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Sinopec Oilfield Service Corporation

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

(Stock Code: 1033)

DISCLOSABLE AND CONNECTED TRANSACTION FINANCE LEASING AGREEMENT

Finance Leasing Agreement

The Board announced that, on 11 January 2018, the Company's indirect wholly-owned subsidiary, Shengli Petroleum Engineering Company, as the Lessee, entered into the Finance Leasing Agreement with TSFL, as the Lessor. Pursuant to the Finance Leasing Agreement, (i) the Lessor agreed to purchase Leasing Assets from the Lessee, at a consideration of RMB1,000,000,000, and (ii) the Lessor agreed to lease back the Leasing Assets with a leasing principal of RMB1,000,000,000 to the Lessee. The leasing interest is approximately RMB174,159,722.23 (tax included) and the total rent (leasing principal plus leasing interest) is approximately RMB1,174,159,722.23.

Implications under the Listing Rules

As the highest applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Leasing Agreement exceed 5% but are less than 25%, the Finance Leasing Agreement therefore constitute a disclosable transaction of the Company under Rule 14.07 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, China Petrochemical Corporation is the Controlling Shareholder of the Company (holding 65.22% of the Company's total share capital in issue) and China Petrochemical Corporation holds 50% equity interest of TSFL, as such, TSFL is an associate of China Petrochemical Corporation under Chapter 14A of the Listing Rules, and therefore a connected person of the Company.

In accordance with Chapter 14A of the Listing Rules, transactions contemplated under this Finance Leasing Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and approval of Independent Shareholders requirements.

General Information

The Company will hold the EGM for the Independent Shareholders to consider and, if thought fit, approve the Finance Leasing Agreement and transactions contemplated thereunder by way of poll. China Petrochemical Corporation and its associates are considered to have material interests in the Finance Leasing Agreement and will abstain from voting on resolutions in relation to the Finance Leasing Agreement and transactions contemplated thereunder on the EGM. Connected directors Mr. Jiao Fangzheng and Mr. Li Lianwu (not the Shareholders of the Company) have abstained from voting on relevant board resolutions approving the Finance Leasing Agreement. Save as disclosed above, none of the Directors have any material interest in the Finance Leasing Agreement and therefore have not abstained from voting on relevant board resolutions approving the Finance Leasing Agreement.

The Company has formed an Independent Board Committee (comprising all Independent Non-executive Directors) in accordance with the Listing Rules, to advise Independent Shareholders on the Finance Leasing Agreement. In this regard, Anglo Chinese has been appointed as the Independent Financial Adviser to advise Independent Board Committee and Independent Shareholders on the Finance Leasing Agreement and transactions contemplated thereunder.

In accordance with the Listing Rules, a circular containing (among others) (i) further details of the Finance Leasing Agreement; (ii) recommendation from the Independent Board Committee; and (iii) letter of advice from the Independent Financial Adviser to Independent Board Committee and Independent Shareholders will be despatched to Shareholders on or before 23 January 2018.

Finance Leasing Agreement

The Board announced that, on 11 January 2018, the Company's indirect wholly-owned subsidiary, Shengli Petroleum Engineering Company, as the Lessee, entered into the Finance Leasing Agreement with TSFL, as the Lessor. Pursuant to which, (i) the Lessor agreed to purchase Leasing Assets from the Lessee, at a consideration of RMB1,000,000,000, and (ii) the Lessor agreed to lease back the Leasing Assets with a leasing principal of RMB1,000,000,000 to the Lessee. The leasing interest is approximately RMB174,159,722.23 (tax included) and the total rent (leasing principal plus leasing interest) is approximately RMB1,174,159,722.23.

Details of the Finance Leasing Agreement are summarised below:

Date

11 January 2018

Parties

Lessor : TSFL

Lessee : Shengli Petroleum Engineering Company

Leasing Assets

A total of 117 machines and equipment to be acquired by the Lessor and lease back to the Lessee under the Finance Leasing Agreement mainly include certain machines and equipment used by the Lessee for drilling and downhole operations. The details of the Leasing Assets will be disclosed in the circular to be despatched to the Shareholders in due course.

Sale and Purchase Arrangement

In accordance with the Finance Leasing Agreement, the Lessor shall purchase Leasing Assets from the Lessee at a consideration of RMB1,000,000,000. Transfer Consideration will be paid to the Lessee in full within 15 business days after the Commencement Date.

Transfer Consideration of RMB1,000,000,000 (equivalent to the leasing principal under the Finance Leasing Agreement as detailed below) is determined by both parties after arm's length negotiation, and with reference to the unaudited net carrying value of Leasing Assets as at 30 November 2017 of approximately RMB1,001,147,351.96 (has been reflected in the consolidated financial statements of the Group), terms of the lease and other similar finance arrangements. After considering (i) the Transfer Consideration is approximately equal to the net carrying value of Leasing Assets as at 30 November 2017; (ii) stock age, current condition and expected depreciation of the Leasing Assets; and (iii) specific purposes of the Leasing Assets, the Directors are of the view that the Transfer Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Sale-Leaseback Arrangement

Under the Finance Leasing Agreement, the Lessor agreed to lease back the Leasing Assets to the Lessee, for a term of 8 years from the Commencement Date. The 8 years term is arrived between the parties based on the assessment of capital requirement of the Lessee, repayment arrangement of the financing and depreciation duration of the Leasing Assets etc. Taking into account the total depreciation duration of the Leasing Assets is between 12 to 22 years and the leasing interest rate of such finance leasing, the Directors are of the view that the term of lease is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Leasing Consideration and Method of Payment

Under the Finance Leasing Agreement, total rent is the rent with value added tax, including leasing principal and leasing interest. Leasing principal amounted to RMB1,000,000,000. Leasing interest of approximately RMB174,159,722.23 (tax included) is calculated based on a fixed interest rate of 4% per annum. Total rent (leasing principal plus leasing interest) is approximately RMB1, 174,159,722.23.

Total rent is denominated in RMB, payable by the Lessee to the Lessor every 6 months starting from the sixth month from the Commencement Date. Payment date is the 25th day of the month at the end of each period (except for the last payment), totaling to 16 consecutive installments. If the Finance Leasing Agreement becomes effective on 8 February 2018, the first payment date shall be 25 August 2018. The remaining rent shall be settled on 25 February and 25 August in each of the following years. The last payment date shall be 8 February 2026.

The Leasing Consideration is determined by both parties after arm's length negotiation, and with reference to the current prices and interest rates of comparable financing transactions in the PRC.

In terms of leasing interest rate, the parties have referenced to the benchmark interest rate for RMB loans of over 5 years as promulgated by the PBOC from time to time (the current interest rate is 4.9%). The 4% leasing interest rate per annum under the Finance Leasing Agreement is approximately 18% lower than the basic loan interest rate of over 5 years announced by the PBOC on 24 October 2015 (being the latest available benchmark interest rate for RMB loans of over 5 years as announced by the PBOC). After taking into account (i) Shengli Petroleum Engineering Company has a relatively high debt to asset ratio and its profitability level in recent two years is unsatisfying and has encountered difficulties in obtaining financing from independent finance companies and banks, and the loan interest rates offered by banks to Shengli Petroleum Engineering Company may be comparatively high; and (ii) the 8 years term of this finance lease carries a leasing interest rate of 4% per annum, which is lower than the benchmark interest rate for RMB loans of over 5 years as promulgated by the PBOC, the Directors are of the view that the Leasing Consideration is on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Leasing Consideration is expected to be settled in cash with internal resources of the Lessee.

Ownership of Leasing Assets

Upon full settlement of the Transfer Consideration by the Lessor in accordance with the Finance Leasing Agreement, ownership of the Leasing Assets will be transferred to the Lessor. Meanwhile, the Lessor agreed to lease back the Leasing Assets to the Lessee. The Lessee is entitled to the possession, usage and benefits of such Leasing Assets. Upon expiry of the term of lease, the Lessee has the right to buy back the Leasing Assets from the Lessor at a nominal value of RMB1.

Guarantee

The Group does not need to provide any guarantee on the payment obligation of the Lessee under the Finance Leasing Agreement. In case the Lessee was not able to make timely payment at each installment when due, SOSC will provide active support to procure the Lessee to pay such rent.

Conditional Effectiveness

The Finance Leasing Agreement will become effective after being signed and sealed by legal representatives or authorised personnel of both parties (or personal seal) and being considered and approved at the general meeting of the Company.

Reasons and Benefits of entering into the Finance Leasing Agreement

The Board considered that undergoing financing with existing production facilities of Shengli Petroleum Engineering Company under the Finance Leasing Agreement will (i) improve the operating capital of Shengli Petroleum Engineering Company; (ii) improve the asset and liability structure of the Group, increase its long-term finance percentage, liquidise the assets of the Company and practically ease its liquidity pressure; and (iii) lower the capital cost and expand the financing channels of the Group. It is expected that the Finance Leasing Agreement and transactions contemplated thereunder will have no material impact on the Group's operation.

According to the China Accounting Standards for Business Enterprises, the Transfer Consideration is based on the net carrying amount of the asset and therefore will have no impact on the Company's profit and loss. Sale and lease-back constitutes a finance leasing, thus fixed assets of the Company will not decrease as a result of the Transaction. The Transaction will increase monetary capital of the Company, which in turns increase long-term payables of the Company.

The proceeds obtained by Shengli Petroleum Engineering Company under the Finance Leasing Agreement will be used mainly as follows:

- (i) approximately 60% of the proceeds will be deployed to overseas projects with better profitability such as new tenders on Saudi and Kuwait market;
- (ii) approximately 10% of the proceeds will be used to repay amounts due to suppliers, and at the same time actively strive for discounts from such suppliers to partially offset capital cost, the current overall discount ratio is approximately 5%; and
- (iii) the remaining 30% of the proceeds will be deployed to maintain normal operating capital requirement of Shengli Petroleum Engineering Company and supplement its liquidity.

Directors' View

The Directors (excluding connected directors Mr. Jiao Fangzheng and Mr. Li Lianwu who have abstained from voting) are of the view that, though the Finance Leasing Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the Finance Leasing Agreement is entered into between both parties after arm's length negotiation on normal commercial terms, the terms are all normal commercial terms, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Implications under the Listing Rules

As the highest applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Leasing Agreement exceed 5% but are less than 25%, the Finance Leasing Agreement therefore constitute a disclosable transaction of the Company under Rule 14.07 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, China Petrochemical Corporation is the Controlling Shareholder of the Company (holding 65.22% of the Company's total share capital in issue) and China Petrochemical Corporation holds 50% equity interest of TSFL, as such, TSFL is an associate of China Petrochemical Corporation under Chapter 14A of the Listing Rules, and therefore a connected person of the Company. In accordance with Chapter 14A of the Listing Rules, transactions contemplated under this Finance Leasing Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and approval of Independent Shareholders requirements.

Information on the parties

The Group

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. The Group 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/gas fields. The Group has over 50 years of operation, provided oilfield services in 76 basins, with business across 14 provinces in the PRC.

Shengli Petroleum Engineering Company

Shengli Petroleum Engineering Company is a limited liability company incorporated in the PRC with registered capital of RMB700 million. It is currently the wholly-owned subsidiary of SOSC. Its principal business includes oilfield operation services, downhole design, operation and technical services and geological survey.

TSFL

TSFL is a company incorporated in the PRC with limited liability. It is principally engaged in businesses such as finance leasing and transferring in and out assets under a finance lease. TSFL is jointly invested and set up by China Petrochemical Corporation and Tai Ping Life Insurance Company Limited, of which China Petrochemical Corporation holds 50% and Tai Ping Life Insurance Company Limited holds 50%.

General Information

The Company will hold the EGM for the Independent Shareholders to consider and, if thought fit, approve the Finance Leasing Agreement and transactions contemplated

thereunder by way of poll. China Petrochemical Corporation and its associates are considered to have material interests in the Finance Leasing Agreement and will abstain from voting on resolution in relation to the Finance Leasing Agreement and transactions contemplated thereunder on the EGM. Connected directors Mr. Jiao Fangzheng and Mr. Li Lianwu (not the Shareholders of the Company) have abstained voting on relevant board resolutions approving the Finance Leasing Agreement. Save as disclosed above, none of the Directors have any material interest in the Finance Leasing Agreement and therefore have not abstain from voting on relevant board resolutions approving the Finance Leasing Agreement.

The Company has formed an Independent Board Committee (comprising all Independent Non-executive Directors) in accordance with the Listing Rules, to advise Independent Shareholders on the Finance Leasing Agreement. In this regard, Anglo Chinese has been appointed as the Independent Financial Adviser to advise Independent Board Committee and Independent Shareholders on the Finance Leasing Agreement and transactions contemplated thereunder.

In accordance with the Listing Rules, a circular containing (among others) (i) further details of the Finance Leasing Agreement; (ii) recommendation from the Independent Board Committee; and (iii) letter of advice from the Independent Financial Adviser to Independent Board Committee and Independent Shareholders will be despatched to Shareholders on or before 23 January 2018.

DEFINITIONS

Unless the context otherwise requires, the following terms in this announcement shall have the meanings set out below:

“Anglo Chinese” or “Independent Financial Adviser”	Anglo Chinese Corporate Finance, Limited is a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as the Independent Financial Adviser appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Finance Leasing Agreement and transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
" business days"	any time (other than a Saturday, Sunday and public holiday) on which PRC commercial banks are generally open for banking business

“China Petrochemical Corporation”	China Petrochemical Corporation (中國石油化工集團公司), a wholly state-owned enterprise incorporated in the PRC and the Controlling Shareholder of the Company, holding 65.22% of the Company’s total share capital in issue
“Commencement Date”	the date on which the Finance Leasing Agreement becomes effective, i.e. 8 February 2018
“Company”	Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司), 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 the Stock Exchange
“Connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	Directors of the Company
“EGM”	the first extraordinary general meeting for 2018 of the Company to be convened on Thursday, 8 February 2018 for the purpose of approving (among others) the Finance Leasing Agreement and transactions contemplated thereunder
“Finance Leasing Agreement”	the finance leasing agreement (leaseback) entered into between the Lessor and the Lessee on 11 January 2018
“Group”	the Company and its subsidiaries
“Independent Board Committee”	a committee comprised of all Independent Non-executive Directors, formed to advise the Independent Shareholders on the Finance Leasing Agreement

“Independent Non-executive Director(s)”	the independent non-executive director(s) of the Company
“Independent Shareholder(s)”	Shareholder(s) other than China Petrochemical Corporation and its associates
“Leasing Assets”	A total of 117 machines and equipment to be acquired by the Lessor and lease back to the Lessee under the Finance Leasing Agreement, mainly include certain machines and equipment used by the Lessee for drilling and downhole operations
“Leasing Consideration”	the total rent payable by the Lessee under the Finance Leasing Agreement
“Lessee”	Shengli Petroleum Engineering Company
“Lessor”	TSFL
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
"PBOC"	the People’s Bank of China
“PRC”	People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	the lawful currency of the PRC
“Shareholder(s)”	registered holders of shares of the Company
“Shengli Petroleum Engineering Company”	China Petrochemical Shengli Petroleum Engineering Company Limited (中石化勝利石油工程有限公司), an indirect wholly-owned subsidiary of the Company
“SOSC”	Sinopec Oilfield Service Corporation (中石油石油工程技術服務有限公司), a direct wholly-owned subsidiary of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	transactions under the Finance Leasing Agreement, including sale and purchase of the Leasing Assets and sale-leaseback arrangement
“Transfer Consideration”	RMB1,000,000,000 payable by TSFL to Shengli Petroleum Engineering Company for purchasing the Leasing Assets under the Finance Leasing Agreement
“TSFL”	Taiping & Sinopec Financial Leasing Co. Ltd. (太平石化金融租賃有限責任公司)
“%”	per cent

By Order of the Board
Li Honghai

Beijing, 11 January 2018

Secretary to the Board

As of the date of this announcement, directors of the Company are: Jiao Fangzheng⁺, Sun Qingde[#], Zhou Shiliang[#], Li Lianwu⁺, Jiang Bo^{}, Zhang Huaqiao^{*} and Pan Ying^{*}.*

+ Non-executive Director

Executive Director

** Independent Non-executive Director*