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Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

DISCLOSEABLE AND CONNECTED TRANSACTION FINANCE LEASING AGREEMENT

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

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

The letter from the Board and the letter from the Independent Board Committee are set out respectively on pages 4 to 10 and pages 11 to 12 of the circular. The letter from the Independent Financial Adviser is set out on pages 13 to 30 of the circular, which contains its advice to the Independent Board Committee and Independent Shareholders.

The Company proposes to convene the EGM at the Meeting Room 6, the Third Floor of Kun Tai Royal Hotel B12 Chaowai Street, Chaoyang District, Beijing, PRC on Thursday, 8 February 2018 at 9:00 a.m. The supplemental notice and proxy form for the EGM were dispatched on 11 January 2018.

Beijing, the PRC
22 January 2018

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DEFINITIONS

In this circular, except where the context otherwise requires, the following expressions shall have the following meanings:

“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 as at the Latest Practicable Date
“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 Hong Kong 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

DEFINITIONS

“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
“Latest Practicable Date”	17 January 2018
“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 machines and equipment used by the Lessee for drilling and downhole operations
“Leasing Consideration”	the total leasing consideration 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 circular, 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 (中石化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
“Supervisor(s)”	the supervisors of the Company

DEFINITIONS

“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

LETTER FROM THE BOARD



Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

Directors:

Mr. Jiao Fangzheng
Mr. Sun Qingde
Mr. Zhou Shiliang
Mr. Li Lianwu

Registered address:

22 Chaoyangmen North Street
Chaoyang District
Beijing, the PRC

Independent Non-executive Directors:

Ms. Jiang Bo
Mr. Zhang Huaqiao
Mr. Pan Ying

Principal place of business in Hong Kong:

26th Floor Jardine House
1 Connaught Place
Central
Hong Kong

22 January 2018

To the Shareholders

Dear Sir or Madam:

DISCLOSEABLE AND CONNECTED TRANSACTION FINANCE LEASING AGREEMENT

References is made to the announcements in relation to the Finance Leasing Agreement dated 11 January 2018 published by the Company.

The purpose of this circular, among other matters, is to provide you with further information regarding (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; so that you can make informed decisions on whether or not to vote for relevant resolutions to be proposed at the EGM.

(I) DISCLOSABLE AND CONNECTED TRANSACTION — FINANCE LEASING AGREEMENT

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

LETTER FROM THE BOARD

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 summarized 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. Please refer to Appendix II of this circular for the details of the Leasing Assets.

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 principal of rent 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 commenced from the Commencement Date. The 8 years term is arrived between the parties based on the assessment of capital requirement of the Lessee, repayment

LETTER FROM THE BOARD

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, 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 of the lease. 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 became effective on 8 February 2018, first payment date shall be 25 August 2018, 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. Please refer to Appendix III of this circular for the breakdown of the estimated Leasing Consideration.

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 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

LETTER FROM THE BOARD

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, SOSOC 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 on 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, Transfer Consideration under the Transaction is based on 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 oversea 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.

LETTER FROM THE BOARD

Directors' View

Connected directors Mr. Jiao Fangzheng and Mr. Li Lianwu, who does not hold any interests in the Shares 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 abstain from voting on relevant board resolutions approving the Finance Leasing Agreement.

Directors (excluding connected directors Mr. Jiao Fangzheng and Mr. Li Lianwu who have abstained from voting) considered 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 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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

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%.

(II) EGM

The Company proposes to convene the EGM at the Meeting Room 6, the Third Floor of Kun Tai Royal Hotel B12 Chaowai Street, Chaoyang District, Beijing, PRC on Thursday, 8 February 2018 at 9:00 a.m. The supplemental notice and proxy forms for the EGM were dispatched on 11 January 2018 to the shareholders.

China Petrochemical Corporation and its associates (holding 9,224,327,662 A shares of the Company, representing 65.22% of the Company's total share capital in issue) will abstain from voting on the ordinary resolutions in respect of the Finance Leasing Agreement and the transactions contemplated thereunder at the EGM.

Votes on the resolutions to be proposed at the EGM shall be taken by way of poll.

The Company is required to notify Shareholders of any material changes to information contained in this circular as soon as possible subsequent to its despatch and prior to the EGM.

(III) RECOMMENDATION

Your attention is drawn to (I) the letter from the Independent Board Committee dated 22 January 2018 on pages 11 to 12 of the circular, which set out the recommendation from the Independent Board Committee to Independent Shareholders on the Finance Leasing Agreement and the transactions contemplated thereunder, and (II) the letter from the Independent Financial Adviser dated 22 January 2018 on pages 13 to 30 of the circular, being the recommendation from Anglo Chinese, the Independent Financial Adviser, to the Independent Board Committee and Independent Shareholders on the Finance Leasing Agreement and the transactions contemplated thereunder and the key factors and reasons considered when making the recommendation.

LETTER FROM THE BOARD

The Directors (including the members of the Independent Board Committee) have reviewed the factors and reasons considered and the recommendations made as set out in the letter from the Independent Financial Adviser and opine that the Finance Leasing Agreement and the transactions contemplated thereunder are fair and reasonable on normal commercial terms and in the overall interests of the Company and the Shareholders. Accordingly, the Directors advise the Shareholders (including the Independent Shareholders) to vote in favour of the relevant resolution proposed at the EGM.

The text of the letter from Independent Board Committee is set out on pages 11 to 12 of this circular and the text of the letter from Anglo Chinese containing its advise is set out on pages 13 to 30 of this circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

Independent Non-executive Directors:

Ms. Jiang Bo

Mr. Zhang Huaqiao

Mr. Pan Ying

22 January 2018

To the Independent Shareholders

Dear Sir or Madam:

DISCLOSABLE AND CONNECTED TRANSACTION FINANCE LEASING AGREEMENT

INTRODUCTION

We refer to the circular (the “**Circular**”) dated 22 January 2018 issued by the Company to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We are writing to you to set out our advice as to whether, in our opinion, the terms of the Finance Leasing Agreement are fair and reasonable so far as the Independent Shareholders are concerned. The terms and the reasons for the Finance Leasing Agreement and the transactions contemplated thereunder are summarised in the letter from the Board in the Circular. In considering the fairness and reasonableness, the Independent Board Committee has been advised by Anglo Chinese. You are strongly urged to read Anglo Chinese’s letter to the Independent Board Committee which is set out on pages 11 to 12 of the Circular.

RECOMMENDATION

We have discussed with the management of Company the reasons for the Finance Leasing Agreement, the factors for the determination of the price for the Finance Leasing Agreement, the terms of thereof, and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Anglo Chinese in arriving at its opinion regarding the Finance Leasing Agreement and the transactions contemplated thereunder as set out in the letter from Anglo Chinese on pages 13 to 30 of the Circular, which we urge you to read carefully.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee concurs with the views of Anglo Chinese and consider that the Finance Leasing Agreement and the transactions contemplated thereunder to be in the best interest of the Company and its Shareholders and are fair and reasonable so far as the Independent Shareholders are concerned. 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 on normal commercial terms or better. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions relating to the Finance Leasing Agreement and the transactions contemplated thereunder as set out in the Circular which is contained in the supplemental notice of the EGM despatched to the Shareholders on 11 January 2018.

Yours faithfully,

Ms. Jiang Bo, Mr. Zhang Huaqiao, Mr. Pan Ying
Independent Non-executive Directors

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

ANGLO CHINESE

CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
www.anglochinesegroup.com

財務顧問有限公司
英高

*To the Independent Board Committee
and the Independent Shareholders*

22 January 2018

Dear Sirs,

**DISCLOSABLE AND CONNECTED TRANSACTION IN RELATION TO FINANCE
LEASING AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Finance Leasing Agreement and transactions contemplated thereunder. Details of the Finance Leasing Agreement, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 22 January 2018, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcement of the Company dated 11 January 2018 (“**Announcement**”). On 11 January 2018, the Board announced that, 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, for a term of 8 years. 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.

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 Latest Practicable Date, 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, as well as 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.

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. Connecting directors Mr. Jiao Fangzheng and Mr. Li Lianwu (neither of them are the Shareholders of the Company) have avoided 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 whether the Finance Leasing Agreement are on normal commercial terms, in the ordinary course of business and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Independent Board Committee is also to advise the Independent Shareholders on whether to vote in favour of the resolutions. With the approval of the Independent Board Committee, we have been appointed as the Independent Financial Adviser to advise Independent Board Committee and Independent Shareholders on the same bases.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in this circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this circular.

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a

reasonable basis of our opinion. The Company is required to notify Shareholders of any material changes to information contained in this circular as soon as possible subsequent to its despatch and prior to the EGM. If we become aware of any such material change, we will notify the Shareholders accordingly and of the potential impact on our recommendation set out in this letter as soon as possible. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, Shengli Petroleum Engineering Company, China Petrochemical Corporation, TSFL or any of their respective subsidiaries or associates.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Anglo Chinese was appointed by the Company on one occasion, details of which were set out in the circular of the Company dated 18 October 2017. Given our independent role and normal professional fee received from the Company under the past engagement, we consider it would not affect our independence to form our view in this letter.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby we will receive any benefits from the Company or any of its associates.

PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Finance Leasing Agreement, we have taken into account the following principal factors:

I. Background and reasons for entering into the Finance Leasing Agreement

Business and financial information of the Group

The Company is an oil and gas engineering and technical services provider in PRC. The Group owns engineering equipment and technologies in association with geophysics, drilling, logging and mud logging, cementing, special downhole operations, oilfield ground construction and oil and gas pipeline construction, and is capable of providing comprehensive engineering and technical services throughout the whole lifecycle of oil and/or gas fields.

Set out below is a summary of the audited consolidated financial results of the Group as extracted from the Company's annual reports for the year ended 31 December ("FY") 2014, 2015 and 2016 and the unaudited (but reviewed by the auditor) financial results of the Group for the six months ended

30 June (“1H”) 2016 and 2017 as extracted from the Company’s interim report 2017. Figures presented in the below table are prepared in accordance with International Financial Reporting Standards:

Consolidated income statement

<i>(RMB'000)</i>	For the year ended 31 December			For the six months ended 30 June	
	2014 <i>(audited)</i>	2015 <i>(audited)</i>	2016 <i>(audited)</i>	2016 <i>(unaudited)</i>	2017 <i>(unaudited)</i>
Revenue	78,993,315	60,349,334	42,923,500	18,689,863	19,842,318
Profit/(loss) before taxation	3,320,072	469,719	(15,887,181)	(4,325,016)	(1,932,810)
Net profit/(Loss) attributable to Shareholders	1,257,308	(11,543)	(16,198,242)	(4,438,143)	(2,132,148)
Earnings/(Loss) per Share (RMB)	0.083	(0.001)	(1.145)	(0.314)	(0.151)

Consolidated balance sheet

<i>(RMB'000)</i>	As at 31 December			As at 30 June
	2014 <i>(audited)</i>	2015 <i>(audited)</i>	2016 <i>(audited)</i>	2017 <i>(unaudited)</i>
Total current asset	44,532,552	48,187,792	40,155,491	36,489,529
Cash and cash equivalents	1,201,754	1,993,209	2,446,923	2,014,515
Notes and trade receivables	28,284,441	27,262,259	24,759,158	17,597,729
Total non-current assets	36,763,156	37,119,985	34,337,675	31,989,388
Total assets	81,295,708	85,307,777	74,493,166	68,478,917
Total current liabilities	61,937,914	59,909,391	65,115,489	61,178,325
Short term borrowings	12,015,579	12,157,672	17,254,639	19,162,260
Notes and trade payables	30,913,607	30,193,846	30,310,227	26,346,859
Total non-current liabilities	661,656	761,433	936,085	982,132
Long term borrowings	568,163	670,123	796,634	843,448
Total liabilities	62,599,570	60,670,824	66,051,574	62,160,457
Equity attributable to Shareholders	18,697,120	24,638,094	8,442,868	6,319,768
Net asset value per Share (RMB)	1.46	1.74	0.60	0.45

Consolidated statement of cash flows

<i>(RMB'000)</i>	For the year ended			For the six	
	31 December			months ended	
	2014	2015	2016	2016	2017
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities	4,501,360	2,595,785	(3,855,369)	(3,275,626)	(2,023,005)
Cash flows from investing activities	(2,528,821)	(5,003,471)	(201,380)	(9,533)	(200,284)
Cash flows from financing activities	(2,464,879)	3,199,141	4,510,463	3,663,555	1,820,864

FY2014 to FY2016

The Group's revenue dropped by approximately RMB36.1 billion, or 45.7%, from nearly RMB79.0 billion for FY2014 to RMB42.9 billion for FY2016. The Group's net results attributable to Shareholders deteriorated even more severely for the same periods, from a net profit of around RMB1.3 billion to a net loss of over RMB16.1 billion. The Company explained in its 2015 annual report and reiterated in its 2016 annual report, that the Group's disappointing financial results for the last two fiscal years were largely a manifestation of the prevalent challenging industry environment. International oil prices have continued to break low record one after another and even hit the lowest point of 12 years in 2016. Such price decreases have generally diminished oil and gas companies' appetite for upstream development and capital expenditure, and thus, reduced work volumes and service rates available in the oil and gas field service industry.

As a direct consequence of the net losses made in the last two consecutive years, the Group's equity attributable to Shareholders shrank from approximately RMB18.7 billion as at 31 December 2014 to merely over RMB8.4 billion as at 31 December 2016, representing a drop of more than RMB10 billion or 54.8% in terms of percentage.

Moreover, the Group reversed from generating net cash inflows from operating activities of approximately RMB4.5 billion for FY2014 to net cash outflows from operating activities of approximately RMB3.9 billion, a decrease of approximately RMB8.4 billion or approximately 185.7%, accompanied with it was the cutback of cash used in investing activities, from approximately RMB2.5 billion for FY2014 to merely approximately RMB0.2 billion in FY2016. In order to replenish working capital, the Group built up its debt position by approximately RMB5.5 billion, from approximately RMB12.6 billion as at 31 December 2014 to approximately RMB18.1 billion as at 31 December 2016.

IH2017

The Group's financial results improved year-on-year for 1H2017. Notwithstanding the fact that its 1H2017's revenue increased by only approximately RMB1.2 billion, or approximately 6.2%, its net loss attributable to Shareholders substantially narrowed by approximately RMB2.3 billion or approximately 52.0%, from over RMB4.4 billion for 1H2016 to approximately RMB2.1 billion for

1H2017. According to the Company's 2017 interim report, the improved financial performance for the period was mainly a result of rehabilitation of upstream capital expenditure for oilfield exploration and development by domestic and overseas oil companies due to the rebound of international crude oil prices by a year-on-year increase of approximately 27.8%.

Despite the improved financial performance, net loss generated for the period further reduced the Group's equity attributable to Shareholders from approximately RMB8.4 billion as at 31 December 2016 to approximately RMB6.3 billion as at 30 June 2017.

Cash flows from operating activities remained negative, at approximately -RMB2.0 billion for 1H2017. The Group took on additional debt of approximately RMB 2.0 billion (comparing to the level as at 31 December 2016) for working capital needs.

Major events after 30 June 2017

Non-public Placement

On 20 September 2017, the Board approved and passed a resolution to seek the Shareholders' consideration and approval at an extraordinary general meeting and classing meetings for the proposed placement by the Company of not more than 2,828,532,199 new A shares of the Company ("**A Share Placement**") and not more than 4,200,000,000 new H shares of the Company ("**H Share Placement**", together with the A Share Placement, the "**Non-public Placement**") to China Petrochemical Corporation and one of its subsidiaries, an investment scheme for the management of the Company, China Structural Reform Fund Corporation Limited and its designated related party, and up to eight other specific investors. It is expected that the gross proceeds to be raised from the Non-public Placement will be not more than RMB8 billion.

According to the Company's announcements dated 16 November 2017, an extraordinary general meeting and two class meetings for the A and H Shareholders were held on 16 November 2017, in which all the resolutions in relation to the Non-public Placement were passed. As at the Latest Practicable Date, neither the A Share Placement nor the H Share Placement has been completed.

Updates on business development

The Company made voluntary announcements to update Shareholders its business development:

- i. on 25 September 2017, in relation to entering into a contract on two deep well workover rig and a contract on mud logging project for five years, with a contract value of US\$60 million and US\$25 million, respectively;
- ii. on 9 November 2017, in relation to winning a bid for five sections of the project for construction of natural gas pipeline from Qianjian to Shaoguan with a construction period of 18 months, with a bid price of approximately RMB2.039 billion;

- iii. on 20 December 2017, in relation to winning a bid for the seventh section of the project for construction of the natural gas pipeline from Qianjian to Shaoguan with a construction period of 30 months, with a bid price of approximately RMB1.121 billion; and
- iv. on 3 January 2018, in relation to entering into a lump sum contract for drilling and completion of TIPUTINI Oilfield with a value of approximately US\$152.6 million, and a 3,000 kilometers 2D seismic acquisition project contract with a value of approximately US\$14.5 million.

Information of 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.

Information of China Petrochemical Corporation and TSFL

China Petrochemical Corporation is an authorised investment organisation with a current registered capital of RMB274.87 billion, with the State as its Controlling Shareholder. Its principal operations include exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive utilisation 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.

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%.

We have obtained and reviewed the business and financial licenses of TSFL and performed desktop due diligence on its background and compliance history. Based on those works, we conclude that nothing has come to our attention that causes us to believe TSFL is not duly incorporated or has had any material breach of relevant rules and regulations.

Reasons for and benefits of entering into the Finance Leasing Agreement

As set out in the letter from the Board, the Directors consider 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.

The Company expects that 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.

As set out in the letter from the Board, the Leasing Assets are mainly machines and equipment used by the Lessee for drilling and downhole operations. The arrangement under the Finance Leasing Agreement would enable Shengli Petroleum Engineering Company to obtain financing and continue to use the Leasing Assets for operation.

As at 30 June 2017, the Group had approximately RMB68,478.9 million of total assets and approximately RMB62,160.4 million of total liabilities, which represented a debt-to-assets ratio of 90.8%. And we noted from the 2017 interim report that, as at 30 June 2017, the Group's borrowings from bank and related companies were approximately RMB19,964.6 million, of which the short-term and long-term portion amounted to RMB19,144.9 million and RMB819.7 million, respectively. We acknowledge that the Non-public Placement will bring to the Group almost RMB8 billion when it is completed, but such amount appears to be insignificant comparing with the colossal amount of debt burdened by the Group.

In addition, we have also reviewed the financial accounts of Shengli Petroleum Engineering Company for FY2014, FY2015 and FY2016 and its major financial figures for 1H2017 as disclosed in the Company's 2017 interim report to figure out its recent business performances, indebtedness and working capital positions. We understand that it has made a net loss for the last two consecutive years. The level of loss was particularly severe for FY2016 which amounted to over RMB3.8 billion, resulting in a largely deprived shareholders' capital base of approximately RMB35.1 million as at 30 June 2017. By entering into the Finance Leasing Agreement with a term of 8 years, we concur with the Board the Company that this would allow the Group to improve its asset and liability structure, long-term finance percentage and liquidity position of the Group.

The Group is principally engaged in the business of oil and gas engineering and technical services. We noted it is disclosed in the 2016 annual report of the Company that the Group will continue to expand its share in overseas markets, further improve its presence in overseas markets, pay close attention to executing and renewing the ongoing projects in Saudi Arabia and Kuwait, strengthen

the efficient operation of new drilling rigs in Algeria, and vigorously promote the integrated reservoir services project in Ecuador. In this regard, we have reviewed minutes of Company's management meetings for tender bids for drilling projects in Saudi Arabia and Kuwait, to understand the Group's demand for additional capital in an organised manner.

We understood from the Company that the availability of financing channels is vital for the Group to facilitate its expansion plan. Taking into account various factors including the generally less stringent application requirement, lower leasing interest rate and longer leasing period offered by the finance leasing company as compared with traditional bank loans, and potential dilution effect from equity financing, the Directors are of the view that it is beneficial for the Group to broaden its financing options by entering into the Finance Leasing Agreement with TSFL, which also provides additional flexibility to the Group to satisfy its need for additional capital in an organised and cost-efficient manner.

In light of the above, we concur with the Directors' view that the choice of entering into the Finance Leasing Agreement is fair and reasonable and in the interest of the Group and the Shareholders as a whole.

II. Finance Leasing Agreement

Principal terms

Date

11 January 2018

Parties

Shengli Petroleum Engineering Company, as the Lessee; and

TSFL, as the Lessor.

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.

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.

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.

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, 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.

Ownership of Leasing Assets

Upon full settlement of 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 need not 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, SOSOC 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.

Assessment of the terms of the Finance Leasing Agreement

To evaluate the fairness and reasonableness of the terms of the Finance Leasing Agreement, and in particular, the transfer consideration, lease term, interest rate, arrangements of handling fee, risk deposit and guarantee, we have compared the principal terms of the Finance Leasing Agreement with recent precedents of other companies (the “**Lease Comparables**”) based on the following selection criteria:

- (i) finance leasing announced by companies listed on the Stock Exchange between 1 July 2017 and 11 January 2018, being the date of the Finance Leasing Agreement;
- (ii) finance leasing dominated in RMB with transfer consideration of not less than RMB100 million; and
- (iii) leasing assets are machinery or equipment.

We have identified, to the best of our knowledge and as far as we are aware of, based on the public information available on the website of the Stock Exchange, 16 Lease Comparables satisfying the above criteria, which is an exhaustive list and we consider they are fair and representative samples to provide a general reference for common market practice of recent finance leasing transactions which is comparable to the Transaction.

APPENDIX I

LETTER FROM ANGLO CHINESE

Announcement date	Stock code	Company name	Lessor	Principal activities of the listed company/ lessee(s)	Leasing assets	Transfer consideration (RMB million)	Interest payments (RMB million)	Lease term (years)	Interest rate	Transfer consideration to net book value of leasing assets	Handling fee provided	Risk deposit provided	Guarantee provided
28/12/2017	1250	Beijing Enterprises Clean Energy Group Limited	CNNC Financial Leasing Co., Ltd.	The group is principally engaged in the investment, development, construction, operation and management of photovoltaic power plants, photovoltaic power-related businesses and wind power-related business in the PRC.	Certain photovoltaic power generating equipment and ancillary facilities	520.0	199.3	10	Not disclosed	99.7%	Yes	Yes	Yes
28/12/2017	3948	Inner Mongolia Yitai Coal Co., Ltd.	Guangbo Huitong Finance Leasing (Shenzhen) Company Limited	The principal business include coal business, coal chemical business and other businesses.	Machinery, equipment and parts including desktop heat treatment furnaces, cranes, bridge cranes and parts of Fischer-Tropsch reactor, etc	180.0	21.9	3	5.00%	Not disclosed	No	No	No
22/12/2017	1091	CITIC Dameng Holdings Limited	Ping An International Financial Leasing Co., Ltd.	The lessee is principally engaged in manganese mining and downstream manganese operations.	Machinery and equipment for the operation of EMD plants	157.5	10.4	3	Not disclosed	236.5%	Yes	Yes	No
21/12/2017	2722	Chongqing Machinery & Electric Co., Ltd.	Kunlun Financial Leasing Co., Ltd.	The group is principally engaged in manufacturing and sale of vehicle parts and components, general machinery, CNC machine tools and power equipment.	Machine and equipment	210.0	34.4	5	4.75%	Not disclosed	No	No	No
18/12/2017	3300	China Glass Holdings Limited	Haitong UniTrust International Leasing Co., Ltd.	The lessee is principally engaged in the business of the production, marketing and distribution of glass and glass products.	Certain machinery and equipment for the float glass production line	200.0	22.8	3	6.20%	96.6%	Yes	Yes	Yes

APPENDIX I

LETTER FROM ANGLO CHINESE

Announcement date	Stock code	Company name	Lessor	Principal activities of the listed company/ lessee(s)	Leasing assets	Transfer consideration (RMB million)	Interest payments (RMB million)	Lease term (years)	Interest rate	Transfer consideration	Handling fee provided	Risk deposit provided	Guarantee provided
										to net book value of leasing assets			
14/12/2017	1250	Beijing Enterprises Clean Energy Group Limited	CNNC Financial Leasing Co., Ltd.	The group is principally engaged in the investment, development, construction, operation and management of photovoltaic power plants, photovoltaic power-related businesses and wind power-related business in the PRC.	Certain photovoltaic power generating equipment and ancillary facilities	590.0	21.9	0.75	Not disclosed	100.0%	Yes	No	Yes
14/12/2017	1250	Beijing Enterprises Clean Energy Group Limited	CNNC Financial Leasing Co., Ltd.	The group is principally engaged in the investment, development, construction, operation and management of photovoltaic power plants, photovoltaic power-related businesses and wind power-related business in the PRC.	Certain photovoltaic power generating equipment and ancillary facilities	304.0	107.7	10	Not disclosed	93.2%	Yes	Yes	Yes
11/12/2017	1250	Beijing Enterprises Clean Energy Group Limited	CQRC Financial Leasing Co., Ltd.	The lessee is principally engaged in the development, construction and operation of photovoltaic power plant.	Certain photovoltaic power generating equipment and ancillary facilities	800.0	240.0	8	Not disclosed	100.0%	No	Yes	Yes
13/10/2017	182	Concord New Energy Group Limited	Huaneng Tiancheng Financial Leasing Co. Ltd.	The group is principally engaged in (i) investing in wind and solar power projects and (ii) offering professional technical services and integrated solution to wind and solar power generation projects.	Certain machinery and equipment for the operation of wind power projects	550.0	191.0	11	Not disclosed	Not disclosed	Yes	Yes	Yes
29/09/2017	182	Concord New Energy Group Limited	Huaneng Tiancheng Financial Leasing Co. Ltd.	The group is principally engaged in (i) investing in wind and solar power projects and (ii) offering professional technical services and integrated solution to wind and solar power generation projects.	Certain machinery and equipment for the operation of wind power projects	230.0	88.4	12	Not disclosed	Not disclosed	Yes	Yes	Yes

Announcement date	Stock code	Company name	Lessor	Principal activities of the listed company/ lessee(s)	Leasing assets	Transfer consideration (RMB million)	Interest payments (RMB million)	Lease term (years)	Interest rate	Transfer consideration	Handling fee provided	Risk deposit provided	Guarantee provided
										to net book value of leasing assets			
29/09/2017	182	Concord New Energy Group Limited	Everbright Financial Leasing Co. Ltd.	The group is principally engaged in (i) investing in wind and solar power projects and (ii) offering professional technical services and integrated solution to wind and solar power generation projects.	Machinery and equipment for the operation of a wind power project in Hunan Province, the PRC	253.9	89.8	10	Not disclosed	Not disclosed	Yes	Yes	Yes
08/09/2017	3378	Xiamen International Port Co., Ltd	Xiamen Haixinsheng Financial Leasing Co., Ltd.	The group is the largest port terminal operator in Xiamen, the PRC.	Two sets of 65-tonnes 66-metre coastal container bridge cranes	101.6	37.3	8	5.96%	100.0%	Yes	No	Yes
29/08/2017	3300	China Glass Holdings Limited	Ping An International Financial Leasing (Tianjin) Co., Ltd.	The lessee is principally engaged in the business of the production, marketing and distribution of float glass and online Low-E glass products.	Certain machinery and equipment of the Online Low-E glass production line	150.0	9.7	3	4.75%	98.0%	Yes	Yes	Yes
23/08/2017	3948	Inner Mongolia Yitai Coal Co., Ltd.	Guangbo Huitong Finance Leasing (Shenzhen) Company Limited	The principal business include coal business, transportation business, coal chemical business and other businesses.	Machinery and equipment including cables, computer equipment, switchgears, elevators, cranes, steel structure, desktop heat treatment furnaces, electric platform wagons, heat exchanger units, water supply equipment, transformers and auxiliary equipment, etc.	150.0	22.5	3	5.00%	Not disclosed	No	No	No
09/08/2017	182	Concord New Energy Group Limited	Huaneng Tiancheng Financial Leasing Co. Ltd.	The group is principally engaged in (i) investing in wind and solar power projects and (ii) offering professional technical services and integrated solution to wind and solar power generation projects.	Machinery and equipment for the operation of wind power projects in Hubei Province, the PRC	260.0	108.5	13	5.41%	109.7%	Yes	Yes	Yes

Announcement date	Stock code	Company name	Lessor	Principal activities of the listed company/ lessee(s)	Leasing assets	Transfer consideration (RMB million)	Interest payments (RMB million)	Lease term (years)	Interest rate	Transfer consideration to net book value of leasing assets	Handling Risk		
											fee provided	deposit provided	Guarantee provided
12/07/2017	2014	Ozner Water International Holding Limited	Shanghai Zhongcheng Financial Leasing Co., Ltd.	The principal activities of the group are the provision of water purification services and air sanitization services.	Approximately 77,300 water purifying machines	100.0	9.2	3	5.49%	67.7%	Yes	No	Yes
					<i>Mean</i>			6.6	5.32%	110.1%			
									(Note)	(Note)			
					<i>Median</i>			6.5	5.21%	99.9%			
									(Note)	(Note)			
					<i>Max</i>			13.0	6.20%	236.5%			
					<i>Min</i>			0.8	4.75%	67.7%			
11/01/2018	1033	The Company	TSFL			1,000	172.5	8	4%	99.9%	No	No	No

Source: Website of Hong Kong Stock Exchange

Note: The figures are calculated by excluding those Lease Comparables with information shown as "Not disclosed".

Set out blow is our analysis on the principal terms of the Finance Leasing Agreement with reference to the information available and disclosed in the relevant announcements of the Lease Comparables as summarised above:

Assessment to the transfer consideration

As disclosed in the letter from the Board in this circular, the Transfer Consideration of RMB1,000,000,000 (equivalent to the leasing principal under the Finance Leasing Agreement) was determined after arm's length negotiations between Shengli Petroleum Engineering Company and TSFL with reference to the unaudited net carrying value of Leasing Assets as at 30 November 2017 of approximately RMB1,001,147,351.96 as reflected in the consolidated financial statements of the Group, terms of the lease and other similar finance arrangements.

As shown in the table above, the transfer consideration to net book value of leasing assets of the Lease Comparables ranged from approximately 67.7% to 236.5% with an average of approximately 110.1% and median of approximately 99.9%. The Transfer Consideration to the net carrying value of the Leasing Assets under the Finance Leasing Agreement is approximately 99.9%, which falls within the range of and is at par with the median of such ratios of the Lease Comparables.

Assessment to the lease term

As advised by the Company, the lease term of 8 years 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.

As shown in the table above, the lease terms of the Lease Comparables ranged from approximately 0.8 year to 13 years with an average of 6.6 years and a median of 6.5 years. We note that the lease term of 8 years under the Finance Leasing Agreement is longer than the average and median but falls within the range of the Lease Comparables. In addition, we have reviewed the schedule of the Leasing Assets with specifics, original costs, net carrying values, expected depreciation durations and stock age, and noted that most of the Leasing Assets have remaining usage life of over 8 years. Please refer to Appendix II to this circular for further details of the Leasing Assets.

Assessment to the interest rate

As mentioned in the letter from the Board, the leasing interest rate was determined after arm's length negotiations between the parties to the Finance Leasing Agreement with reference to the benchmark interest rate for RMB loans of over 5 years as promulgated by the PBOC from time to time. 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' loan announced by the PBOC on 24 October 2015 (being the latest available benchmark interest rate for RMB loans of over 5 years announced by the PBOC), which in the present stands at 4.9%.

As shown in the table above, the interest rates of the Lease Comparables ranged from approximately 4.75% to 6.20% with an average and median of approximately 5.32% and 5.21% respectively. The interest rate of the Finance Leasing Agreement of 4% falls below the lower end of such range.

Assessment to the handling fee, risk deposit and guarantee

Pursuant to the Finance Leasing Agreement, the Lessee is not required to pay any handling fee or consultancy fee to the Lessor, or provide any risk deposit to the Lessor or any guarantee on the payment obligation.

As shown in the table above, we noted that i) there are 12 out of 16 of the Lease Comparables that the lessees paid handling fees or consultancy fees to the Lessor for the finance leasing arrangements; ii) there are 10 out of 16 of the Lease Comparables that the lessees provided risk deposits to the Lessor; iii) there are 12 out of 16 of the Lease Comparables that guarantees have been provided for the payment obligations of the finance leasing transaction of the Lease Comparables. We consider providing handling fee, risk deposit or guarantee to a finance leasing transaction is not a compulsory practice and consider the arrangements of no handling fee, risk deposit and guarantee under the Finance Leasing Agreement fair and reasonable so far as the Independent Shareholders are concerned.

Based on the foregoing analysis, we are of the view that the terms of the Finance Leasing Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

III. Financial effects of the Finance Leasing Agreement

We have discussed with the auditor of the Company and understood that according to the China Accounting Standards for Business Enterprises, the Transaction would have the following financial impacts on the Company's balance sheet and profit and loss:

Effects of sale and purchase arrangement under the Finance Leasing Agreement

Upon completion of the sale and purchase arrangement, it is expected that i) the total assets of the Company would increase to reflect the cash inflow of the Transfer Consideration and there would be no material impact on the fixed assets of the Company as the net carrying value of the Leasing Assets is close to the Transfer Consideration; and ii) the total liabilities of the Company would increase to reflect the total rental payment obligation of the Company under the Finance Leasing Agreement. The sale and purchase arrangement would increase monetary capital of the Company, and increase long-term payables of the Company, and there would be no impact on the Company's profit and loss immediately upon the completion of the sale and purchase arrangement.

Effects of sale-leaseback arrangement under the Finance Leasing Agreement

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 rental interest expenses of approximately RMB174.2 million (tax included) would be incurred over the 8 years lease term which would have direct impact on the Company's profit and loss. Please refer to Appendix III to this circular for further details of estimated interest expenses during the leasing term.

In view of the above, the Finance Leasing Agreement would not have any material adverse impact on the financial position and results of the Group. Shareholders should note that the above analysis is for illustrative purpose only and do not purport to represent the financial results and financial position of the Group upon completion of the Transaction.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Transaction is not in the ordinary and usual course of business of the Company but is on normal commercial terms. The terms of the Finance Leasing Agreement are 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 recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Finance Leasing Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dian Deng
Director

Note: Ms Dian Deng is a licensed person registered with the SFC and a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over nine years of experience in corporate finance industry.

Details of Leasing Assets
(As of the Latest Practicable Date)

Equipment Name	Equipment Use	Quantity	Depreciation Duration (Range)	Remaining Depreciation Duration (Range)	Equipment Status	Total Net Assets as of 30 November 2017
Equipment for downhole operations	Downhole fracturing sand control, increasing permeability	13	12 years	8-11 years	Good	40,156,944.56
Equipment for marine operations	Shallow sea oil well overhaul operation	2	2 years	16-17 years	Good	417,061,827.22
Equipment for marine drilling	Shallow Sea oil engineering drilling construction	44	12-18 years	9-11 years	Good	277,020,320.01
Cementing equipment	Fix casing to co-ordinate with drilling construction	7	12 years	5-9 years	Good	24,302,129.06
Equipment for oil rigs	Onshoreoil engineering drilling construction	51	12 years	7-9 years	Good	242,606,131.11
Total		117	12-22 years	5-17 years		<u>1,001,147,351.96</u>

APPENDIX III BREAKDOWN FOR ESTIMATED LEASING CONSIDERATION

Breakdown for Estimated Leasing Consideration

Estimated commencement date: 8 February 2018

(Unit: RMB)

Installments	Payment date	Principal	Interest (Tax excluded)	Interest VAT	Total rent payable per installments
Commencement date	8 February 2018	—	—	—	—
1	25 August 2018	62,500,000.00	20,754,716.98	1,245,283.02	84,500,000.00
2	25 February 2019	62,500,000.00	18,081,761.01	1,084,905.66	81,666,666.67
3	25 August 2019	62,500,000.00	16,601,153.04	996,069.18	80,097,222.22
4	25 February 2020	62,500,000.00	15,670,859.54	940,251.57	79,111,111.11
5	25 August 2020	62,500,000.00	14,308,176.10	958,490.57	77,666,666.67
6	25 February 2021	62,500,000.00	13,259,958.08	795,597.48	76,555,555.56
7	25 August 2021	62,500,000.00	11,857,966.45	711,477.99	75,069,444.44
8	25 February 2022	62,500,000.00	10,849,056.60	650,943.40	74,000,000.00
9	25 August 2022	62,500,000.00	9,486,373.17	569,182.39	72,555,555.56
10	25 February 2023	62,500,000.00	8,438,155.13	506,289.31	71,444,444.44
11	25 August 2023	62,500,000.00	7,114,779.88	426,886.79	70,041,666.67
12	25 February 2024	62,500,000.00	6,027,253.67	361,635.22	68,888,888.89
13	25 August 2024	62,500,000.00	4,769,392.04	286,163.52	67,555,555.56
14	25 February 2025	62,500,000.00	3,616,352.20	216,981.13	66,333,333.33
15	25 August 2025	62,500,000.00	2,371,593.29	142,295.60	65,013,888.89
16	8 February 2026	62,500,000.00	1,094,077.57	65,644.65	63,659,722.22
Total		1,000,000,000.00	164,301,624.75	9,858,097.48	1,174,159,722.23

Note: This estimated Leasing Consideration is for reference only. The final rent payment shall be based on the actual rent payment table on the drawdown date of the Transfer Consideration.

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 Group. 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, Supervisors and Chief executive of the Company

As of the Latest Practicable Date, save as the share option scheme disclosed below, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which they are taken or deemed to have under such provisions of the Securities and Futures Ordinance); or interests or short positions required to be entered in the register referred to therein pursuant to section 352 of the Securities and Futures Ordinance; or interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”).

Name of Shareholder	Capacity	Class of shares	Amount	Approximate percentage of shareholding (%)	
				in such class of shares	in the total issued share capital of the Company
Sun Qingde	Beneficial owner	A Share Options ⁽¹⁾	210,000(L)	0.002(L)	0.001(L)
Zhou Shiliang	Beneficial owner	A Share Options ⁽¹⁾	210,000(L)	0.002(L)	0.001(L)
Huang Songwei	Beneficial owner	A Share Options ⁽¹⁾	180,000(L)	0.001(L)	0.001(L)
Zhang Yongjie	Beneficial owner	A Share Options ⁽¹⁾	190,000(L)	0.002(L)	0.001(L)
Lu Baoping	Beneficial owner	A Share Options ⁽¹⁾	190,000(L)	0.002(L)	0.001(L)
Liu Rushan	Beneficial owner	A Share Options ⁽¹⁾	190,000(L)	0.002(L)	0.001(L)
ZuoYaojiu	Beneficial owner	A Share Options ⁽¹⁾	180,000(L)	0.001(L)	0.001(L)
Zhang Jinhong	Beneficial owner	A Share Options ⁽¹⁾	180,000(L)	0.001(L)	0.001(L)
Li Honghai	Beneficial owner	A Share Options ⁽¹⁾	140,000(L)	0.001(L)	0.001(L)

(L) - Long positions

Notes:

- (1) Such shares include A share options granted on 1 November 2016 pursuant to the A Share Option Incentive Scheme of the Company passed on 25 October 2016 stock by the Company.

As of the Latest Practicable Date, save as disclosed below, none of the Directors or Supervisors is a director or an employee of the substantial shareholder of the Company.

- (1) Mr. Jiao Fangzheng is the Deputy General Manager of China Petrochemical Corporation, Director and Senior Vice President of China Petroleum & Chemical Corporation.
- (2) Mr. Li Lianwu is the Secretary of CPC Committee of Sinopec Oil and Gas Exploration and Development Company, Deputy Director of Exploration & Production Department of Sinopec.

(b) Substantial Shareholders and Others

To the best knowledge of the Directors, Supervisors and Senior Management of the Company and pursuant to the register of members of the Company and other registration documents received by the Company, as at the Latest Practicable Date, the following persons (other than a Director, Supervisor or Senior Management of the Company) or corporations had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in the relevant warrants:

Name of Shareholder	Number of Shares held	Capacity	Approximate percentage of shareholding in the total issued share capital of the Company (%)	Approximate percentage of shareholding in the total issued A Shares of the Company (%)	Approximate percentage of shareholding in the total issued H Shares of the Company (%)
China Petrochemical Corporation	9,224,327,662 A Shares	Beneficial owner	65.22	76.60	—

To the best knowledge of the Directors, Supervisors and Senior Management of the Company, save as disclosed above, as at the Latest Practicable Date, no other persons had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in the relevant warrants.

3. INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or Supervisors and their associates had any interest in a business which competes or is likely to compete with the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor its subsidiaries was engaged in any litigation or claim of material importance. To the best knowledge of the Directors, no litigation or claim of material importance is pending or threatened against the Company or any of its subsidiaries.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors has entered into any service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation), nor has any of the Directors entered into any service contract with any member of the Group or associated companies which are in force and (i) are fixed term contracts and which have more than 12 months to run irrespective of the notice period; or (ii) are continuous contracts with a notice period of 12 months or more; or (iii) have been entered into or amended within six months before the date of this circular.

7. QUALIFICATION OF EXPERT

- (a) The qualifications of Anglo Chinese who has given opinions or advice which are contained in this circular are as follows:

Name	Qualifications
Anglo Chinese	Anglo Chinese Corporate Finance, a licensed corporation which is licensed 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 Securities and Futures Ordinance of Hong Kong, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Finance Leasing Agreement and the transactions contemplated thereunder

- (b) As at the Latest Practicable Date, Anglo Chinese did not have any shareholding, directly or indirectly, 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.
- (c) As at the Latest Practicable Date, Anglo Chinese has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 22 January 2018 and references to its name in the form and context in which it is included.
- (d) As at the Latest Practicable Date, Anglo Chinese did not have any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (e) The letter and recommendation from the Anglo Chinese are given as of the date of this circular for incorporation herein.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, Directors are not aware of any material adverse change in the financial or operating condition of the Company and its subsidiaries since 31 December 2016 (being the date to which the latest published audited accounts of the Company and its subsidiaries were made up)

9. GENERAL INFORMATION

- (a) Business Address of the Company: #9 Jishikou Road, Chaoyang District, Beijing, the PRC

Postal Code: 100728
 Telephone: 86-10-5996 5998
 Facsimile: 86-10-5996 5997

- (b) The Company's share registrar in Hong Kong is Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9 a.m. to 5:30 p.m. on any weekday (except Saturdays and public holidays) at the business address of the Company at #9 Jishikou Road, Chaoyang District, Beijing, the PRC from the date of this circular up to and including the date of the EGM:

- (a) the Finance Leasing Agreement;
- (b) the letter from the Board, the text of which is set out on pages 4 to 10 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 11 to 12 of this circular;
- (d) the letter from Anglo Chinese, the text of which is set out on pages 13 to 30 of this circular; and
- (e) the written consent of Anglo Chinese as referred to in paragraph 7(c) above.