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Sinopec Oilfield Service Corporation

(a joint stock limited company established in the People's Republic of China)

(Stock code: 1033)

**CONTINUING CONNECTED TRANSACTIONS
EQUIPMENT LEASING FRAMEWORK AGREEMENT**

On 25 August 2020, the Company entered into the Equipment Leasing Framework Agreement with China Petrochemical Corporation, pursuant to which, the Group agreed to lease equipment to and from Sinopec Group during the period from 25 August 2020 to 31 December 2021.

China Petrochemical Corporation and its associates hold approximately 70.18% of the Company's issued share capital and is therefore the Company's controlling shareholder. Under rules 14A.07(1) and 14A.07(4) of the Hong Kong Listing Rules, China Petrochemical Corporation and its associates are connected persons of the Company. Accordingly, the transactions between the Group and Sinopec Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the proposed annual caps of the transactions contemplated under the Equipment Leasing Framework Agreement exceed 0.1% but fall below 5%, the transactions contemplated under the Equipment Leasing Framework Agreement and the proposed annual caps are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

In accordance with the relevant requirements of Shanghai Listing Rules, the transaction of leasing equipment from Sinopec Group contemplated under the Equipment Leasing Framework Agreement is required to be submitted for consideration at the general meeting of the Company. Therefore, the Company will hold the first extraordinary

general meeting for 2020 to consider and approve the Equipment Leasing Framework Agreement and the transactions contemplated thereunder. The connected shareholder, China Petrochemical Corporation and its associates shall abstain from voting on the resolution in relation to the Transactions at the extraordinary general meeting.

I. INTRODUCTION

On 25 August 2020, the Company entered into the Equipment Leasing Framework Agreement with China Petrochemical Corporation, pursuant to which, the Group agreed to lease equipment to and from Sinopec Group during the period from the Agreement Effective Date to 31 December 2021.

II. EQUIPMENT LEASING FRAMEWORK AGREEMENT

The principal terms of the Equipment Leasing Framework Agreement are as follows:

Date:	25 August 2020
Parties:	(1) China Petrochemical Corporation (who shall procure its subsidiaries and/or associates to act in the same manner)
	(2) the Company (who shall procure its subsidiaries to act in the same manner)
Transactions:	Sinopec Group and the Group agreed to lease the equipment owned by them to each other for the purpose of production and operation
Valid period:	The Equipment Leasing Framework Agreement shall be signed and sealed by the legal representative or authorized representative of both parties and shall be effective from the date of approval by the independent shareholders at the general meeting of the Company to 31 December 2021
Scope of leased assets	(1) The equipment leased by the Group from Sinopec Group consists of: drilling rigs and their main equipment, imaging loggers, conventional loggers, integrated loggers, gas loggers, wireless drilling and other logging equipment and tools, downhole work rigs, fracturing trucks (skids), continuous tubular work trucks and other special operating equipment, seismic collection , processing equipment, controllable seismic sources, air gun seismic sources and other seismic geophysical

	<p>equipment, pipe hoists, directional drilling, automatic welding equipment, excavation machinery, pipeline construction machinery and other engineering machinery and equipment, marine transport vessels, marine geological survey vessels, geophysical exploration vessels and other marine engineering equipment.</p> <p>(2) The equipment leased to Sinopec Group from the Group consists of: vehicles, ships and general equipment for machinery construction, power, electricity, etc.</p>
<p>Pricing policy and payment:</p>	<p>(1) The rental paid by the Group for equipment leased from Sinopec Group shall be negotiated on an arm's length basis between the contracting parties, taking into account the following factors:</p> <ul style="list-style-type: none"> i. The Group will consult with at least two independent third parties by e-mail, fax or telephone to provide quotations and market transaction prices for the same type of leased equipment with reference to local comparable market prices (as determined by the consultation or as appraised by a professional appraisal agency); and ii. If comparable market prices are not available, it will be negotiated on the basis of depreciation of equipment, management fees, relevant taxes (VAT and surcharges) and reasonable profit. <p>(2) The rental charged by the Group for equipment leased to Sinopec Group shall be negotiated on an arm's length basis between the contracting parties, taking into account the following factors:</p> <ul style="list-style-type: none"> i. The Group will consult with at least two independent third parties by e-mail, fax or telephone to provide quotations and market transaction prices for the same type of leased equipment with reference to local comparable market prices (as determined by the consultation or as appraised by a professional appraisal agency);

	<p style="text-align: center;">and</p> <p>ii. If comparable market prices are not available, it will be negotiated on the basis of depreciation of equipment, management fees, relevant taxes (VAT and surcharges) and reasonable profit.</p> <p>Rental and payments for specific lease transactions shall be negotiated by the parties or their subsidiaries in a separate specific lease agreement.</p>
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III. PRICING PROCEDURES AND INTERNAL CONTROL SYSTEM FOR TRANSACTIONS CONTEMPLATED UNDER THE EQUIPMENT LEASING FRAMEWORK AGREEMENT

The Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions contemplated under the Equipment Leasing Framework Agreement are fair and reasonable and no less favourable than the terms provided by any independent third party, so as to ensure that they serve the interest of the Company and its shareholders as a whole. Such procedures and internal control measures mainly include:

- (1) The transactions arrangements contemplated under the Equipment Leasing Framework Agreement are conducted on a non-exclusive basis.
- (2) For leasing equipment from Sinopec Group, the equipment management departments of the members of the Group will submit the equipment leasing application to the Leasing Center, and then the Leasing Center will invite equipment leasing service suppliers, including Sinopec Group and other independent suppliers, to bid or provide price quotations, in accordance with the Group's overall management measures for equipment. Following the receipt of quotations from Sinopec Group and other independent equipment leasing suppliers, the Leasing Center will compare and negotiate the terms of quotations with these suppliers, and select such supplier by taking into account factors such as price quotations, equipment status, particular needs of the parties to the transactions, performance capability etc. The contract will be awarded to the supplier or service provider who offers the best commercial terms and technical terms to the Group upon obtained the approvals from the manager of the equipment management department or the senior management committee of relevant members of the Group, depending on the size of the transaction.
- (3) For leasing equipment to Sinopec Group, the equipment management departments

of the members of the Group will submit an application for external leasing to the Leasing Center, and the Leasing Center will firstly make an internal adjustment within the Group, if can't be adjusted, it will issue a leasing announcement or request Sinopec Group and other independent equipment demanders, to provide price quotations, in accordance with the Company's overall management measures for equipment. Following the receipt of quotations from Sinopec Group and other independent equipment demanders, the Leasing Center will compare and negotiate the terms of quotations with these demanders, and select such consumer by taking into account factors such as price quotations, equipment status, particular needs of the parties to the transactions, performance capability etc. The demanders will be determined by the manager of the equipment management department or the senior management committee of relevant members of the Group, depending on the size of the transaction.

- (4) The external auditor of the Company will conduct an interim review and year-end audit for each year, and will issue its opinion and letter to the Board in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the preceding financial year pursuant to the Hong Kong Listing Rules. In addition, according to the Hong Kong Listing Rules, the independent non-executive directors of the Company will also conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transaction amounts and terms of the agreements in relation to the continuing connected transactions set out in the annual report of the Company.
- (5) The supervisory committee of the Company are also responsible for, among others, supervising on the continuing connected transactions of the Company and reviewing the fairness of the transactions and whether the pricing of the transactions are fair and reasonable.
- (6) The Company's internal control and risk management departments, the audit committee of the Board and the supervisory committee will respectively organize internal testing and financial sample survey to check the completeness and effectiveness of the relevant internal control measures relating to the connected transactions from time to time., and will convene meetings at least twice a year to discuss and assess the implementation of continuing connected transactions. Meanwhile, the legal and contract management departments of the Company shall conduct prudent review and appraisal of the contracts, and the departments implementing the relevant contracts shall monitor the transaction amounts of the connected transactions in a timely manner and the business departments shall monitor and manage the compliance during the process of business operations.
- (7) The Company has formulated a series of internal rules and regulations on

connected transaction management, internal control management handbook and internal control assessment management methods, to ensure that connected transactions under the Equipment Leasing Framework Agreement will be conducted in accordance with the principles and spirits of such agreement.

By implementing the above procedures and internal control measures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing basis of transactions contemplated under the Equipment Leasing Framework Agreement will be on market terms and on normal commercial terms and will be fair and reasonable to the Company and the its shareholders as a whole.

IV. HISTORICAL FIGURES

For the year ended 31 December 2019, the Group's transaction of leasing equipment from the Sinopec Group was only for the lease of Exploration IV Drill Rig. The rental paid was RMB4.78 million, the right-of-use assets involved are listed below:

Transaction		Total right-of-use assets as of 31 December 2019
		<i>(RMB 100 million)</i>
Lease of Exploration IV Drill Rig by the Group from Sinopec Group		0.44

Sinopec Ocean Petroleum Engineering Co., Ltd. and Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd. have signed a lease agreement on 27 August 2019 for the lease of Exploration IV Drill Rig. For details, please refer to the connected transaction announcement dated 27 August 2019 and the circular for the first extraordinary general meeting for 2019 dated 19 September 2019 of the Company. Except for the lease of Exploration IV Drill Rig, the Group has not leased any other equipment from Sinopec Group in 2019 and during the period from 1 January 2020 to the date of this announcement.

The table below lists the rental collected by the Group from Sinopec Group for equipment lease for the year ended 31 December 2019:

Transaction		Rental charged for renting out equipment for the year ended 31 December 2019
		<i>(RMB 100 million)</i>
Lease of equipment by the Group to Sinopec Group		0

V. PROPOSED ANNUAL CAPS AND BASIS FOR DETERMINATION

The table below lists the proposed annual caps of transactions under the Equipment Leasing Framework Agreement as of 31 December 2021:

	Agreement Effective Date to 31 December 2020	1 January 2021 to 31 December 2021
Transactions	<i>(RMB 100 million)</i>	<i>(RMB 100 million)</i>
Lease of equipment by the Group from Sinopec Group (total right-of-use assets)	4.5	8.5
Lease of equipment by the Group to Sinopec Group (rental collected)	0.3	0.3

In the above continuing connected transactions, the Group expects that the rental paid to Sinopec Group in 2020 and 2021 will be RMB400 million and RMB500 million, respectively. The payment of the rental will come from the internal funds of the Group.

The Company expects that the proposed annual caps of the total right-of-use assets involved in the equipment leased by the Group from Sinopec Group takes into account the following factors: (1) in accordance with the Group's bid-winning contracts and newly signed contracts, the type and scale of external equipment leased by the Group in order to meet construction requirements; (2) the current market price of the relevant equipment; (3) the Group's estimates of related transactions, which have been added a certain margin to the estimated amount, leaving room for further growth of such transactions in the future and increasing flexibility.

The Company expects that the proposed annual caps of the rental involved in the lease of equipment by the Group to Sinopec Group takes into account the following factors: the type and scale of the equipment of the Group that is under downtime and idle due to insufficient workload, and the current rental market price of the equipment.

VI. REASONS AND BENEFITS

Since the beginning of this year, in order to effectively deal with the impact of low oil prices on the Group, the Group has coordinated market layout, optimised resource allocation, further controlled and optimised the scale of investment, and strived to maintain a lean and efficient scale of its own equipment to adapt to the changing external market environment and enhance the ability to resist risks. Due to the unbalanced exploration and exploitation workload released by the owners and seasonal factors, there are often structural gaps in their own construction equipment, which is usually adjusted through the external equipment leasing market. However, with the increasing

domestic development of deep and ultra-deep oil and gas reservoirs and deep shale gas, the owner's requirements for construction equipment and technology continue to increase, and the original external equipment leasing market cannot fully satisfy the equipment leasing needs of the Group. Sinopec Group owns related equipment manufacturing enterprises, as well as Taiping & Sinopec Financial Leasing and Pecinternational Leasing that can carry out financial leasing business. The Company and China Petrochemical Corporation have entered into the Equipment Leasing Framework Agreement, which can enable the Group to stably obtain the leasing source of related equipment and effectively solve the Group's equipment structural gap issues. In the meantime, in addition to adjustments within the Group, for the equipment that is under downtime and idle due to insufficient workload, the active pursuit of external leasing market can effectively vitalise the equipment that is under downtime or idle. Taiping & Sinopec Financial Leasing and Pecinternational Leasing have extensive experience in the development of external equipment leasing business, and can also quickly find lessees for the Group's related equipment that is under downtime or idle.

Therefore, the Board believes that the Equipment Leasing Framework Agreement and the transactions contemplated thereunder are in the interests of the Group and its shareholders as a whole.

VII. Implications under the Listing Rules

China Petrochemical Corporation and its associates hold approximately 70.18% of the Company's issued share capital and is therefore the Company's substantial shareholder. Under rules 14A.07(1) and 14A.07(4) of the Hong Kong Listing Rules, China Petrochemical Corporation and its associates are connected persons of the Company. Accordingly, the transactions between the Group and Sinopec Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the proposed annual caps of the transactions contemplated under the Equipment Leasing Framework Agreement exceed 0.1% but fall below 5%, the transactions contemplated under the Equipment Leasing Framework Agreement and the proposed annual caps are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to the Shanghai Listing Rules, China Petrochemical Corporation is a related party of the Company and the Transactions constitute related party transactions. Meanwhile, since the proposed annual cap for equipment leasing from Sinopec Group under the Equipment Leasing Framework Agreement exceeds RMB30 million, and accounts for more than 5% of the absolute value of the Company's most recent audited net assets, it is required to be submitted for

consideration at the first extraordinary general meeting for 2020 of the Company. As the proposed annual cap for equipment leasing to Sinopec Group under the Equipment Leasing Framework Agreement exceeds RMB3 million, and accounts for more than 0.5% of the absolute value of the Company's most recent audited net assets, it is required to be submitted to the Board for consideration. Therefore, the Company will convene the first extraordinary general meeting for 2020 to consider and approve the Equipment Leasing Framework Agreement and the transactions contemplated thereunder. The connected shareholder, China Petrochemical Corporation and its associates shall abstain from voting on the resolution in relation to the Transactions at the EGM during the consideration of the resolution at the first extraordinary general meeting for 2020 of the Company.

VIII. Opinions of the Board

On 25 August 2020, the twenty-first meeting of the ninth session of the board of directors of the Company was held. The Board considered and approved the Resolution Relating to the Signing of the Equipment Leasing Framework Agreement with China Petrochemical Corporation and the Annual Caps of the Relevant Continuing Connected Transactions under the Agreement for the Two Years Ending 31 December 2020 and 31 December 2021 (《關於與中國石油化工集團有限公司簽訂〈設備租賃框架協議〉及協議項下有關持續關聯交易截至2020年12月31日和2021年12月31日止兩個年度最高限額的議案》). Mr. Lu Baoping and Mr. Fan Zhonghai (the related Directors) abstained from voting at the Board meeting due to their positions in Sinopec Group.

After making all reasonable and prudent enquiries, the Directors (including independent non-executive Directors) believe that the Equipment Leasing Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and are in the normal or ordinary course of business of the Company which are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

IX. General Information

The Company

The Company is a joint stock limited company incorporated in PRC and a leading provider of oil and gas engineering and technical services in China. It owns engineering equipment and technologies in the fields of geophysics, drilling, logging and mud logging, cementing, special downhole operations, oilfield ground construction and oil and gas pipeline construction, and is able to provide comprehensive engineering and technical services throughout the whole lifecycle of oil and gas fields. In China, the Company has more than 50 years of operation, and has provided

oil and gas engineering services in 76 basins over time with operations across 14 provinces.

China Petrochemical Corporation

China Petrochemical Corporation was established in July 1998, and it is an authorised investment organization with a current registered capital of RMB274.87 billion. Its controlling shareholder is the State. Upon reorganisation in 2000, China Petrochemical Corporation transferred its principal petrochemical business to China Petroleum & Chemical Corporation. The principal operations of China Petrochemical Corporation include: exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive utilization of oil and natural gas; oil refining; wholesale and retail of oil products; production, sales, storage, transportation of petrochemical and other chemical products; industrial investment and investment management; exploration and design, construction and installation of petroleum and petrochemical engineering; repairing and maintenance of petroleum and petrochemical equipment; manufacture of mechanical and electrical equipment; technology and information, research and development, application and consultation services of alternative energy products; import and export business.

Taiping & Sinopec Financial Leasing

Taiping & Sinopec Financial Leasing was jointly invested and established by China Petrochemical Corporation and Taiping Life Insurance Co., Ltd., of which China Petrochemical Corporation holds 50% equity and Taiping Life Insurance Co., Ltd. holds 50% equity. The registered capital is RMB5,000 million currently. The business scope is financial leasing business, transfer and receipt of financial leasing assets, investment in fixed-income securities, acceptance of deposits from lessees, absorption of term deposits from nonbanking shareholders with terms of 3 months or above, interbank borrowing/lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leased items and economic consulting.

Pecinternational Leasing

Pecinternational Leasing was established on 15 October 1990 with a registered capital of USD 10 million. Among which, China Petrochemical Corporation holds 40% equity, Marubeni Corporation holds 15% equity, Mizuho Trust & Banking Co., Ltd. holds 15% equity and Mizuho Bank, Ltd. holds 30% equity. The business scope includes (1) financing leasing business: operate direct financing leasing, subleasing and leaseback of various advanced and applicable machinery, equipment, electrical appliances, transportation vehicle and various instruments and apparatus and other articles at home and abroad as well as disposal of the residual value of the leased articles ; (2) purchase the technology and goods required for the lease directly from home and abroad in accordance with the lease contract as entrusted by the users; (3) provide guarantee and consultation for leasing business.

X. Definition

In this announcement, unless the context requires otherwise, the following glossaries used shall

have the following meaning:

“Board”	the board of Directors of the Company
“Company”	Sinopec Oilfield Service Corporation , a joint stock limited company established in the PRC and its A shares are listed on the Shanghai Stock Exchange and its H shares are listed on the Main Board of Stock Exchange
“Group”	the Company and its subsidiaries
“China Petrochemical Corporation”	China Petrochemical Corporation, a wholly state-owned enterprise incorporated in the PRC and the controlling shareholder of the Company
“Sinopec Group”	China Petrochemical Corporation , its subsidiaries and associates (excluding the Group)
“Taiping & Sinopec Financial Leasing”	Taiping & Sinopec Financial Leasing Co., Ltd.
“Pecinternational Leasing”	Pecinternational Leasing Co., Ltd
“Equipment Leasing Framework Agreement”	the framework agreement entered into between the Company and China Petrochemical Corporation on 25 August 2020 in relation to the mutual leasing of equipment between the Group and Sinopec Group
“Leasing Center”	Sinopec Oilfield Equipment Adjustment and Leasing Center established by the Company and is authorised by the Company to carry out the adjustment, leasing, scrapping and other businesses of the equipment
“Agreement Effective Date”	the date on which the Equipment Leasing Framework Agreement is approved by the independent shareholders at the first extraordinary general meeting for 2020 of the Company
“Transactions”	the Group and Sinopec Group lease equipment to each other under the Equipment Leasing Framework Agreement
“Lease of the Exploration IV Drill Rig”	Sinopec Ocean Petroleum Engineering Co., Ltd., a wholly-owned subsidiary of the Company, leased the semi-submersible drill rig “Exploration IV” from Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd., a wholly-owned subsidiary of China Petrochemical Corporation
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Director(s)”	directors of the Company
“ Stock Exchange”	the Stock Exchange of Hong Kong Limited
“PRC”	People’s Republic of China
“RMB”	the lawful currency of the PRC

By Order of the Board

Li Honghai

Secretary to the Board

Beijing, 25 August 2020

As at the date of this announcement, the Board of Directors comprises Mr. Chen Xikun#, Mr. Yuan Jianqiang#, Mr. Lu Baoping+, Mr. Fan Zhonghai+, Mr. Wei Ran+, Ms. Jiang Bo, Mr. Chen Weidong* and Mr. Dong Xiucheng**

+ Non-Executive Director

Executive Director

** Independent Non-Executive Director*