ending 31 December 2022 <i>(RMB million)</i>
<b>Proposed Annual Caps</b>			
– Provision by the Group of the Oilfield Services to the CNOOC Group	40,044	52,058	67,675
– Provision by the CNOOC Group of the Machinery Leasing, Equipment, Material and Utilities Services to the Group	5,397	7,169	9,534
– Provision by the CNOOC Group of the Property Services to the Group	600	797	1,059

### 5.3 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 years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019, and the anticipated business volume between the CNOOC Group and the Group for the years ending 31 December 2020, 2021 and 2022.

The anticipated business volume between the CNOOC Group and the Group for the years ending 31 December 2020, 2021 and 2022 are based on (1) revenue forecasts for the 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

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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 years ended 31 December 2017 and 2018 and for the 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 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 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 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 will increase year by year during the 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 periods from 2017 to 30 June 2019 is 7.4%), with the effect on the

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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 periods from 2017 to 30 June 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.

### **Our views on the Proposed Annual Caps:**

#### *Provision by the Group of the Oilfield Services to the CNOOC Group*

We understand that the Oilfield Services mainly drove the revenues of the Group. The utilisation rate of the historical transaction amounts to the existing annual cap in relation to the provision by the Group of Oilfield Services to CNOOC Group for the year ended 2017 and 2018 were approximately 95.2% and 95.9% respectively, while the estimated continuing connected transactions amounts of RMB25,446 million for the year ending 31 December 2019 represents approximately 110.2% to the existing annual cap of RMB23,095, we think that the Company has a high utilisation rate on the continuing connected transaction amounts under the Current Master Agreement.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

We have also examined the historical amounts of revenue generated from the Oilfield Services to the CNOOC Group as compared with the total revenues of the Group in the below:

	<b>For the year ended 31 December 2017 (RMB million)</b>	<b>For the year ended 31 December 2018 (RMB million)</b>	<b>For the six months ended 30 June 2019 (RMB million)</b>
Total revenue of the Group	17,459	21,887	13,552
Actual amount	13,638	16,965	11,025
Actual amount as a percentage of total revenue of the Group	78.1%	77.5%	81.4%

We note that these historical transaction amounts represent approximately 77.5% to 81.4% of the total revenue of the Group for the year ended 31 December 2017 and 2018 and for the six months ended 30 June 2019. 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. We consider that the percentage of approximately 83.0% as applied by the Company for the estimation of the percentage contribution of the Proposed Annual Caps is fair and reasonable.

Based on the market demand forecasts conducted by the Company in respect of the global Oilfield Service industry for the three years ended 31 December 2022, we noticed that the Company expects an annual growth rate of 30% year on year of the Group's total revenues for the three years ended 2022, which is mainly due to the reasons that (i) the rebound of the oil price and is expected to stably increase in 2020, (ii) the anticipated increase in exploration and production volume of Company's client which taking into accounts that the global expenditure in offshore exploration has increased significantly and is expected to remain a 10% annual increase for the following years according to IHS Market's Data (iii) the increasing and successfully bided projects in the pipeline of the Group and the exploration and development demand in offshore China increased significantly as disclosed in the 2019 Interim Report and (iv) the Company's enhancement of well services capabilities and the future growth drivers, which we consider that the expectation and the projection of the Group in relation to the future potential revenues for the next three years are in line with the industry prospects and development plans of the Group. Oilfield Service plays a significant role in the upstream service industry, especially in offshore assets. The demand for drilling, completion, and work-over services holds the major share in the global market, which we believe that it is owing to the



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

increasing demand of advanced technology, tools and equipment to enhance the exploration and production activities in both onshore and offshore areas. According to Markets and Markets<sup>2</sup>, we understand that the global oilfield services market is projected to grow at a compounding annual growth rate of 3.35%, from 2017 to 2022, to reach a market size of US\$125.51 billion by 2022. Such growth is mainly driven by the increasing shale gas production and growing global exploration and production spending. While following the recovery of the oil prices, the capital expenditure in upstream oil exploration and production will also increase. However, from the perspective of China oilfield services industry and the development trend, while China is one of the largest consumers of oil and gas in the world and the most three largest oil companies in China including China National Petroleum Corporation, China Petroleum & Chemical Corporation and CNOOC still continually have monopoly in respect of the entire oil industry-chain in China, therefore, we believe that the annual growth in the capital expenditure of China oil company would be higher than the averaged of that global market players, taking into account of the recovery of the global oil prices and the CNOOC Group is actively responding to the “Revolutionary strategy of energy production and consumption (2016-2030)” (\*《能源生產和消費革命戰略(2016-2030)》<sup>3</sup>) issued by National Energy Commission and approved by the State Council of PRC. Based on our review of the annual report of CNOOC Limited (a subsidiary of the CNOOC Group who is the largest producer of offshore crude oil and natural gas in China and one of the largest independent oil and gas exploration and production companies in the world) for the year ended 31 December 2018, the capital expenditure for the period recorded approximately RMB62.1 billion, represented an increase of 24.9% as compared with the same period of last year of approximately RMB49.7 billion. We noted that the management of CNOOC Limited anticipated the capital expenditure of CNOOC Limited would reach RMB70 to RMB80 billion for the year ending 31 December 2019 according to its announced 2019 business strategy and development plan<sup>4</sup>, representing a potential increase of 12.7% to 28.8% comparing with the capital expenditure incurred for the year ended 31 December 2018. In addition, according to the interim report of CNOOC limited for the six months ended 30 June 2019, CNOOC Limited’s capital expenditure was RMB33.7 billion, increased by 60.5% year on year. Among them, capital expenditure for exploration was RMB8.6 billion, increased by 109.8% year on year, primarily due to increased 3D seismic data collection and exploration wells workload as a result of strengthened exploration efforts; capital expenditure for development was RMB18.1 billion, increased by 46.0% year on year, mainly due to the increase in workload of development wells and the accelerated investment in projects under construction; capital expenditure for production was RMB6.4 billion, increased by 45.5% year on year, primarily due to the increased workload of infill drillings, etc. We acknowledge from the website

<sup>2</sup> [https://www.marketsandmarkets.com/Market-Reports/oilfield-services-market-263907746.html?gclid=EAIaIQobChMIk\\_KUn9aQ5QIViWkqCh14-gO2EAAYAiAAEgKkDPD\\_BwE](https://www.marketsandmarkets.com/Market-Reports/oilfield-services-market-263907746.html?gclid=EAIaIQobChMIk_KUn9aQ5QIViWkqCh14-gO2EAAYAiAAEgKkDPD_BwE)

<sup>3</sup> <http://www.gov.cn/xinwen/2017-04/25/5230568/files/286514af354e41578c57ca38d5c4935b.pdf>

<sup>4</sup> [https://www.cnoocld.com/art/2019/1/23/art\\_32091\\_15284095.html](https://www.cnoocld.com/art/2019/1/23/art_32091_15284095.html)



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

of the CNOOC Limited that, in order to maintain at least an approximately 5% of the annual growth rate of the net production of the crude oil, it is expected that the CNOOC Group would have a 30% growth rate year on year in respect of the capital expenditure for the three years ending 31 December 2022. Taking into accounts that the CNOOC Group is the most major customer of the Group who contributed over 75% of the Group's total revenue for the last two years and the Company keenly follows CNOOC Limited's project progress, in this regard, we consider that the expectation on the annual growth rate of 30% year on year of the Group's total revenues for the three years ending 31 December 2022 is prudent and thus the 30% increase (consisting of buffer which is discussed in the below) of the annual caps year on year for the three years ending 31 December 2022 is fair and reasonable so far as the Independent Shareholders are concerned. Moreover, the historical transaction amounts for the years ended 31 December 2017 and 2018 and for the 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 years ending 31 December 2020, 2021 and 2022 will also increase in accordance with the capital expenditure plan of the CNOOC Group. We consider that we have reviewed sufficient market information and Company's data to form the view that the revenue growth as anticipated by the management of the Company is prudent, fair and reasonable.

In addition, we note that 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. Considering the oil price will also significantly affect the revenue of the Company as we have discussed in the above, 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. In order to serve better for the operation of the Company and achieve higher business volume, we consider 20% is a reasonable amount of buffer to capture the opportunities if the market and the oil price is outperforming the Company's estimations. Moreover, we noted that the 20% buffer has also been previously applied in the estimation of the existing annual caps under the Current Master Agreement. Therefore, we concur with the Company that by setting such buffer allows the Company to have flexibility to cater the increase of services due to expansions as well as revenue increase from CNOOC without being aggressive and overly optimistic, as well as in line with the historical practice of the Group. We consider the buffer is fair and reasonable.

As such, we are of the view that the basis of determining the proposed annual caps for the Oilfield Services are fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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

We have obtained and reviewed the calculations provided by the management of the Company in relation to the computation of the anticipated amount of transactions in relation to the Machinery Leasing, Equipment, Material and Utilities Services and understand that the related calculations on the Proposed Annual Caps has been taken into consideration of the impact of the New Accounting Standards by the Company. We have examined the cost basis of the Group and have performed our analysis on the percentage of the proposed annual caps and historical transaction amounts against the total revenue of the Group. We understand from the management of the Company that the main reasons resulting in low historical transaction amounts against the existing annual caps in relation to the Machinery Leasing, Equipment, Material and Utilities Services for the year ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 were mainly due to the Company's strategy to control its costs in consideration of the globally oil price in recovery during 2017 to 2019 following the significant drop since 2014. Nevertheless, we noted from the management that the Company's operation model will not face significant change based on our review of the Company's recent development plan and that the cost from the Machinery Leasing, Equipment, Material and Utilities Services will remain relatively stable, hence it is expected that the percentage of costs from the Continuing Connected Transactions in the total cost of the Group will not encounter any substantial changes. The rationale behind our analysis is that we note that an increase in the Group's revenue will likely cause a corresponding increase in the amount of Machinery Leasing, Equipment, Material and Utilities Services demanded by the Group. After discussion with the management of the Company and taking into account that the average contribution during the periods from 2017 to 30 June 2019 for the historical continuing connected transaction amounts is 7.4%, we consider that the Company applied 8.0% contribution of the cost from the Continuing Connected Transactions in the total cost of the Group as the estimation of the amount of cost from the Continuing Connected Transactions for the next three years is fair and reasonable. In addition, management of the Company has also factored in the potential inflation in materials, cost of raw material brought by operation volume, oil price, utilities, as well as labour cost when determining the proposed annual caps. We consider the proposed annual caps are fair and reasonable.

Furthermore, as mentioned in the above, we concur with the Company that setting a buffer of approximately 20% allows the Company to have flexibility to cater the increase of services due to the business expansions. Hence, we consider the buffer is fair and reasonable.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### *Provision by the CNOOC Group of the Property Services to the Group*

We have obtained and reviewed the calculations provided by the management of the Company in relation to the computation of the anticipated amount of transactions in relation to the Property Services and understand that the related calculations on the Proposed Annual Caps has been taken into consideration of the impact of the New Accounting Standards by the Company. We have examined the cost basis of the Group and have performed our analysis on the percentage of the proposed annual caps and historical transaction amounts against the total revenue of the Group. Same reasons as we have discussed in the above that the Group has strictly controlled the costs during 2017 to 30 June 2019 due to the globally oil price in recovery and decreased in the demands for oilfield services resulting in a historically low continuing transaction amounts against the existing annual caps regarding the Property Services. Nevertheless, we noted from the management that the Company's operation model will not face significant change based on our review of the Company's recent development plan and that the cost from the Property Services provided by the CNOOC Group to the Group will remain relatively stable, hence it is expected that the percentage of costs from the Continuing Connected Transactions in the total cost of the Group will not encounter any substantial changes. The rationale behind our analysis is that we note that an increase in the Group's revenue will likely cause a corresponding increase in the size of the office and working space demanded by the Group. 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 periods from 2017 to 30 June 2019, being 9.6%, we consider is fair and reasonable to estimate the cost from property lease-related Continuing Connected Transactions, being 10.0% of the total cost from the Continuing Connected Transactions for the following three years. In addition, management of the Company has also factored in the potential inflation of land price as well as property services cost when determining the proposed annual caps. We consider the proposed annual caps are fair and reasonable.

As mentioned in above, we concur with the Company that setting a buffer of approximately 20% allows the Company to have flexibility to cater the increase of services due to the business expansions. Hence, we consider the buffer is fair and reasonable.

As such, we are of the view the basis of determining the proposed annual caps for the Property Services are fair and reasonable.

#### **5.4 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.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### **5.5 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.

### **5.6 Reasons for and Benefits of Entering into the Master Agreement**

We understand from the management of the Company that 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, we concur with 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, we have the same view as the Company 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.

## **6. Internal controls for the Group's Continuing Connected Transactions**

We have enquired the management of the Company about the internal control regarding the Continuing Connected Transactions and have reviewed the related policies and system adopted by the Group. We consider that the Company has adopted adequate internal control measures. In particular:

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*(i) 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.

*(ii) 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](http://www.ihsmarkit.com)), Clarkson ([www.crsl.com](http://www.crsl.com)) and Rigzone ([www.rigzone.com](http://www.rigzone.com)). IHS Markit and Clarkson provide information and analysis to support the decision-making process

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

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. We consider that IHS Markit, Clarkson and Rigzone are internationally well-known independent information providers in the oil and gas industry and their data is commonly used by the industry players. 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 the Group operate at, and will be adjusted in a  $\pm 10\%$  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. We consider these factors under the Group's pricing policy for the provision of the Oilfield Services are commonly adopted and considered in a negotiation process in connection of the provision of services of this kind as to ensure the terms are no less favourable than other third parties. We also consider that a price that is reached through a negotiation of this kind under the Group's pricing policy is consistent with the market practice and on normal commercial terms. We are of the view that the above pricing mechanism for the provision by the Group of the Oilfield Services to the CNOOC Group is fair and reasonable and are on normal commercial terms.

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



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Company's business 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. In this regard, we have discussed with the management of the Company and understand that once such special circumstances happen, the procurement department of the Company which is separated from and independent of other departments will compare with no less than three other independent third-party providers who have comparable equipment to that of CNOOC Group and ensure the average price from the other independent third-party providers would be less favourable to the prices offered by CNOOC Group to the Company. We consider that it is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

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:

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- 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.

In light of the above, we believe that the Directors will supervise the internal control manner of the Company appropriately while the Company would also actively cooperate with the review procedures with the independent non-executive Directors, as well as facilitating the provision of any necessary updates or information to the independent non-executive Directors. We consider that the Company has adopted adequate internal control measures to be able to comply with the Listing Rules requirements with respect to the supervision and monitoring of the Proposed Annual Caps of the Continuing Connected Transactions under the Master Agreement.

### RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- (a) the Proposed Revised Cap is fair and reasonable so far as the Independent Shareholders are concerned, and entering into the Supplemental Service Agreement is in the interest of the Company and the Shareholders as a whole;
- (b) the provision of the Oilfield Services by the Group is squarely within the principal business of the Group and are in the ordinary and usual course of business of the Group, on normal commercial terms and is in the interests of the Company and its Shareholders as a whole;
- (c) the provision by the CNOOC Group of the machinery leasing, Equipment, Material and Utilities Services to the Group is on normal commercial terms and in the interests of the Company and its Shareholders as a whole;



---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- (d) the provision by the CNOOC Group of the Property Services to the Group is on normal commercial terms and in the interests of the Company and its Shareholders as a whole;
- (e) the basis of determining the annual caps for the Oilfield Services are fair and reasonable;
- (f) the basis of determining the annual caps for the machinery leasing, Equipment, Material and Utilities Services are fair and reasonable; and
- (g) the basis of determining the annual caps for the Property Services are fair and reasonable.

Having considered the above, we are of the view that the terms of the Supplemental Service Agreement and the Master Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolution in relation to the Supplemental Service Agreement and the Master Agreement and the relevant cap amounts thereunder in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**Platinum Securities Company Limited**

**Li Lan**

*Director and Co-head of Corporate Finance*

*Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Li Lan has over thirteen years of experience in corporate finance industry.*

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS****(a) Directors' and chief executive's interests and short positions in shares, underlying shares and debenture**

As at the Latest Practicable Date, none of the Directors, chief executive or supervisors and their respective associates had any interest or short positions in the shares of the Company or any of its associated corporations which would fall to be notified to the Company and the Hong Kong Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO or were required, pursuant to Section 352 of SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

**(b) Particulars of Directors' and supervisors' Service Contracts**

As at the Latest Practicable Date, none of the Directors or supervisors had an existing or proposed service contract with the Company, or any of its subsidiaries, which is not expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

**(c) As at the Latest Practicable Date:**

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

**(d) Directors' interests in competing businesses**

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or likely to compete with the business of the Group.

**3. SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and/or so far as is known to the Directors, the following companies (other than the Directors or chief executive of the Company) had, or were deemed or taken to have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

Name of shareholder	Capacity and nature of interest	Number (share) and Class of Shares	Approximate percentage in the same class of Shares	Approximate percentage of total issued share capital
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	272,078,009 (L)	15.02 (L)	5.70 (L)
		0 (S)	0.00 (S)	0.00 (S)
		271,677,475 (P)	15.00 (P)	5.69 (P)
GIC Private Limited	Interest of corporation controlled by the substantial shareholder	197,624,000 (L)	10.91 (L)	4.14 (L)
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	171,090,060 (L)	9.45 (L)	3.59 (L)
		6,772,000 (S)	0.37 (S)	0.14 (S)
Allianz SE	Interest of corporation controlled by the substantial shareholder	108,377,000 (L)	5.98 (L)	2.27 (L)
The Capital Group Companies, Inc.	Interest of corporation controlled by the substantial shareholder	107,003,339 (L)	5.91 (L)	2.24 (L)

Name of shareholder	Capacity and nature of interest	Number (share) and Class of Shares	Approximate percentage in the same class of Shares	Approximate percentage of total issued share capital
JPMorgan Chase & Co.	Interest of corporation controlled by the substantial shareholder	91,482,197 (L) 8,475,537 (S) 60,342,532 (P)	5.05 (L) 0.46 (S) 3.33 (P)	1.92 (L) 0.18 (S) 1.26 (P)

*Notes:*

- (a) "L" means long position.
- (b) "S" means short position.
- (c) "P" means lending pool.

Save as disclosed above, as at the Latest Practicable Date, as far as the Company is aware of, there was no other person (other than any Director or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### 4. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this circular, acquired or disposed of by or leased to any member of the Group.

#### 5. LITIGATION

In December 2016, COSL Offshore Management AS ("**COM**", a subsidiary of the Company) as a plaintiff filed a Statement of Claim against Statoil Petroleum AS (hereinafter "**Statoil**") with Oslo District Court of Norway (the "**Court**") through WIKBORG, REIN & CO. ADVOKATFIRMA DA, an international law firm based in Norway, as litigation agent. COM has claimed that Statoil's termination of the contract in respect of the drilling rig of COSLInnovator was unlawful and has claimed the contract to be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover COM's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. The Court entered into a judgement on 15 May 2018. The judgement may be appealed by either party within one month following the date of legal notice of the judgement was served. Statoil has changed its corporate name to Equinor Petroleum AS (hereinafter "**Equinor**"). On 14 June 2018, Equinor appealed to Borgarting Court of Appeal being the relevant appeal court in Norway. On 14 June 2018, COM has subsequently filed an independent appeal concerning the cancellation for convenience, since COM is of the view that the cancellation for convenience is unlawful and COM should

accordingly be entitled to damages for the loss suffered. For details, please refer to relevant announcements published by the Company on the website of HKSE (<http://www.hkex.com.hk>) and website of the Company (<http://www.cosl.com.cn>).

In January 2017, COM, a subsidiary of the Company as a plaintiff filed a Statement of Claim (the “**Claim**”) against Statoil with the Court through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent. COM is of the view that Statoil shall pay the Claim for cost reimbursement and rate reductions happened in the period of year 2016 in an amount up to the equivalence of US\$15,238,596 incurred as a consequence of the drilling rig of COSLPromoter’s compliance with requirements of Statoil. For details, please refer to relevant announcements published by the Company on the website of HKSE (<http://www.hkex.com.hk>) and website of the Company (<http://www.cosl.com.cn>).

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was or might be engaged in any litigation or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance were pending or threatened by or against any member of the Group.

## 6. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change of the Company as of the Latest Practicable Date.

## 7. EXPERT’S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
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

Platinum Securities Company Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

Platinum Securities Company Limited has confirmed that, as at the Latest Practicable Date:

- (a) it did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

- (b) it did not have any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to, or which are proposed to be acquired, or disposed of by, or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

**8. GENERAL**

- (a) The company secretary of the Company is Ms. Wu Yanyan, who was appointed as the company secretary of the Company on 22 August 2019.
- (b) The principle share register and transfer office of the H-Shares of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The English text of this circular will prevail over the Chinese text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 22 of this circular;
- (b) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 47 of this circular;
- (c) the written consent from the Independent Financial Adviser referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix;
- (d) the Master Agreement; and
- (e) the Supplemental Service Agreement.

---

## NOTICE OF EGM

---

# 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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of China Oilfield Services Limited (the “Company”) will 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 for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. To consider and approve the resolution in relation to the revision of the annual cap of the continuing connected transactions of 2019 under the Master Services Framework Agreement for years 2017-2019;
2. To consider and approve the resolution in relation to the annual caps of the continuing connected transactions for the upcoming three years;
3. To consider and approve the resolution in relation to the US dollar loan by the overseas subsidiary, COSL MIDDLE EAST FZE, and the provision of guarantee by the Company;
4. To consider and approve the resolution in relation to the provision of guarantee for the issuance of US dollar bonds by an overseas subsidiary; and

#### SPECIAL RESOLUTION

5. To consider and approve the resolution in relation to the issuance of US dollar bonds by an overseas subsidiary in 2020.

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

Hong Kong, 11 November 2019

*Notes:*

- (1) All resolutions at the EGM will be voted by poll pursuant to the Hong Kong Listing Rules and the results of the poll will be published on the Stock Exchange's and the Company's websites in accordance with the Hong Kong Listing Rules.

---

## NOTICE OF EGM

---

- (2) Holders of the Company's overseas listed foreign invested shares (in the form of H Shares ("H Shares")) and holders of the Company's domestic shares ("A Shares") whose names appear on the Company's register of members on 18 November 2019 are entitled to attend and vote at the EGM.
- (3) H-Shares Shareholders who intend to attend the EGM should complete and return the written replies for attending the EGM to the Company's Hong Kong office by facsimile or post no later than 27 November 2019 for the Company to assess whether or not it is necessary to despatch the notice of EGM again:

Address: 65/F., Bank of China Tower  
1 Garden Road, Hong Kong  
Tel: (852) 2213 2515  
Fax: (852) 2525 9322

- (4) Each Shareholder who has the right to attend and vote at the EGM is entitled to attend in person or appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf. Where a Shareholder has appointed more than one proxy to attend the EGM, such proxies may only vote on a poll or a ballot. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. In the case that an appointor is a legal person, the power of attorney must be either under the common seal of the legal person or under the hand of its director or other person, duly authorized. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The power of attorney or other documents of authorization and proxy forms must be delivered to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours before the time appointed for the holding of EGM in order for such documents to be valid.
- (5) The Company's register of members will be closed from 18 November 2019 to 18 December 2019 (both days inclusive), during which time no transfer of Shares will be registered. Transferees of H Shares who wish to attend EGM must deliver their duly stamped instruments of transfer, accompanied by the relevant Share certificates, to Computershare Hong Kong Investor Services Limited by no later than 4:30 p.m. on 15 November 2019 for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company.

Computershare Hong Kong Investor Services Limited's address is as follows:  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

- (6) Shareholders or their proxies must present proof of their identities upon attending the EGM. Should a proxy be appointed, the proxy must also present copies of his/her proxy form, or copies of appointing instrument and power of attorney, if applicable.
- (7) Shareholders or their proxies attending EGM are responsible for their own transportation and accommodation expenses.

*As at the date of this notice, 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.*