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Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

I. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS II. PROPOSED PROVISION OF GUARANTEE FOR WHOLLY-OWNED SUBSIDIARIES

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

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

The letter from the Board and the letter from the Independent Board Committee are set out respectively on pages 6 to 49 and pages 50 to 51 of the circular. The letter from the Independent Financial Adviser is set out on pages 52 to 70 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 Monday, 24 December 2018 at 9:00 a.m. The notice of EGM, proxy form and reply slip will be dispatched along with this circular.

Whether or not you are able to attend the EGM in person, please complete the proxy form of the Company in accordance with the instructions printed thereon and return it to the business address of the Company or to Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 24 hours before the time for holding the EGM (i.e. 9:00 am on 23 December 2018, Hong Kong time). Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) as you wish.

Beijing, the PRC
7 November 2018

CONTENTS

DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	50
APPENDIX I — LETTER FROM ANGLO CHINESE	52
APPENDIX II — GENERAL INFORMATION	71
NOTICE OF EGM	78

DEFINITIONS

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

“2015 EGM”	the second extraordinary general meeting for 2015 convened on 16 December 2015, on which the 2015 Connected Transactions Framework Agreements (except for the Trademark License Agreement) and annual caps for the three years ended 31 December 2018 were being considered and approved
“2015 Connected Transactions Framework Agreements”	the 2015 Mutual Products Supply Framework Agreement, 2015 General Services Framework Agreement, 2015 Engineering and Construction Services Framework Agreement, 2015 Financial Services Framework Agreement, 2015 Technology R&D Framework Agreement, 2015 Land Use Rights and Property Leasing Framework Agreement and 2015 Trademark License Agreement entered between SSC and China Petrochemical Corporation on 28 October 2015
“2018 Connected Transactions Framework Agreements”	the 2018 Mutual Products Supply Framework Agreement, 2018 General Services Framework Agreement, 2018 Engineering and Construction Services Framework Agreement, 2018 Financial Services Framework Agreement, 2018 Technology R&D Framework Agreement, 2018 Land Use Rights and Property Leasing Framework Agreement and 2018 Trademark License Agreement
“2018 Engineering and Construction Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the provision of engineering services by the Group to Sinopec Group
“2018 Financial Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the provision of certain financial services by the Financial Services Providers to the Group
“2018 General Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the provision of certain general services mutually between the Group and Sinopec Group
“2018 Land Use Rights and Property Leasing Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the provision of certain land use rights and property leasing by Sinopec Group to the Group

DEFINITIONS

“2018 Mutual Products Supply Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the supply of certain products mutually between the Group and Sinopec Group
“2018 Technology R&D Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to the provision of technology research and development services mutually between the Group and Sinopec Group
“2018 Trademark License Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 18 October 2018, in relation to China Petrochemical Corporation granting the Group permission to use certain trademarks
“Anglo Chinese” or “Independent Financial Adviser”	Anglo Chinese Corporate Finance, Limited, a corporation 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 SFO, as the Independent Financial Adviser appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Major Continuing Connected Transactions and the proposed annual caps
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“CBIRC”	the China Banking and Insurance Regulatory Commission
“China Petrochemical Corporation”	China Petrochemical Corporation (中國石油化工集團有限公司), a wholly state-owned enterprise incorporated in the PRC and the Controlling Shareholder of the Company
“Company” or “SSC”	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 SSE 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 Hong Kong Listing Rules

DEFINITIONS

“Continuing Connected Transactions”	the continuing connected transactions contemplated under the 2018 Connected Transactions Framework Agreements and the SPI Fund
“Connected Transactions Framework Agreements”	the Mutual Products Supply Framework Agreement, General Services Framework Agreement, Engineering and Construction Services Framework Agreement, Financial Services Framework Agreement, Technology R&D Framework Agreement, Land Use Rights and Property Leasing Framework Agreement and Trademark License Agreement
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	Directors of the Company
“EGM”	the second extraordinary general meeting for 2018 of the Company to be convened for the purpose of considering and approving among which, the resolutions in relation to Continuing Connected Transactions and annual caps for the three years ended 31 December 2021 by Independent Shareholders
“Financial Services Providers”	Sinopec Finance and Sinopec Century Bright
“Group”	SSC and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee comprised of all Independent Non-executive Directors of the Company, formed to advise the Independent Shareholders on Major Continuing Connected Transactions and annual caps for the three years ending 31 December 2021
“Independent Non-executive Director(s)”	independent non-executive director(s) of the Company
“Independent Shareholder(s)”	Shareholder(s) of the Company other than China Petrochemical Corporation and its associates
“Latest Practicable Date”	5 November 2018

DEFINITIONS

“Major Continuing Connected Transactions”	the continuing connected transactions subject to reporting, announcement and approval of Independent Shareholders under the requirements of Chapter 14A of the Hong Kong Listing Rules, in particular, refers to the Continuing Connected Transactions between the Group and Sinopec Group under items 1(1), 2(1), 3 and 4(1) of “HONG KONG LISTING RULES IMPLICATIONS” in this circular
“NDRC”	the National Development and Reform Commission
“Non-Major Continuing Connected Transactions”	Continuing Connected Transactions between the Group and Sinopec Group under items 1(2), 2(2), 5, 6 and 8 of “HONG KONG LISTING RULES IMPLICATIONS” in this circular
“PBOC”	the People’s Bank of China
“PRC”	People’s Republic of China
“RMB”	the lawful currency of the PRC
“SAFE”	The State Administration of Foreign Exchange of the PRC
“SFO”	the Securities and Futures Ordinance
“Shareholder(s)”	shareholder(s) of the Company
“Sinopec Century Bright”	Sinopec Century Bright Capital Investment Limited (中國石化盛駿國際投資有限公司), a company incorporated in Hong Kong with limited liability. It is licensed under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong). It is a subsidiary of China Petrochemical Corporation
“Sinopec Finance”	Sinopec Finance Co., Ltd. (中國石化財務有限責任公司), a non-bank financial institute with limited liabilities engaging in bank and financial services under the approval and supervision of PBOC and SAFE. It is a subsidiary of China Petrochemical Corporation
“Sinopec Group”	China Petrochemical Corporation (中國石化集團公司), its subsidiaries and associates (excluding the Group)

DEFINITIONS

“SPI Fund Document”	Safety Production Insurance Fund Document, a document jointly issued in 1997 by the Ministry of Finance of the PRC and the ministerial level enterprise of China Petrochemical Corporation and its associated companies before the industry reorganisation in 1998 (Cai Gong Zi 1997 No. 268) relating to the payment of insurance premium by SSC to the China Petrochemical Corporation. Under the SPI Fund Document, SSC is required to pay twice a year an insurance premium. Each time SSC shall pay a maximum of 0.2% of the historical value of the fixed assets and the average month-end inventory value of the Group of the previous six months; after China Petrochemical Corporation has received the premium from SSC, the China Petrochemical Corporation will refund 20% of the paid premium to SSC if SSC pays the semi-annual premium on time according to the SPI Fund Document (“Refund”). The Refund would be 17% of the paid premium if SSC failed to pay the semi-annual premium on time. The Refund is used by SSC in the following manner: 60% shall be used in dealing with accidents and potential risks and safety measures; 20% shall be used in safety education and training and 20% shall be used in preventing major accidents and potential risks and as awards to units and individuals who have made a contribution to safety production
“SSE”	The Shanghai Stock Exchange
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Three Supplies and One Industry Assets”	community water supply, community power supply, community gas supply (heating supply) and related property management assets
“%”	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:

Sun Qingde
Chen Xikun
Lu Baoping
Fan Zhonghai
Wei Ran

Independent Non-executive Directors:

Jiang Bo
Pan Ying
Chen Weidong
Dong Xiucheng

Registered address:

22 Chaoyangmen North Street
Chaoyang District
Beijing, the PRC

*Principal place of business
in Hong Kong:*

26th Floor Jardine House
1 Connaught Place, Central
Hong Kong

7 November 2018

To the Shareholders

Dear Sir or Madam:

I. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS

II. PROPOSED PROVISION OF GUARANTEE FOR WHOLLY-OWNED SUBSIDIARIES

References are made to the announcement in relation to the Continuing Connected Transactions and Disclosable Transactions dated 18 October 2018 published by the Company and the announcement dated 7 November 2018 on the provision of guarantee for wholly-owned subsidiaries.

The purpose of this circular is to provide you with, inter alia, further information on (i) the Continuing Connected Transactions and the proposed annual caps, and (ii) the provision of guarantee for wholly-owned subsidiaries, so that you can make informed decisions on whether or not to vote for relevant resolutions to be proposed at the EGM.

I. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS

INTRODUCTION

On 18 October 2018, the Company entered into the 2018 Connected Transactions Framework Agreements with China Petrochemical Corporation, and proposed to continue to conduct the

LETTER FROM THE BOARD

Continuing Connected Transactions with Sinopec Group. The Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions (including relevant proposed annual caps) are subject to Independent Shareholders' approval.

BACKGROUND

References are made to the announcement in relation to the Continuing Connected Transactions and Disclosable Transactions dated 18 October 2018, the circular "(I) CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTION (II) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION (III) PROPOSED APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR" dated 30 November 2015, as well as the announcement in relation to the amendment to the annual caps of the Continuing Connected Transactions dated 27 April 2017 published by the Company. On the 2015 EGM, Shareholders have approved resolutions in relation to annual caps of the major continuing connected transactions for the three years ended 31 December 2018.

The Company expected to continue to conduct the relevant continuing connected transactions with Sinopec Group after 31 December 2018. For the Continuing Connected Transactions commencing from 1 January 2019, the Company entered into the 2018 Connected Transactions Framework Agreements with China Petrochemical Corporation on 18 October 2018. The 2018 Connected Transactions Framework Agreements will become effective on 1 January 2019 for a period of three years. Those agreements will replace the 2015 Connected Transactions Framework Agreements. Terms and conditions of the 2018 Connected Transactions Framework Agreements are basically identical to those of the 2015 Connected Transactions Framework Agreements.

2018 CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS AND SPI FUND

1. 2018 Mutual Products Supply Framework Agreement

Date: 18 October 2018

Parties: (a) China Petrochemical Corporation (who shall procure its subsidiaries and/or associates to act in the same manner)

(b) SSC (who shall procure its subsidiaries to act in the same manner)

LETTER FROM THE BOARD

- Transactions: (a) provision of products by Sinopec Group to the Group
- Sinopec Group will provide the following types of products to the Group: crude oil, crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, lubricants, etc.); natural gas (including pipeline gas, CNG, LNG, etc.); steel; chemicals, oilfield chemicals and chemical reagents; petroleum-specific equipment; oil drilling and exploitation equipment and accessories; instrumentation and accessories; special tools; engineering machinery; timber, cement and construction materials; electric material; pipeline fittings; paint coating; valve; natural rubber, rubber products and plastic products; petrochemical-specific equipment and accessories; electrical equipment and accessories; and other products.
- (b) Provision of products by the Group to Sinopec Group
- The Group will provide the following types of products to Sinopec Group: petrochemical-specific equipment, petro oil-specific equipment, portable tent and accessories; steel; valve; mobile power plant; transport machinery; electrical equipment and accessories; pipeline; drill pipe, heavy weight drill pipe, kelly bar, drill collars; steel; API oil casing commissioned processing; casing accessories, tubing attachment; oil drilling equipment accessories; special tools; instruments and accessories; tower equipment; oilfield chemicals and reagents; and other products.
- Effectiveness and termination: 2018 Mutual Products Supply Framework Agreement is valid for a term of three years commencing on 1 January 2019. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2018 Mutual Products Supply Framework Agreement. Before the expiration of 2018 Mutual Products Supply Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Mutual Products Supply Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 Mutual Products Supply Framework Agreement.
- Pricing policy: the pricing of the products provided under the agreement shall be determined in accordance with the general principles and order of this section:
- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product, such product shall be supplied at the applicable government-prescribed price. Where a government-guided price standard is available, the price will be agreed within the range of the government-guided price.

LETTER FROM THE BOARD

- (2) Market price: the price will be determined on normal commercial terms based on the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with independent third party for the same period when determining whether the price for any product provided under this agreement is market price.

In particular:

(1) Government-prescribed price and government-guided price

Applicable to crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, etc.) and natural gas (including pipeline gas, CNG, LNG, etc.);

Types of products	Primary basis for price determination
crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, etc.)	According to the Circular on Further Improving the Pricing Mechanism of Refined Oil (Fa Gai Jia Ge [2016] No.64) (《關於進一步完善成品油價格形成機制的通知》(發改價格[2016] 64號)) issued by the NDRC on 13 January 2016, the retail price and wholesale price of gasoline and diesel, as well as the supply price of gasoline and diesel to special users such as social wholesale enterprises, railway and transportation, etc., shall be government-prescribed price; the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps, and the factory price of aviation gasoline and jet fuel, shall be government-prescribed price. The price of gasoline and diesel may be adjusted every ten working days with reference to the changes in the international market price of crude oil. The NDRC prescribes the maximum retail price of gasoline and diesel for all provinces (autonomous regions, municipalities) or central cities, and the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps, as well as the factory price of aviation gasoline. The price adjustment for refined oil products is subject to the documents issued by the relevant national competent authorities of for pricing.

LETTER FROM THE BOARD

natural gas (including pipeline gas, CNG, LNG, etc.)

In recent years, the state has continued to promote natural gas market reform. According to the Circular on the Adjustment Reducing of the Gate Station Prices of Non-residential Natural Gas Stations and Further Promoting Price Marketization Reform Prices (Fa Gai Jia Ge [2015] No. 2688) (《關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015] 2688號)) issued by the NDRC in November 2015, the price for natural gas used by non-residents was converted from the highest gate station price management to the benchmark gate station price management. The supplying party and requisitioning party can negotiate and determine the exact price within the range of up to 20%, down to unlimited range based on the benchmark gas station price. In 2016, the NDRC loosened its hold on the price of fertiliser-used gas and the price associated with gas storage facilities. In September 2017, considering the downward adjustment of natural gas pipeline price, the gas station price of natural gas used by non-residents was reduced by RMB 0.1 per square. At the end of May 2018, the NDRC released the Circular on Adjustment Rationalizing of the Gas Station Price of Natural Gas used by Residents (《關於理順居民用氣門站價格的通知》) to rationalize the gate station price of natural gas used by residents by increasing it, thus realizing the integration of gas prices used by residents and non-residents. The price for gas used by residents after the integration will rise starting from 10 June 2019.

LETTER FROM THE BOARD

(2) *Market price*

Applicable to crude oil, oil products (including lubricants, etc.); steel; chemicals, oilfield chemicals and chemical reagents; petroleum-specific equipment; oil drilling and exploitation equipment and accessories; instrumentation and accessories; special tools; engineering machinery; timber, cement and construction materials; electric material; pipeline fittings; paint coating; valve; natural rubber, rubber products and plastic products; petrochemical-specific equipment and accessories; electrical equipment and accessories provided by Sinopec Group to the Group and all the products provided by the Group to Sinopec Group.

The relevant market price for each of the products is determined as per below:

Crude oil: the relevant market price of crude oil is determined with reference to crude oil quoted prices on international markets, such as Brent, Dubai and/or Oman.

Oil products (lubricant): the relevant market price of lubricant is determined by referring to the quotations on the relevant domestic price websites for lubricant. Such product prices are publicly available.

Chemicals, oilfield chemicals and chemical reagents: the relevant market price is determined in accordance with the order price or contract price of external sales, taking into account of factors such as freight rate and quality and with reference to quotations on Easy-Pec E-commerce Platform (<http://mall.easy-pec.com/ecmall/>).

Coal: the market price is determined through price enquiry and comparison on the relevant price websites and by tender through the e-commerce system based on the type of coal and the quality requirements. Market prices of coal are principally determined with reference to quotations on Qing Huangdao coal market website (<http://www.cqcoal.com>).

Steel: prices are determined through price enquiry and comparison on the relevant price websites or by referring to the prices of similar transactions in surrounding markets or by tender through the e-commerce system. Market prices of steel are principally determined with reference to quotations on Custeel.net (<http://www.custeel.com>).

Petroleum-specific equipment, oil drilling and exploitation equipment, instrument, accessories and engineering machinery: prices are determined through price enquiry and comparison on the relevant price websites or by referring to the prices of similar transactions in surrounding markets or by tender through the e-commerce system. The market prices are principally determined with reference to quotations on Easy-Pec E-commerce Platform (<http://mall.easy-pec.com/ecmall/>).

LETTER FROM THE BOARD

Other products: prices are determined through price enquiry and comparison on the relevant price websites or by referring to the prices of similar transactions in surrounding markets or by tender through the e-commerce system. The e-commerce system is a bidding system for sale and purchase of products established by Sinopec Group and used by Sinopec Group and the Group. Sinopec Group and the Group can publish bidding requests or participate in the tender through such e-commerce system.

The Company has established procedures and internal control system for pricing and terms of the Continuing Connected Transactions. Please refer to pages 27 to 28 of this circular.

Certain types of products such as petrochemical-specific equipment and oil drilling equipment are mutually provided between the Sinopec Group and the Group under the 2018 Mutual Products Supply Framework Agreement, this is because such products were mainly used in exploration and construction business of the Group and depending on the identities of the clients, such products may need be provided by the Sinopec Group or by the Group.

If an independent third party client engages the Group to undertake oil exploration or construction project and asks the Group to provide services and the products necessary for the services, the Group may purchase certain products from the Sinopec Group through proper procurement procedures. The aforesaid procurement procedures will comply with the procedures and internal control mechanism relating to the pricing and terms of continuing connected transactions as disclosed in this circular. Meanwhile, if the Sinopec Group engages the Group to undertake oil exploration or construction project and asks the Group to provide services and the products necessary for the services, the Group will provide certain products such as petrochemical-specific equipment and oil drilling equipment to Sinopec Group. The Group will purchase such products from independent third party suppliers or the Sinopec Group through proper procurement procedures. The aforesaid procurement procedures will comply with the procedures and internal control mechanism relating to the pricing and terms of continuing connected transactions as disclosed in this circular.

Considering the pricing policies and the procurement procedures as disclosed in this circular, the Board is of the view that such arrangement is fair and reasonable and in the interest of the Company and shareholders as a whole.

LETTER FROM THE BOARD

2. 2018 General Services Framework Agreement

Date: 18 October 2018

Parties: (a) China Petrochemical Corporation (who shall procure its subsidiaries and/or associates to act in the same manner)
(b) SSC (who shall procure its subsidiaries to act in the same manner)

Transactions: (a) Provision of general services by Sinopec Group to the Group

Sinopec Group will provide the following types of services to the Group: cultural, educational, training services and other related or similar services; information system like infrastructure and application softwares and relevant necessary support and services; finance, human resources and information technology sharing services; office and logistics services; product procurement services; other services.

(b) Provision of general services by the Group to Sinopec Group

The Group will provide the following types of services to Sinopec Group: educational, training services; Nonworking personnel management service; other services.

Effectiveness and termination: 2018 General Services Framework Agreement is valid for a term of three years commencing on 1 January 2019. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2018 General Services Framework Agreement. Before the expiration of 2018 General Services Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 General Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 General Services Framework Agreement.

LETTER FROM THE BOARD

Pricing policy: The pricing of the service transactions under the agreement shall be determined in accordance with the following pricing policies:

(1) Provision of general services by Sinopec Group to the Group

Charges of cultural, educational, training services and other related or similar services are determined in accordance with the audited costs actually incurred in cultural, educational, training and ancillary services provided by Sinopec Group in 2017, and shared between the Group and Sinopec Group in accordance with factors such as the number of employees of the Group.

Agreed price is applicable to information system such as IT infrastructure and application softwares and relevant necessary support and services; office and logistics services; product procurement services and other services. The agreed price is determined by adding a reasonable profit (6% or less of a cost) over a reasonable cost. The supplier of the service will provide a cost list which is based on the actual costs incurred in providing the service by Sinopec Group, the purchaser will conduct comparison with the comparable average cost of similar enterprises in the neighbouring areas to negotiate and determine the reasonable cost for ascertaining the price. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of a general service under the agreement. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

Agreed price is applicable to finance, human resources and information technology sharing services. The reasonable cost is determined on the basis of FTE (full-time labor equivalent). At this stage, the cost and tax are used as the cost benchmark, and the profit rate is controlled within 6% to determine the price of the sharing services. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

(2) Provision of general services by the Group to Sinopec Group

Agreed price is applicable to educational, training services; nonworking personnel management service and other services. The agreed price is determined by adding a reasonable profit (6% or less of a cost) over a reasonable cost. The Group will provide a cost list which is normally based on the actual costs incurred in providing the service by the Group. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of a general service under the agreement. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

LETTER FROM THE BOARD

3. 2018 Engineering and Construction Services Framework Agreement

- Date: 18 October 2018
- Parties: (a) China Petrochemical Corporation (who shall procure its subsidiaries and/or associates to act in the same manner)
- (b) SSC (who shall procure its subsidiaries to act in the same manner)
- Transactions: The Group will provide to Sinopec Group the following types of engineering services including but without limitation to geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, and marine engineering of oil, gas and other mineral resources:
- engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision; contracting; engineering design; construction; machinery equipment processing and manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labour supply service; testing service; special transportation service; and other engineering supporting services.
- Effectiveness and termination: 2018 Engineering and Construction Services Framework Agreement is valid for a term of three years commencing on 1 January 2019. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2018 Engineering and Construction Services Framework Agreement. Before the expiration of 2018 Engineering and Construction Services Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Engineering and Construction Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 Engineering and Construction Services Framework Agreement.
- Pricing policy: The pricing of the service transactions under the agreement shall be determined in accordance with the principles and order of this section:
- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be provided at the applicable government-prescribed price. Where a government-guided price standard is available, the price will be agreed within the range of the government-guided price.

LETTER FROM THE BOARD

- (2) Tender and bidding price: where tender and bidding process is required under applicable laws, regulations and rules, the final price shall be determined by the tender and bidding process.
- (3) Market price: the price of the same or similar products, technology or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with the independent third party for the same period when determining whether the price for any service under this agreement is market price.
- (4) Agreed price: to be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of any service under this Agreement.

On the basis of the above, with respect to the pricing policies of the transactions of engineering services, both parties further agreed as follows:

- (1) Prices of service transactions under this agreement shall be fair and reasonable to both parties and determined according to the principle of market-orientation and based on the nature of the contract. Pricing factors to consider include the operations area, the amount of work, service content, duration of contract, sales strategy, overall customer relationship and subsequent contract opportunities.
- (2) The pricing of specific service transactions under this agreement shall follow the pricing order as specified above, and be determined on normal commercial terms and conditions through fair negotiation. When there are no sufficient comparable transactions to determine whether the transaction is on normal commercial terms and conditions, the pricing shall be determined on terms and conditions no less favourable than those available to independent third parties.

In particular:

(1) *Government-prescribed price and government-guided price:*

Applicable to engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision and engineering design.

LETTER FROM THE BOARD

Types of services	Primary basis for price determination
engineering consulting (solution research, project proposal, feasibility study and early stage project consulting)	Pursuant to the Interim Regulations on Consulting Fees for Early Stage Projects (Yi Ji Jia Ge [1999] No.1283) (《建設項目前期工作諮詢收費暫行規定》(以計價格[1999] 1283號)) issued by the State Development Planning Commission of the PRC, the government-guided price shall be applicable to engineering consulting fees. Specific fee standard shall be determined after negotiations between the engineering consultants and entrusting party according to the guiding price standards under such regulations.
project management	Pursuant to the Trial Measures for Construction Engineering Projects Management (《建設工程項目管理試行辦法》) issued by the former Ministry of Construction in December 2004, the engineering project management service fees shall be determined by the project owners and the project management companies in the entrusted project management contracts based on, among other things, the scale, scope, content, difficulty and complexity of the entrusted projects and shall be credited to the overall construction expenses.
project supervision	<p>Pursuant to the Regulations on Engineering Construction Supervision (《工程建設監理規定》) issued by the State Development Planning Commission of the PRC and the Ministry of Construction, the calculation method of the supervision fees shall generally be determined by the project owners and the engineering supervisory companies after negotiations.</p> <p>The calculation methods of the supervision fees mainly include: (i) based on the construction engineering investment percentage; (ii) salaries plus certain percentage of other expenses; (iii) on time basis; and (iv) fixed-prices.</p>

LETTER FROM THE BOARD

engineering design

Pursuant to the Engineering Investigation and Design Fee Standards (《工程勘察設計收費標準》) issued by the Ministry of Construction, the price shall mainly be determined based on the government-guided price supplemented by the market-guided price, which is the “benchmark fee rate” as adjusted within the prescribed “range of adjustment”. Specific fee rates shall be determined through negotiations. The benchmark fee rate is prescribed in the Engineering Investigation Fee Standards (《工程勘察收費標準》) and the Engineering Design Fee standards (《工程設計收費標準》). With respect to the range of adjustment, it is generally $\pm 20\%$. The market-guided price shall be applicable to the engineering investigations and the engineering design for construction projects with estimated total investment of less than RMB5 million; the government-guided price shall be applicable to the engineering investigations and the engineering design for construction projects with estimated total investment of more than RMB5 million, and an adjustment of 40% is allowed. The range of adjustment is determined by the factors such as service quality, adoption of new technology; materials or equipment, economic efficiency, environmental impact and social benefit, etc. The engineering design service fee is calculated based on the formulas below:

- (1) Engineering design fee = benchmark fee rate \times (1 \pm range of fluctuation)
- (2) Benchmark fee rate = basic design fee + other design fee
- (3) Basic design fee = engineering design benchmark fee \times professional adjustment coefficient \times engineering complexity coefficient \times supplemental adjustment coefficient.

LETTER FROM THE BOARD

(2) *Tender and bidding price*

Applicable to geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, and marine engineering of oil, gas and other mineral resources; contracting; and construction.

For geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, and marine engineering of oil, gas and other mineral resources; and other petroleum engineering services: the prices are determined, via public tendering with reference to design budget and commissioned construction work content, which are depended on the geological block, well type and depth of well. If no public tendering has been made, prices are determined based on professional fixed unit price of petroleum engineering price list published by Sinopec Group. The fixed unit price of petroleum engineering price list is negotiated and formulated by the Group and Sinopec Group together.

For contracting and construction services: the prices are determined via public tendering with reference to the fixed unit price of engineering project budget list and pricing standards set by relevant government department or Sinopec Group. The fixed unit price of engineering project budget list is negotiated and formulated by the Group and Sinopec Group together.

The tender process adopted by the Company: upon receipt of the bidding invitation letter issued by the bidders, the relevant subsidiaries of the Company make active response in light of its own condition (including their teams, equipment and performance). The relevant subsidiary will form a bidding team for the target project that consist of project and technical experts. Subsequently, the bidding team will participate in answering inquiries on projects and make site surveys and risk assessment on projects according to the requirements in the bidding documents. Then, it will, based on the project budget, carry out the project bidding assessment and approval procedures as required by the internal control system of the Company. Each of the project bidding budget and documents will be reviewed and approved by senior management committee of the relevant subsidiary. Upon completion of the internal approval procedures, it will prepare the bidding documents and organize the project bidding work, and submit the bidding documents to the bidders before the deadline for submission of tenders and pay the tender deposit. Thereafter, the relevant bidding team will participate in the bid opening meeting and answer questions raised by the bid evaluation committee. Upon receipt of the bid-winning notice, a contract will be signed with the bidder according to the Company's contract management requirements and the contractual terms as agreed in the bidding documents to complete the project bidding work.

LETTER FROM THE BOARD

(3) *Market price*

Applicable to machinery equipment processing and manufacturing services; labour supply service; testing service and special transportation service.

Types of services	Primary basis for price determination
machinery equipment processing and manufacturing services; and testing service	With reference to the average prices of similar enterprises in neighbouring areas.
labour supply service and special transportation service	In accordance with the average market prices in regions where relevant subsidiaries of the Company are located.

(4) *Agreed price*

Applicable to procurement services and equipment leasing; technology licensing; technology transfer and engineering technology services.

The agreed price shall be determined by adding a reasonable profit over a reasonable cost. For services with prices determined by agreement, the Group will provide a cost list which is normally based on the actual costs incurred in providing the service by the Group, Sinopec Group will conduct comparison with the comparable average cost of similar enterprises in the neighbouring areas or the internal cost for similar services of Sinopec Group to negotiate and determine the reasonable cost for ascertaining the price of connected transaction. The reasonable profit is usually 6% or less of such reasonable cost. Once the price for the connected transaction is determined, it shall not be changed unilaterally without authorization.

Routine repairing and maintenance projects shall be priced in principle based on operating cost plus taxes plus reasonable profit. The reasonable profit is 6% or less of the operating cost.

4. 2018 Financial Services Framework Agreement

Date: 18 October 2018

Parties: (a) China Petrochemical Corporation (representing Sinopec Finance and Sinopec Century Bright)

(b) SSC (who shall procure its subsidiaries to act in the same manner)

LETTER FROM THE BOARD

Transactions: Sinopec Finance and Sinopec Century Bright, subsidiaries of China Petrochemical Corporation, will provide financial services to the Group, such financial services primarily include deposits, loans, deposit, settlement, entrustment loans and other financial services provided by the Financial Services Providers as approved by applicable laws and regulations.

Effectiveness and termination: 2018 Financial Services Framework Agreement is valid for a term of three years commencing on 1 January 2019. The Group will enter into separate contracts with Sinopec Finance and Sinopec Century Bright, which will set out the specific terms and conditions according to the principles provided in 2018 Financial Services Framework Agreement. Before the expiration of 2018 Financial Services Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Financial Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 Financial Services Framework Agreement.

Pricing policy: The pricing of the financial services provided under the agreement shall be determined in accordance with the following pricing policy:

Types of services	Primary basis for price determination
deposits	The interest rate of the deposit services provided by Sinopec Finance shall be determined in accordance with the relevant interest rate as promulgated by the PBOC. For deposit services provided by Financial Services Providers, the interest rates of the relevant deposit will be not lower than those provided by independent third parties for the deposits of the same nature and the same maturity.
loans	The interest rate applicable to the loans provided by Financial Services Providers to the Group is determined based on the benchmark interest rate published by PBOC and shall be lower than the benchmark interest rate within 10% (in terms of Sinopec Finance) or not higher than independent commercial banks interest rate for loans of a similar type for the same period (in terms of Sinopec Century Bright).

LETTER FROM THE BOARD

entrustment loans and deposit	For entrustment loans and deposit services provided by the Financial Services Providers to the Group, the service fees shall not be higher than (i) fees charged by independent commercial banks or financial institutions; and (ii) fees charged to other members of Sinopec Group for similar services. The management of the Financial Services Providers and the Group shall consider at least two comparable transactions with the independent third party for the same period when determining the agreed price for any financial service under the agreement.
settlement services	For settlement services provided by the Financial Services Providers to the Group, the service fees shall not be higher than (i) fees charged by independent commercial banks or financial institutions; and (ii) fees charged to other members of Sinopec Group for similar services. The management of the Financial Services Providers and the Group shall consider at least two comparable transactions with the independent third party for the same period when determining the agreed price for any financial service under the agreement.

5. 2018 Technology R&D Framework Agreement

Date: 18 October 2018

Parties: (a) Sinopec Group (who shall procure its subsidiaries and/or associates to act in the same manner)

(b) SSC (who shall procure its subsidiaries to act in the same manner)

Transactions: (a) Provision of technology R&D services by the Group to Sinopec Group

The Group will provide technology development; technology consulting; technology services; technology licensing; application for, maintenance, licensing and transfer of patents, and other technology research and development services to Sinopec Group.

(b) Provision of technology R&D services by Sinopec Group to the Group

Sinopec Group will provide technology development; technology consulting; technology services; technology licensing; application for, maintenance, licensing and transfer of patents, and other technology research and development services to the Group.

LETTER FROM THE BOARD

Effectiveness and termination: 2018 Technology R&D Framework Agreement is valid for a term of three years commencing on 1 January 2019. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2018 Technology R&D Framework Agreement. Before the expiration of 2018 Technology R&D Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Technology R&D Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 Technology R&D Framework Agreement.

Pricing policy: The pricing of the services provided under the agreement shall be determined in accordance with the principles and order of this section:

- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be provided at the applicable government-prescribed price. Where a government-guided price standard is available, the price will be agreed within the range of the government-guided price.
- (2) Agreed price: to be determined by adding a reasonable profit over a reasonable cost.

In particular:

Government-prescribed price and government-guided price is applicable to patent application and maintenance. State Intellectual Property Office of PRC has published a detailed price list for patent application and maintenance at their official website. (http://www.sipo.gov.cn/zlsqzn/sqq/zlfy/200804/t20080422_390241.html)

Agreed price to be determined by adding a reasonable profit over a reasonable cost is applicable to other services under 2018 Technology R&D Framework Agreement. For the services provided by Sinopec Group to the Group, the reasonable profit shall not be higher than 50% of the cost; while with respect to the services provided by the Group to Sinopec Group, this reasonable profit shall not be less than 30% of the cost. The management shall consider at least two comparable transactions with the independent third party for the same period when determining the reasonable profit of any service under the agreement.

LETTER FROM THE BOARD

6. 2018 Land Use Rights and Property Leasing Framework Agreement

- Date: 18 October 2018
- Parties: (a) Sinopec Group (who shall procure its subsidiaries and/or associates to act in the same manner)
- (b) SSC (who shall procure its subsidiaries to act in the same manner)
- Transactions: The Group will lease land use rights and property from Sinopec Group.
- Effectiveness and termination: 2018 Land Use Rights and Property Leasing Framework Agreement is valid for a term of three years commencing on 1 January 2019. Both parties will enter into separate leases which will set out the specific terms and conditions according to the principles provided in 2018 Land Use Rights and Property Leasing Framework Agreement. Before the expiration of 2018 Land Use Right and Property Lease Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Land Use Rights and Property Leasing Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of the 2018 Land Use Right and Property Lease Framework Agreement.
- Pricing policy: The rent of leased lands: the parcels of land leased can be categorized into the following two types
- (i) Authorised land for operation; and
- (ii) Assigned land
- The rent payable under the agreement of the authorised land for operation shall be determined considering the size, location and remaining years available for use of the land, by reference to the rent of other leased land between Chines Petrochemical Corporation and the Company in the same/similar area. The rent of leased land for other purposes shall be agreed by both parties through negotiation and by reference to local market rates.
- According to 2018 Land Use Rights and Property Leasing Framework Agreement, the rent may be reviewed every three years and any such revised rent shall not be higher than the prevailing market rent as confirmed by an independent valuer.
- Regarding authorized land for operation owned by members of the Sinopec Group, land for industrial use are leased to the Group for a term of 50 years and land for commercial use for a term of 40 years. Regarding land over which members of the Sinopec Group have been granted land use rights with consideration, they are leased for a term up to the date of expiry of the respective land use rights certificates.

LETTER FROM THE BOARD

The Company may request to renew the term of the lease by issuing a written notice to China Petrochemical Corporation at least one month before expiry of the lease. China Petrochemical Corporation shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with the Company before its expiry.

The rent of leased properties shall be agreed by both parties by reference to local market rates (evaluated by the professional evaluation agencies). Properties leased are mainly used for ancillary production facilities and offices premises of the Group. Under 2018 Land Use Rights and Property Leasing Framework Agreement, Sinopec Group have agreed to lease to the Group certain properties. The rent payable is determined based on factors including the floor spaces, locations and the nature and purpose of use of the properties. The rent may be reviewed once a year and any revised rent shall not be higher than the prevailing market rent as confirmed by an independent valuer. Property taxes, land use fees and other statutory taxes or fees in relation to the properties shall be borne by Sinopec Group. For those without any comparable market prices, the rent shall be determined considering depreciation, relevant taxes and reasonable profit, where the reasonable profit shall be 6% of the cost.

7. 2018 Trademark License Agreement

Date: 18 October 2018

Parties: (a) Sinopec Group (who shall procure its subsidiaries and/or associates to act in the same manner)

(b) SSC (who shall procure its subsidiaries to act in the same manner)

Transactions: China Petrochemical Corporation grants a general license on a non-exclusive basis in respect of certain trademarks of Sinopec Group to the Group for its use free of charge. Unless with the prior written consent of China Petrochemical Corporation, the Group may not transfer or license such trademarks to any third parties.

Effectiveness and termination: The 2018 Trademark License Agreement is valid for a term of three years commencing on 1 January 2019. 2018 Trademark License Agreement may be renewed by parties' mutual agreement, subject to the restrictions and regulations of the places where the Company is listed. Before the expiration of 2018 Trademark License Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2018 Trademark License Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2018 Trademark License Agreement.

LETTER FROM THE BOARD

Pricing policy: The consideration is nil. While trademarks under 2018 Trademark License Agreements are granted to the Company at no cost, during the term of this agreement, the Group shall make payment to the competent governmental authorities in a timely manner for the maintenance of such trademarks.

8. SPI Fund Document

Parties: (a) China Petrochemical Corporation
(b) SSC

Transactions: With the approval of the Ministry of Finance, China Petrochemical Corporation has established the SPI Fund. The SPI Fund currently provides property insurance cover on the operations of the Group. The establishment of the SPI Fund was approved by the State Council and the SPI Fund Document was issued by Ministry of Finance. The SPI Fund Document is continued to be effective unless otherwise indicated by the State Council or Ministry of Finance. Any amendment or execution of supplemental agreement to the SPI Fund Document shall be approved by the Ministry of Finance.

Under the SPI Fund Document, after the receipt by China Petrochemical Corporation of the premium from SSC, China Petrochemical Corporation will refund 20% of the paid premium to SSC if SSC pays the semi-annual premium on time according to the SPI Fund Document (the “**Refund**”). The Refund would equal to 17% of the paid premium if SSC fails to pay the semi-annual premium on time. The Refund shall be used by SSC in dealing with accidents and potential risks and safety measures, in safety education and training, in preventing major accidents and potential risks, and as rewards to units and individuals who have made a special contribution to safety production.

As mentioned above, the establishment of the SPI Fund was approved by the State Council and the SPI Fund Document was issued by Ministry of Finance. The SPI Fund document is continued to be effective unless otherwise indicated by the State Council or Ministry of Finance. Any amendment or execution of supplemental agreement to the SPI Fund Document must be approved by the Ministry of Finance. It is impracticable to request the Ministry of Finance to renew the SPI Fund Document every three years in accordance with the requirement of the Hong Kong Listing Rules.

Pricing policy: Under the SPI Fund Document, SSC is required to pay twice a year an insurance premium amounting to a maximum of 0.2% (a statutory requirement by the PRC Government) of the historical value of the fixed assets and the average month-end inventory value for the previous six months of the Group.

LETTER FROM THE BOARD

PROCEDURES AND INTERNAL CONTROL SYSTEM FOR PRICING AND TERMS OF CONTINUING CONNECTED TRANSACTIONS

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

- (1) Transactions contemplated under 2018 Connected Transactions Framework Agreements are conducted on a non-exclusive basis.
- (2) As for the procurement and/or provision of products or services with connected person, according to the Company's internal rules and regulations, if there is no applicable government-prescribed price or government-guided price, the procurement departments of the members of the Group will seek to obtain information about market price through various channels, for examples, considering at least two comparable transactions with the independent third party for the same period, keeping regular contacts with and from time to time obtaining price quotations through enquiries from established suppliers of scale (including China Petrochemical Corporation and its related suppliers), conducting market price research through various independent industry information vendors (e.g. industry websites), and participating in activities and meetings organized by industry organizations. Market price information obtained through those channels will also be provided to other companies within the Group to assist in pricing of relevant Continuing Connected Transactions.
- (3) For the Continuing Connected Transactions involving provision of products or services by Sinopec Group to Group, the procurement departments of the members of the Group will request suppliers or service providers, including Sinopec Group and other independent suppliers or service providers, to provide price quotations in respect of the requested services or products. Following the receipt of quotations from Sinopec Group and other independent suppliers or service providers, the procurement department will compare and negotiate the terms of quotations with these suppliers or service providers, and select the service providers by taking into account factors such as price quotations, quality of the products and services, particular needs of the parties to the transactions, technical advantages of the supplier or service providers, needs of the Group's suppliers and customers, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Group upon obtained the approvals from the manager of the procurement department and/or the senior management committee of relevant members of the Group, depending on the size of the transaction.
- (4) The external auditor of the Company will conduct an interim review and year-end audit for each financial year, and will issue its opinion and letter to the Board in relation to the pricing policies and annual caps of the Continuing Connected Transactions of the Company conducted during the preceding financial year pursuant to the Hong Kong Listing Rules. In addition, according to the

LETTER FROM THE BOARD

Hong Kong Listing Rules, the Independent Non-executive Directors will conduct an annual review with respect to the Continuing Connected Transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the Continuing Connected Transactions in the annual report of the Company.

- (5) The Board of Supervisors of the Company are also responsible for, among others, supervising on the Continuing Connected Transactions of the Company and reviewing the fairness of the transactions and whether the pricing of the transactions are fair and reasonable.
- (6) The Company's internal control and risk management departments, the Audit Committee of the Board and the Board of Supervisors shall each conduct random internal assessments on the internal control measures and the financial information of the Company, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Furthermore, they convene meetings at least twice a year to discuss and assess the implementation of Continuing Connected Transactions. Meanwhile, the legal and contract management departments shall conduct prudent review and appraisal of the contracts entered into by the Group, the departments implementing the relevant contracts shall monitor the transactional amounts in a timely manner and the business departments shall monitor and manage the compliance during the process of business operations.
- (7) The Company has formulated a series of internal rules and regulations on connected transaction management, internal control management handbook and internal control assessment management methods, to ensure that connected transactions are conducted in accordance with the principles and spirits of 2018 Connected Transactions Framework Agreements.

By implementing the above procedures and internal control measures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing basis of 2018 Connected Transactions Framework Agreements will be on market terms and on normal commercial terms and will be fair and reasonable to the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

HISTORICAL FIGURES AND EXISTING ANNUAL CAPS

The table below summarized the historical transaction data of the above Continuing Connected Transactions for the two years ended 31 December 2017 and nine months ended 30 September 2018, as well as the existing annual caps:

Historical Figures and Existing Annual Caps (RMB 100 million)						
Continuing Connected Transactions	Annual Caps for 2016	For the year ended 31 December 2016 (audited)	Annual Caps for 2017	For the year ended 31 December 2017 (audited)	Annual Caps for 2018	For the nine months ended 30 September 2018 (unaudited)
1. Mutual Products Supply Framework Agreement						
(a) Provision of products by Sinopec Group to the Group	140	52.2	180	57.97	180	32.38
(b) Provision of products by the Group to Sinopec Group	1	0.84	4	0.86	4	0.16
2. General Services Framework Agreement						
(a) Provision of general services by Sinopec Group to the Group	22	18.7	22	18.77	22	7.50
(b) Provision of general services by the Group to Sinopec Group	2	0	2	0	2	0
3. Engineering and Construction Services Framework Agreement						
Provision of engineering services by the Group to Sinopec Group	610	225.7	635	280.19	650	213.58
4. Financial Services Framework Agreement						
(a) Provision of deposit services by the Financial Services Providers to the Group (maximum daily balance)	30	25.73	30	20.57	30	29.31
(b) Provision of other financial services (such as payment settlement) by the Financial Services Providers to the Group	0.1	0.04	0.1	0.04	0.1	0.03
5. Technology R&D Framework Agreement						
(a) Provision of technology R&D services by the Group to Sinopec Group	3	2.27	3.5	2.65	4	1.82
(b) Provision of technology R&D services by Sinopec Group to the Group	1	0	1.5	0	2	0
6. Land Use Rights and Property Leasing Framework Agreement						
Provision of land and properties by Sinopec Group to the Group by way of lease	5.6	1.31	5.6	1.32	5.6	0.74
7. SPI Fund						
Premium payments from the Company to China Petrochemical Corporation	1.5	0.9	1.5	0.79	1.5	0.82

As at the Latest Practicable Date, none of the above annual caps has been exceeded.

LETTER FROM THE BOARD

PROPOSED ANNUAL CAPS

The table below lists the proposed annual caps of each type of the Continuing Connected Transactions for the three years ending 31 December 2021:

Continuing Connected Transactions	Proposed annual caps for the years ending 31 December (RMB 100 million)		
	2019	2020	2021
1. 2018 Mutual Products Supply Framework Agreement			
(a) Provision of products by Sinopec Group to the Group	113	125	126
(b) Provision of products by the Group to Sinopec Group	4	4	4
2. 2018 General Services Framework Agreement			
(a) Provision of general services by Sinopec Group to the Group	17	17	17
(b) Provision of general services by the Group to Sinopec Group	2	2	2
3. 2018 Engineering and Construction Services Framework Agreement			
Provision of engineering services by the Group to Sinopec Group	400	450	500
4. 2018 Financial Services Framework Agreement			
(a) Provision of deposit services by the Financial Services Providers to the Group (maximum daily balance)	30	30	30
(b) Provision of other financial services (such as payment settlement) by the Financial Services Providers	0.5	0.5	0.5
5. 2018 Technology R&D Framework Agreement			
(a) Provision of technology R&D services by the Group to Sinopec Group	4.5	5	5.5
(b) Provision of technology R&D services by Sinopec Group to the Group	2	2	2
6. 2018 Land Use Rights and Property Leasing Framework Agreement			
Provision of land and properties by Sinopec Group to the Group by way of lease	5.6	5.6	5.6
7. SPI Fund			
Premium payments from the Company to China Petrochemical Corporation	1.5	1.5	1.5

The considerations of the above Continuing Connected Transactions payable by the Group will be satisfied by the internal funds of the Group.

LETTER FROM THE BOARD

BASIS FOR ANNUAL CAPS

Below are the basis for calculating the annual caps for each type of Continuing Connected Transactions (where applicable):

Continuing Connected Transactions	Basis for annual caps
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1. 2018 Mutual Products Supply Framework Agreement

- | | |
|---|--|
| (a) Provision of products by Sinopec Group to the Group | The proposed annual caps of the Company for 2019, 2020 and 2021 are 37.2%, 30.56% and 30.00% lower than the annual cap for 2018, respectively. In determining the above annual caps, the Company has considered the following: (i) the value of products provided by Sinopec Group during 2016, 2017 and first nine months of 2018; (ii) the future growth of the Group's business comparing to the historical transaction value contributes to the additional volume of the products to be supplied by Sinopec Group; and (iii) the possible fluctuation in the price of products to be supplied by Sinopec Group in the next three years, fluctuation in the market price of bulk commodity, upgrade of quality of oil products and other unforeseeable factors. The Company also considered the products to be supplied by Sinopec Group to the Company under Mutual Products Supply Framework Agreement is crucial to the Company's continuous operation; as such, annual caps for the transactions should be flexible to cover various possibilities to the largest extent. |
|---|--|

During 2015 to 2017, affected by the fluctuation of international crude oil prices at low levels, domestic and foreign oil companies generally reduced upstream exploration and development capital expenditure. Due to the fact that products supplied by Sinopec Group to the Group were mainly used in exploration and development business of the Group, the Group's business also declined significantly under such market conditions which result in the decrease of the transaction amount in respect of the provision of products by Sinopec Group to the Group. For 2015, 2016 and 2017, transaction amounts in respect of provision of products by Sinopec Group to the Group amounted to approximately RMB9.33 billion, RMB5.22 billion and RMB5.797 billion, respectively, while Brent crude oil average spot price for the corresponding period were USD52.4/barrel, USD43.6/barrel and USD54.1/barrel, respectively.

LETTER FROM THE BOARD

Continuing Connected Transactions

Basis for annual caps

During the first half of 2018, Brent crude oil average spot price was USD71.16/barrel, representing a year-on-year increase of 35.1%. The increase of oil price led to a general increase in the Group's business volume. Transaction amounts in respect of provision of products by Sinopec Group to the Group for the first half of 2018 reached RMB2.03 billion, representing an increase of 23.0% as comparing with RMB1.65 billion for the corresponding period in 2017. In light of the international oil price forecast for the next three years* and the expected increase in the Group's business volume, Directors are of the view that, the proposed annual caps for 2019 to 2021 represent the transaction volume under an ordinary market conditions as estimated by the Company.

- (b) Provision of products by the Group to Sinopec Group

In determining the above annual caps, the Company has considered the following: (i) the historical figures of products provided by the Group to Sinopec Group during 2016, 2017 and the first nine months of 2018, and (ii) based on the international oil price forecast for the next three years, the Group expected Sinopec Group to increase its upstream exploration and development capital expenditure and clean energy development capital expenditure, future demand of the products supplied to Sinopec Group will increase accordingly.

* Assuming that the crude oil price from 2019 to 2021 will be USD90/barrel, USD95/barrel and USD95/barrel, respectively.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

2. 2018 General Services Framework Agreement

- (a) Provision of general services by Sinopec Group to the Group
- The proposed annual caps for each of 2019 to 2021 of the Company are approximately 22.7% lower than the annual cap of 2018. The main reason for such decrease is because relevant Three Supplies and One Industry Assets belonging to Sinopec Group has been separated and handed over to the local governments according to the relevant requirements of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance. As a result, certain connected transactions under the 2015 General Services Framework Agreement no longer constitute the continuing connected transactions between the Group and Sinopec Group. In determining the above annual caps, the Company has also considered the following: (i) the annual fee to be paid for the training services and conference facilities provided by Sinopec Group which is estimated to be approximately RMB200 million, including estimated training services fee RMB160 million to train about 55,000 employees; and estimated conference service fee RMB40 million upon considered the factors such as conference length, size and locations of the conference rooms, catering and accommodation services; (ii) the annual fee to be paid for office and mining area properties management, cafeteria, dormitory, retirement management and other relevant services or similar auxiliary services provided by Sinopec Group which is estimated to be approximately RMB1.4 billion. Such annual fee is determined based on the audited cost actually incurred by Sinopec Group in providing cultural, educational, training and auxiliary services in 2017, and shared between the Group and Sinopec Group in accordance with factors such as the number of employees of the Group; (iii) the annual fee to be paid for the miscellaneous services (including information technology system services, etc.) provided by Sinopec Group which is estimated to be approximately RMB10 million. Such annual fee included ERP system maintenance fee; OA office system fee; contract management system fee; archives and website service fee; and IT infrastructure (including servers) maintenance fee, which are based on the market rates charged for those services; and (iv) annual fee regarding to finance, human resources and information technology sharing services is estimated to be approximately RMB80 million.

LETTER FROM THE BOARD

Continuing Connected Transactions

Basis for annual caps

- (b) Provision of general services by the Group to Sinopec Group

In determining the above annual caps, the Company has considered the following: the annual fee to be paid for the training services, conference facilities and non-working personnel management service to be provided by the Group.

3. 2018 Engineering and Construction Services Framework Agreement

Provision of engineering services by the Group to Sinopec Group

The proposed annual caps for each of 2019, 2020 to 2021 is approximately 38.46%, 30.77% and 23.08% lower than the annual caps for 2018. In determining the above annual caps, the Company has considered the following: (i) the value of engineering services provided to Sinopec Group for the past three years; (ii) in light of the turnaround in international oil price, Sinopec Group will increase its investment in exploration and development of crude oil, natural gas, shale gas, as well as development of new energy such as geothermal resources. It is expected that the estimated transaction volume of the Group for 2019 to 2021 will increase as compared to the historical transaction volume.

For 2016 and 2017, the actual transaction volume of services provided by the Group to Sinopec Group is lower than the relevant annual caps mainly due to the decrease in upstream exploration and development capital expenditure of Sinopec Group in 2016 and 2017 resulted from the fluctuation of international crude oil prices at low levels. International crude oil prices gradually and steadily turnaround since 2018 and the engineering services provided by the Group to Sinopec Group also increased significantly. The transaction amount from January to September 2018 reached RMB21.358 billion, representing an increase of 32.58% as compared to RMB16.109 billion of the corresponding period in 2017. Based on the international oil price forecast for the next three years, the proposed annual caps for 2019 to 2021 is proposed to satisfy the future business growth of the Group. In addition, after taken into consideration of the specific nature and concentration of the oil engineering and construction market in China, Directors are of view that provision of engineering services by the Group to Sinopec Group is necessary in terms of the Company's continuous operation. Flexibility should be built into the proposed annual caps for such transactions and the proposed annual caps represent the transaction volume under an ordinary market conditions as estimated by the Company.

LETTER FROM THE BOARD

Continuing Connected Transactions

Basis for annual caps

The Directors are of the opinion that, notwithstanding the substantial size of the Company's proposed annual caps for provision of engineering services by the Group to Sinopec Group for the coming three years under the 2018 Engineering and Construction Services Framework Agreement which represents more than 100% of the Company's revenue for the year ended 31 December 2018, there is no undue concern of reliance by the Group to Sinopec Group. This is mainly because:

- (i) The business relationship between the Group and Sinopec Group is mutual and complimentary.

Sinopec Group is one of the largest petroleum and petrochemical companies in China and one of the world's largest petroleum and natural gas exploration companies. The Group, on the other hand, is one of the leading oilfield services companies with advanced technologies in China. Sinopec Group is the largest client of the Group due to Sinopec Group's market position and the historical relationship between the Sinopec Group and the Group, and the Group is the largest oilfield engineering and technical service provider of Sinopec Group in terms of the historical revenues. The business cooperation between the Group and Sinopec Group is a collective result of the respective market shares and competitive strengths of both groups;

- (ii) The domestic industry landscape is dominated by a limited number of customers and the Group has endeavoured to explore the overseas markets.

China's petroleum and natural gas market is highly concentrated and dominated by a handful of leading energy enterprises and almost each of them has its own oilfield service subsidiaries or segments. As a result, the revenues of oilfield engineering and construction companies in China, such as the Group, are mostly derived from a limited number of customers in the market, and especially from their respective controlling shareholders. Notwithstanding such industry landscape, the Group has established a diversified customer network other than Sinopec Group and set up a strategic plan for global development and endeavors to explore the intensely competitive overseas markets. The Group carries out dozens of oilfield engineering and construction projects in the Middle East, South America, Southeast Asia and Africa, and none of such overseas projects are related to Sinopec Group. In this regard, the Group has a diversified group of major clients and markets;

LETTER FROM THE BOARD

Continuing Connected Transactions

Basis for annual caps

- (iii) The Group can maintain its revenue level to be generated from independent clients.

Based on the historical transaction value under the 2015 Engineering and Construction Services Framework Agreement, the revenue generated from Sinopec Group represented approximately 63%, 53.4% and 58.9% of the operating income of the Company for 2015, 2016 and 2017, respectively and 57.4% for the nine months ended 30 September 2018. Considering the turnaround in international oil prices, both Sinopec Group and the independent clients are expected to increase their investments in exploration and development of crude oil, natural gas, shale gas, as well as development of new energy such as geothermal resources. Therefore, the Group's revenue with Sinopec Group will increase as compared with the historical figures in 2016 and 2017 when the international oil price remained at low level and the Proposed Annual Caps represent the transaction volume under an ordinary market conditions for the three years ending 31 December 2021 based on the Company's international oil price forecast for the next three years.

The Group's business volumes with the independent third parties are also expected to grow along with the increasing business volumes between the Sinopec Group and the Group considering the Company's international oil price forecast. In this regard, the Group anticipates that the Group's revenues from independent third parties are expected to grow in the coming three years, and the proportions of the revenues to be generated from independent third parties are expected to remain at the similar level or increase to a level comparable to those from Sinopec Group in 2019, 2020 and 2021.

4. 2018 Financial Services Framework Agreement

- (a) Provision of deposit services by the Financial Services Providers to the Group (maximum daily balance)

In determining the maximum daily balance of deposits and interest income, the Company has mainly considered: (i) cash and cash equivalent of the Group as 30 September 2018 together with interest income; (ii) part of net cash inflow which will be deposited into Financial Services Providers; and (iii) the accrued interests thereof.

LETTER FROM THE BOARD

Continuing Connected Transactions

Basis for annual caps

When determining whether funds are placed as deposits with Financial Services Providers, following the principles of maximization of return, cost control and risk control, the Company has taken into account the following factors: (i) the funding plan which specifies its long term and short term funding needs, operational needs and capital expenditure requirements; (ii) its investment needs with reference to the deposits interest rates; and (iii) the amount of cash inflow from business operations.

- (b) Provision of other financial services (such as payment and settlement) by the Financial Services Providers to the Group

In determining the above annual caps for the service fees in relation to settlement and other financial services, the Company has mainly considered: (i) the value of other financial services such as payment and settlement provided by Sinopec Group during 2016, 2017 and the first nine months of 2018; (ii) the estimated cash settlement handling fees with reference to our estimated business volume for each of the three years ending 31 December 2021 and the historical ratio of cash settlement amount to handling fees; and (iii) other financial and consulting services to be provided under 2018 Financial Services Framework Agreement.

5. 2018 Technology R&D Framework Agreement

- (a) Provision of technology R&D services by the Group to Sinopec Group

In determining the above annual caps, the Company has considered the following: (i) it is expected that the Group will undertake an average of over 30 technology research and development projects every year from Sinopec Group; (ii) the average contract value of each project is expected to be in line with the historical average value for similar projects of RMB4 million to RMB6 million ; (iii) such projects are carried out and revenues in relation thereto are recognized over an average of three years; and (iv) the business volume in certain R&D areas is expected to grow in the future, including geothermal resources, shale gas, coal seam gas and combustible ice, based on the types of projects undertaken and expected to be undertaken by Sinopec Group.

- (b) Provision of technology R&D services by Sinopec Group to the Group

In determining the above annual caps, the Company has considered the following: (i) it is expected that Sinopec Group will undertake an average of no more than 15 technology research and development projects every year from the Group; (ii) the average contract value of each project is expected to be in line with the historical average value for similar projects of RMB1 million to RMB3 million; and (iii) the business volume in certain R&D areas is expected to grow in the future, including Geophysical data processing and interpretation, cementing, and reservoir reconstruction, based on the types of projects undertaken and expected to be undertaken by the Group.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

6. 2018 Land Use Rights and Property Leasing Framework Agreement

Provision of land and properties by Sinopec Group to the Group by way of lease

In determining the above annual caps, the Company has considered (i) the rents of the land and properties leased from Sinopec during 2016, 2017 and the first nine months of 2018, (ii) the possible increases in the rents of properties in the PRC in the future, and (iii) the potential new property leases to be entered into with Sinopec Group by the Group.

7. SPI Fund

Premium payments from the Company to China Petrochemical Corporation

In determining the above annual caps, the Company has considered the following: (i) the amount of fixed assets as at 30 September 2018, and (ii) the average historical growth of the scale of fixed assets and inventory caused by expansion of the business scale.

REASONS AND BENEFITS FOR CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions Reasons for Continuing Connected Transactions

1. 2018 Mutual Products Supply Framework Agreement

(a) Provision of products by Sinopec Group to the Group

(1) Prior to the establishment of SSC, it was Sinopec Group that provided products to the subsidiaries and branches of SSC. After its establishment, SSC is conducting procurement activities through its developing and independent procurement system. Also, in order to ensure the stable supply, SSC needs Sinopec Group to continue to provide products.

(2) As the owner of projects of SSC, Sinopec Group itself or its designated suppliers are required to provide products to SSC.

(b) Provision of products by the Group to Sinopec Group

Prior to the establishment of SSC, the subsidiaries and branches of SSC provided Sinopec Group with its required products. After the completion of the reorganisation in 2014, the products from the subsidiaries and branches of SSC provided effective support the production and operation of Sinopec Group and Sinopec Group will need the Group to continue to provide its products.

LETTER FROM THE BOARD

Continuing Connected Transactions

Reasons for Continuing Connected Transactions

2. 2018 General Services Framework Agreement

- (a) Provision of general services by Sinopec Group to the Group

Some offices of SSC and its subsidiaries are located in a building in which Sinopec Group has been providing ancillary administrative and logistical services, including conference facilities, property management services and information technology services, to those of its subsidiaries which occupy the building for a number of years. Given the quality, cost efficiency and convenience of using such ancillary services, it will be beneficial to the Group to continue purchasing such services from Sinopec Group. In addition, the Group has been receiving cultural and educational trainings provided by Sinopec Group since the Company's establishment, including foreign language and cultural training courses, international project management courses, occupational skills training courses and management skills training seminars, which SSC believes to be beneficial to the professional development of the Group's staff. Sinopec Group has a massive network of global suppliers and an advanced IT platform, which are of great significance to the Group to find premium vendors and reduce acquisition costs. In addition, the Group will receive professional supportive services in relation to finance, human resources and information technology sharing services from Sinopec Group Sharing Company Limited (中國石化集團共享服務有限公司), which is expected to further optimize the refined management and improve the operation efficiency of the Group.

- (b) Provision of general services by the Group to Sinopec Group

The training centre of the Group will from time to time provide trainings to certain workers employees from Sinopec Group which is required for those workers to perform their duties at the relevant entities under Sinopec Group.

LETTER FROM THE BOARD

Continuing Connected Transactions

Reasons for Continuing Connected Transactions

3. 2018 Engineering and Construction Services Framework Agreement

Provision of engineering services by the Group to Sinopec Group

SSC was founded with the assets from the oil engineering and technical service segment of Sinopec Group. Prior to its establishment, these assets had been providing Sinopec Group with oil field services and engineering and construction services, such as drilling, oil field technologies, and geophysical prospecting and construction, for its oil and gas exploration, exploitation and production activities. Therefore, the engineering service related connected transactions between SSC and Sinopec Group generally originates from the operating system for the development of the oil industry in China, the history of Sinopec Group and the establishment of the Group through reorganisation. Sinopec Group is promoting its EPC business (including product procurement). As an integrated oil engineering and technical services company, SSC has extensive EPC experience and therefore will provide Sinopec Group with product procurement services. These transactions guarantee the rapid development of Sinopec Group's oil and gas exploration and exploitation business on one hand and provide the Group a stable and long-term oil field technical service market on the other hand. In turn, it benefits the operation and growth of the Group and acts as a solid foundation for the Group to explore new markets and new businesses.

LETTER FROM THE BOARD

4. 2018 Financial Services Framework Agreement

Reasons and benefits of the deposits services provided by the Financial Services Providers to the Group

- (a) Centralized cash management. It is the Group's policy to centralize its cash management function. As the terms offered by Financial Services Providers are no less favourable than the deposit interest rates published by the PBOC (in the case of Sinopec Finance) or independent commercial banks in Hong Kong (in the case of Sinopec Century Bright) for deposits of a similar type for the same period, the terms of placing deposits with Financial Services Providers are no less favourable to the Group than placing deposits with independent commercial banks. In addition, the centralized deposit of funds with Financial Services Provider will enable the Group to use Financial Services Providers as a primary clearing and settlement platform, provide the Group with access to a centralized cash pool (both onshore and offshore), give it the flexibility to make timely withdrawals from time to time to meet its funding needs and reduce the need for the Group to obtain third party financing, which will in turn help the Group to achieve a lower cost of funding and maximize cost and operational efficiencies.
- (b) Clearing and settlement platform. In its ordinary course of business, as Sinopec Group is the Group's largest client, the Group transacts with Sinopec Group. In line with Sinopec Group's internal group policy, Sinopec Group generally maintain settlement accounts with Financial Services Providers. The centralized maintenance of deposits by the Group with Financial Services Providers will facilitate clearing with other members of Sinopec Group (some of whom are clients the Group), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent banks. It would not be efficient for Sinopec Group and the Group to separately maintain bank accounts with independent banks for clearing and settlement.
- (c) Familiarity with the Group's business. As Financial Services Providers only provide financial services to members of Sinopec Group and the Group, they have over the years acquired extensive knowledge of the industry. In the context of the Group, Financial Services Providers are familiar with its capital structure, business operations, funding needs and cash flow pattern, which enables them to better anticipate the Group's business needs. As a result, Financial Services Providers are well-positioned to provide the Group with specialized and cost efficient services which would not be easy for independent commercial banks to replicate.
- (d) Flexibility. The Group has the sole discretion to deposit and withdraw its deposits with Financial Services Providers from time to time. There is no restriction on its ability to deposit its cash with independent commercial banks in or outside the PRC now or in the future should the Group so wish. Currently, the Group maintains deposits with independent commercial banks in and outside the PRC and expect to continue to do so depending on the contractual and other requirements. The Group chooses to deposit its cash with Financial Services Providers as it helps the Group centralize its treasury management function.

LETTER FROM THE BOARD

The risks associated with the use of deposit services provided by the Financial Services Providers mainly includes (i) risks commonly faced by the banking industry; and (ii) risks arisen from the fact that Financial Services Providers being the financial institutions controlled by China Petrochemical Corporation. After taking into account various factors as disclosed above, the Directors are of the view that the Company actually face no greater risks commonly faced by the banking industry for the use of deposit services provided by the Financial Services Providers. For the risks arisen from the fact that the Financial Services Providers being the financial institutions controlled by China Petrochemical Corporation (e.g., the possible liquidation of China Petrochemical Corporation or diversion of fund by China Petrochemical Corporation, etc.), the Directors are of the views that such risks are either remote or can be minimized/avoided by internal control system established by the Company. As such, having considered the above, and taking into account the no less favourable interest rates and other commercial benefits to the Group, the Directors consider it in the interests of the Company and its Shareholders as a whole to use those deposit services.

Reasons and benefits of the other financial services provided by the Financial Services Providers to the Group

As Sinopec Group is the largest customer of the Group, using Financial Services Providers as a settlement platform will promote the efficiency of capital management and minimise capital management risks. Moreover, the Financial Services Providers can also provide specialised and low-cost financial services, which helps maximize the cost-effectiveness for the Group.

5. 2018 Technology R&D Framework Agreement

- | | |
|--|--|
| (a) Provision of technology R&D services by the Group to Sinopec Group | The Group provides technology research and development services to its clients in relation to technologies in the oil engineering industry, which is in line with normal industry practice as the Group has in-depth knowledge of its own clients' needs when providing its oil engineering services to them. Sinopec Group will, as the Group's clients, receive technology R&D services provided by the Group from time to time. |
| (b) Provision of technology R&D services by Sinopec Group to the Group | Sinopec Group provides the Group with technology research and development services to its clients in relation to technologies in the oil engineering industries, which is in line with normal industry practice as Sinopec Group has in-depth knowledge of its customers' needs. The Group (as the customers of Sinopec Group) will receive technology R&D services provided by Sinopec Group from time to time. |

LETTER FROM THE BOARD

6. 2018 Land Use Rights and Property Leasing Framework Agreement

Provision of land and properties by Sinopec Group to the Group by way of lease

The Group has been using the above properties in recent years mainly as dormitories, offices and factory buildings. Any relocation will cause unnecessary disruption of business operation.

7. 2018 Trademark License Agreement

The Group has been using the trademarks of Sinopec Group for a number of years. As such, in order to maintain the consistency of brand image, the Group will continue to use certain trademarks of Sinopec Group.

8. SPI Fund Document

According to the SPI Fund Document, the Company is required to pay insurance premium to the SPI Fund twice a year.

HONG KONG LISTING RULES IMPLICATIONS

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

1. 2018 Mutual Products Supply Framework Agreement

(1) Provision of products by Sinopec Group to the Group

As the relevant applicable percentage ratios exceed 5%, they are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(2) Provision of products by the Group to Sinopec Group

As the relevant applicable percentage ratios exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

2. 2018 General Services Framework Agreement

(1) Provision of general services by Sinopec Group to the Group

As the relevant applicable percentage ratios exceed 5%, they are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

(2) *Provision of general services by the Group to Sinopec Group*

As the relevant applicable percentage ratios exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

3. 2018 Engineering and Construction Services Framework Agreement

As the relevant applicable percentage ratios of the provision of engineering services by the Group to Sinopec Group exceed 5%, they are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

4. 2018 Financial Services Framework Agreement

(1) *Provision of deposit services by the Financial Services Provider to the Group*

As the relevant applicable percentage ratios exceed 5%, they are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Further, such deposit services will also constitute disclosable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules.

(2) *Provision of unsecured loan services by the Financial Services Provider to the Group*

In accordance with Rule 14A.90 of the Hong Kong Listing Rules, as the unsecured loan services are conducted on normal commercial terms, they are exempt from reporting, announcement and Independent Shareholders' approval requirements.

(3) *Provision of other financial services, such as payment and settlement, by the Financial Services Providers to the Group*

As the relevant applicable percentage ratios exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

5. 2018 Technology R&D Framework Agreement

(1) *Provision of technology R&D services by the Group to Sinopec Group*

As the relevant applicable percentage ratios exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

(2) *Provision of Technology R&D services by Sinopec Group to the Group*

As the relevant applicable percentage ratios exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

6. 2018 Land Use Rights and Property Leasing Framework Agreement

As the relevant applicable percentage ratios of the provision of land and properties by Sinopec Group to the Group in form of lease exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

7. 2018 Trademark License Agreement

As the applicable percentage ratios of licensing relevant trademarks by Sinopec Group to the Group is less than 0.1%, they are exempt from reporting, announcement and Independent Shareholders' approval requirements.

8. SPI Fund

As the relevant applicable percentage ratios of the premium payments from the Company to China Petrochemical Corporation for SPI Fund exceed 0.1% but less than 5%, they are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement.

The Company is listed on both the Hong Kong Stock Exchange and the SSE. According to the SSE listing rules, the Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions and their annual caps are subject to the approvals of Independent Shareholders as well as relevant information disclosure. Therefore, for the purpose of compliance of both the SSE listing Rules and Hong Kong Listing Rules, the Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions and their annual caps for the three years ending 31 December 2021 shall be submitted to the EGM for the approvals by the Independent Shareholders.

APPROVAL BY THE BOARD AND INDEPENDENT SHAREHOLDERS

The Independent Board Committee has been formed to advise Independent Shareholders on the Major Continuing Connected Transactions and the proposed annual caps for the three years ending 31 December 2021.

The Company has appointed Anglo Chinese as the Independent Financial Adviser to advise Independent Board Committee and Independent Shareholders on the Major Continuing Connected Transactions and the proposed annual caps for the three years ending 31 December 2021.

On 18 October 2018, the sixth meeting of the ninth session of the board of directors of the Company was held. The Board considered and approved the 2018 Connected Transactions Framework Agreements, the SPI Fund and the proposed annual caps for the three years ending 31 December 2021, and that the Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions (including the relevant proposed annual caps) be submitted to the EGM for approval. Mr. Lu Baoping and Mr. Fan Zhonghai were deemed having interest in the resolutions in relation to the Continuing Connected Transactions due to their positions in the connected person of the Company and therefore abstained from voting.

LETTER FROM THE BOARD

The Company will seek for the approval from the Independent Shareholders on the Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions and the proposed annual caps for the three years ending 31 December 2021 at the EGM. Since China Petrochemical Corporation is the controlling shareholder of the Company, China Petrochemical Corporation and its associates (holding a total of approximately 70.18% equity interest in the Company's issued share capital) will abstain from voting on the ordinary resolutions in relation to Continuing Connected Transactions at the EGM.

GENERAL INFORMATION

SSC is a joint stock limited company incorporated in PRC and a leading provider of oil and gas engineering and technical services in China. It owns engineering equipment and technologies in the fields of geophysics, drilling, logging and mud logging, cementing, special downhole operations, oilfield ground construction and oil and gas pipeline construction, and is able to provide comprehensive engineering and technical services throughout the whole lifecycle of oil/gas fields. In China, SSC has more than 50 years of operation, and has provided oil and gas engineering services in 76 basins over time with operations across 14 provinces.

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

II. PROPOSED PROVISION OF GUARANTEE FOR WHOLLY-OWNED SUBSIDIARIES

To satisfy the needs of international market expansion and day-to-day operation, the Board considered and approved the resolution on the provision of guarantee for wholly-owned subsidiaries of the Company on 7 November 2018, including:

Credit Guarantee: The Company has agreed that its wholly-owned subsidiaries may use part of the credit facilities of the Company to issue letter of bank guarantee and letter of credit to external parties for us in day-to-day business operation, such as tender bidding, contract performance and payments, and the Company will undertake the corresponding joint and several guarantee liabilities. The maximum amount of joint and several guarantee liabilities undertaken by the Company during the

LETTER FROM THE BOARD

guarantee period shall not exceed the equivalent value of RMB8 billion (Renminbi Eight Billion Yuan), the specific amount of guarantee will be allocated by the Company according to the operation needs of each subsidiary. As at 31 October 2018, the existing amount of credit guarantee actually provided by the Company was RMB7.28 billion.

Performance Guarantee: The Company has agreed that whenever its wholly-owned subsidiary engages in market development and tender bidding activities for oilfield services and enters into a business contract, the Company will provide performance guarantee to ensure that when the wholly-owned subsidiary loses its contract performance capability, the Company will perform the contract on its behalf. The maximum amount of joint and several guarantee liabilities undertaken by the Company during the guarantee period shall not exceed the equivalent value of RMB18.0 billion (Renminbi Eighteen Billion Yuan), the specific amount of guarantee will be allocated by the Company according to the operation needs of each subsidiary. As at 31 October 2018, the existing amount of performance guarantee actually provided was RMB5.7 billion.

Guarantee Period: From the date of approval by the Shareholders at the EGM until the end of the annual general meeting of the Company for the year 2018.

As at the Latest Practicable Date, the total existing amount of external guarantee provided by the Company and its controlled subsidiaries was approximately RMB12.98 billion, the Company has no overdue external guarantee.

According to the Shanghai Listing Rules, since the maximum amount of the proposed guarantee is RMB26.0 billion, which has exceeded 30% of the audited total assets for the latest reporting period of the Company (i.e. RMB61.943 billion), and has exceeded 50% of the audited net for the latest reporting period of the Company assets (i.e. RMB-2.103 billion), and the gearing ratio of certain guaranteed subsidiaries has exceeded 70%, therefore the proposed guarantee shall be submitted to the EGM for shareholders' approval after consideration and approval by the Board. If approved, the valid period of the proposed guarantee will commence on the date of approval by the shareholders at the EGM until the end of the annual general meeting of the Company for the year 2018.

According to the Hong Kong Listing Rules, the provision of guarantee by the Company for its wholly-owned subsidiaries does not constitute a transaction under Chapter 14 or Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

The guaranteed entities are wholly-owned subsidiaries of the Company, the basic information of the guaranteed entities is set out below:

Currency Unit: RMB100 million

Guaranteed entity	Place of registration	Scope of business	Shareholding percentage held by the Company	30 September 2018		
				Total assets	Total liabilities	Gearing ratio
Sinopec Shengli Petroleum Engineering Co., Ltd.	Dongying, Shandong Province	Petroleum engineering technical services	100%	121.3	123.14	101.52%
Sinopec Zhongyuan Petroleum Engineering Co., Ltd.	Puyang, Henan Province	Petroleum engineering technical services	100%	109.79	108.65	98.96%
Sinopec Jiangnan Petroleum Engineering Co., Ltd.	Qianjiang, Hubei Province	Petroleum engineering technical services	100%	49.11	38.24	77.87%
Sinopec East China Petroleum Engineering Co., Ltd.	Nanjing, Jiangsu Province	Petroleum engineering technical services	100%	34.18	34.03	99.55%
Sinopec North China Petroleum Engineering Co., Ltd.	Zhengzhou, Henan Province	Petroleum engineering technical services	100%	43.12	22.61	52.44%
Sinopec Southwest Petroleum Engineering Co., Ltd.	Chengdu, Sichuan Province	Petroleum engineering technical services	100%	53.79	21.13	39.29%
Sinopec Petroleum Engineering Geophysics Co., Ltd.	Beijing	Geophysics exploration	100%	32.68	31.52	96.46%
Sinopec Petroleum Engineering & Construction Co., Ltd.	Beijing	Engineering and construction	100%	206.67	206.39	99.86%
Sinopec Offshore Oilfield Services Co., Ltd.	Shanghai	Offshore petroleum engineering technical services	100%	52.3	16.03	30.65%
Sinopec International Petroleum Service Corporation	Beijing	Petroleum engineering technical services	100%	38.95	29.14	74.82%

III. 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 Monday, 24 December 2018 at 9:00 a.m. The EGM notice, proxy form and reply slip will be dispatched along with this circular.

LETTER FROM THE BOARD

Whether or not you are able to attend the EGM in person, please complete the proxy form of the Company in accordance with the instructions printed thereon and return it to the office address of the Company or to Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 24 hours before the time for holding the EGM (i.e. 9:00 am on 23 December 2018, Hong Kong time). Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) as you wish.

China Petrochemical Corporation and its associates (holding a total of approximately 70.18% equity interest in the Company's issued share capital) will abstain from voting on the ordinary resolutions in relation to the Continuing Connected Transactions 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.

IV. RECOMMENDATION

Your attention is drawn to (I) the letter from the Independent Board Committee dated 7 November 2018 on pages 50 to 51 of the circular, which set out the recommendation from the Independent Board Committee to Independent Shareholders on the Major Continuing Connected Transactions and their relevant annual caps, and (II) the letter from the Independent Financial Adviser dated 7 November 2018 on pages 52 to 70 of the circular, being the recommendation from Anglo Chinese, the Independent Financial Adviser, to the Independent Board Committee and Independent Shareholders on the Major Continuing Connected Transactions and their relevant annual caps and the key factors and reasons considered when making the recommendation.

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 Major Continuing Connected Transactions and Non-Major Continuing Connected Transactions and their relevant annual caps are fair and reasonable on normal commercial terms and in the interest of the Company and the Shareholders as a whole. The Board is also of the view that the proposed provision of guarantee for wholly-owned subsidiaries is in the interest of the Company and its shareholders as a whole. Accordingly, the Directors advise the Shareholders (including the Independent Shareholders) to vote in favor of all resolutions proposed at the EGM.

Your attention is drawn to the texts of the letters from the Independent Board Committee and Anglo Chinese, the Independent Financial Adviser, containing their recommendations regarding, the Major Continuing Connected Transactions (including the relevant proposed annual caps). The text of the letter from Independent Board Committee is set out on pages 50 to 51 of this circular and the text of the letter from Anglo Chinese containing its advise is set out on pages 52 to 70 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. Pan Ying

Mr. Chen Waidong

Mr. Dong Xiucheng

7 November 2018

To the Independent Shareholders

Dear Sir or Madam:

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to the circular (the “**Circular**”) dated 7 November 2018 issued by SSC 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 recommendation whether or not the Major Continuing Connected Transactions (including the relevant proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned. The terms, annual caps and the reasons for the Major Continuing Connected Transactions 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 52 to 70 of the Circular.

RECOMMENDATION

We have discussed with the management of SSC, the reasons for the Major Continuing Connected Transactions (including the relevant proposed annual caps), the mechanism for the determination of the price for the Major Continuing Connected Transactions, the terms of thereof,

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 Major Continuing Connected Transactions (including the relevant proposed annual caps) as set out in the letter from Anglo Chinese on pages 52 to 70 of the Circular, which we urge you to read carefully.

The Independent Board Committee concurs with the views of Anglo Chinese and consider that the Major Continuing Connected Transactions (including the relevant proposed annual caps) 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. The Major Continuing Connected Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Company. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions relating to the Major Continuing Connected Transactions set out in the Circular which is contained in the notice of the EGM at the end of the Circular.

Yours faithfully,

Ms. Jiang Bo, Mr. Pan Ying, Mr. Chen Weidong, Mr. Dong Xiucheng
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

英高
財務顧問有限公司

*To the Independent Board Committee
and the Independent Shareholders*

7 November 2018

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTION

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 Major Continuing Connected Transactions and their annual caps for each of the three years ending 31 December 2021, details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 7 November 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.

As at the Latest Practicable Date, China Petrochemical Corporation is a controlling Shareholder of the Company holding 70.18% of the Company's issued share capital. Accordingly, China Petrochemical Corporation and its associates are connected persons of the Company and the transactions contemplated under the 2018 Connected Transactions Framework Agreements constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratios for each of the annual caps under the Major Continuing Connected Transactions exceed 5%, the Major Continuing Connected Transactions and the relevant annual caps are subject to, among other things, the approval by the Independent Shareholders. Further, the provision of deposit services by the Financial Services Providers to the Group under the 2018 Financial Services Framework Agreement will also constitute a disclosable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

An Independent Board Committee comprising all of the Independent Non-executive Directors has been formed to advise the Independent Shareholders in respect of the Major Continuing Connected Transactions and their annual caps for each of the three years ending 31 December 2021.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As China Petrochemical Corporation and its associates have material interest in the Major Continuing Connected Transactions, they will abstain from voting on the relevant resolutions at the EGM.

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 Hong Kong 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. 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, China Petrochemical Corporation, Sinopec Century Bright, Sinopec Finance or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates. Within the past two years from the Latest Practicable Date, we were previously engaged as the independent financial adviser by the Company for two occasions, details of which were set out in the circular of the Company dated 22 January 2018 and 18 October 2017. Given our independence role and normal professional fees received from the Company under the past engagement, we consider it would not affect our independence to form our opinion in this letter.

PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Major Continuing Connected Transactions and the related annual caps, we have taken into account the following principal factors:

Background**1. Business and financial information of 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. It owns engineering equipment and technologies in the fields of geophysics, drilling, logging and mud logging, cementing, special downhole operations, oilfield ground construction and oil and gas pipeline construction, and is able to provide comprehensive engineering and technical services throughout the whole lifecycle of oil/gas fields. In China, The Company has more than 50 years of operation, and has provided oil and gas engineering services in 76 basins over time with operations across 14 provinces.

Tabulated below is a summary of the audited consolidated financial results of the Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 and 2017 as extracted from the Company's 2017 annual reports and the unaudited consolidated financial results of the Group prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the six months ended 30 June 2017 and 2018 as extracted from the Company's 2018 interim report:

Consolidated statement of comprehensive income

(RMB million)	For the year ended 31 December		For the 6 months ended 30 June	
	2016 <i>(audited)</i>	2017 <i>(audited)</i>	2017 <i>(unaudited)</i>	2018 <i>(unaudited)</i>
Revenue	42,923.5	48,485.8	19,842.3	23,653.0
Profit/(loss) before taxation	(15,887.2)	(10,317.7)	(1,932.8)	763.8
Net profit/(loss) attributable to Shareholders	(16,198.2)	(10,556.2)	(2,132.1)	615.7
Earnings/(loss) per Share (RMB)	(1.145)	(0.746)	(0.151)	0.034

Consolidated statement of financial position

(RMB million)	As at 31 December		As at 30 June
	2016 <i>(audited)</i>	2017 <i>(audited)</i>	2018 <i>(unaudited)</i>
Cash and cash equivalents	2,446.9	2,523.4	2,212.2
Total assets	74,493.2	61,942.6	60,153.9
Total liabilities	66,051.6	64,046.6	54,004.4
Equity attributable to Shareholders	8,442.9	(2,102.6)	6,149.4
Net assets value attributable to Shareholders per Share (RMB)	0.597	(0.149)	0.324

The Group recorded a gross and net loss for the year end 31 December 2016 and 2017, and a gross and net profit for the six months ended 30 June 2018. As disclosed in the Company's 2018 interim report, for the first half of 2018, the Company's operating results turned losses into profits, the gross profit margin of the major business for the period is 5.9% which is mainly benefiting from: with a rebound in international oil prices, domestic and foreign oil companies significantly increased upstream capital expenditure for oilfield exploration and development. The operating conditions of the oilfield service industry continued to improve, with a significant year-on-year increase in the workload in connection with major specialised tasks and revenue. The effects of deepening reforms, strengthening management and tapping internal potential appeared simultaneously.

According to Bloomberg, in the first half of 2018, international crude oil prices trended upwards amidst fluctuations. The average price level was significantly higher than that for the same period of 2017 and 2016. The average Europe Brent Spot Price was USD 71.106 per barrel, representing a year-on-year increase of 34.9% to the same period of 2017. The increase in international crude oil prices encouraged domestic and foreign oil companies to increase upstream capital expenditure for oilfield exploration and development.

As advised by the Company, in the first half of 2018, in addressing the business conditions, the Company seized favorable opportunities such as a rebound in crude oil prices and increase upstream capital expenditure for oilfield exploration, and expand market development. The newly signed contracts amounted to RMB35.1 billion, representing a year-on-year increase of 58% to the same period of 2017. The completed contract amounted to RMB23.7 billion, representing a year-on-year increase of 29% to the same period of 2017. Meanwhile, internal reform was deepened and meticulous management was enhanced, greatly reducing costs. In the first half of the year, the volume of work in connection with major specialized tasks increased on a year-on-year basis. The revenue increased by 19.2% on a year-on-year basis while the operating costs increased by 12.0% on a year-on-year basis. The increase in operating cost is lower than the increase in revenue by 7.2 percentage points. The operating result continued to improve, bringing a turn-around in its business.

Cash and cash equivalents have decreased by 12.3% from RMB2,523.4 million on 31 December 2017 to RMB2,212.2 million on 30 June 2018. By entering into the 2018 Financial Services Framework Agreement, the Group can, amongst other things, obtain additional opportunities to optimise its deposit management. Please refer to the "Reasons for and benefits of entering into the 2018 Financial Services Framework Agreement" section below for more information.

In 2017, the Company's consolidated revenue was RMB48.5 billion, representing a year-on-year increase of 13.0% to full financial year of 2016, reversing the decline which lasted for three consecutive years. Net loss attributable to shareholders of the Company was RMB10.6 billion, representing a significant year-on-year decrease of RMB5.5 billion. The loss in 2017 was mainly caused by the following reasons: the gross loss of the Company was 6.0% due to high fixed cost; the newly signed contract amounted to RMB53.2 billion, representing a year-on-year increase of 27.2% to the full financial year of 2016; deepened internal reforms, vigorously cutting off excessive capacity, accelerating the professional development of auxiliary businesses, and strengthened the main business; further strengthened cost controls by tapping potentiality and increasing efficiency, and optimised investment to reduce the losses.

2. *Information of China Petrochemical Corporation*

China Petrochemical Corporation was established in July 1998, and it is an authorised investment organisation with a current registered capital of RMB274.87 billion. It is a state-owned enterprise and administered by the State-owned Assets Supervision and Administration Commission. Upon reorganization in 2000, China Petrochemical Corporation transferred its principal petrochemical business to China Petroleum & Chemical Corporation. The principal operations of China Petrochemical Corporation include: exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive 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.

3. *Information of Sinopec Century Bright*

Sinopec Century Bright is a company incorporated in Hong Kong with limited liability. It is licensed under the Money Lenders Ordinance (Cap.163 of the Laws of Hong Kong). It is approved by the SAFE as an offshore settlement centre for centralised cash management for China Petrochemical Corporation and its subsidiaries in year 2007. Sinopec Century Bright only provides financial services to China Petrochemical Corporation and its subsidiaries (including the Group). Sinopec Century Bright is used as an interim/short term deposit platform by the Group particularly to settle trade payables and receivables in respect of overseas projects.

4. *Information of Sinopec Finance*

Sinopec Finance is a non-banking financial institution incorporated in the PRC in 1988 and is subject to the Administrative Measures on Finance Companies within Group Enterprises (企業集團財務公司管理辦法) and other relevant regulations promulgated by the PBOC and CBRC. Sinopec Finance is 51% owned by China Petrochemical Corporation and 49% owned by China Petroleum & Chemical Corporation. The establishment of such non-banking financial institutions is subject to approval by the CBRC and its operation is subject to the ongoing supervision of the CBRC. Non-banking financial institutions shall comply with applicable regulations relating to interests rates issued by the PBOC and CBRC. In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, Sinopec Finance only provides financial services to China Petrochemical Corporation and its subsidiaries, including the Group.

Terms of the Major Continuing Connected Transactions

On 18 October 2018, the Company and China Petrochemical Corporation entered into the 2018 Mutual Products Supply Framework Agreement, the 2018 General Services Framework Agreement, the 2018 Engineering and Construction Services Framework Agreement, the 2018 Financial Services Framework Agreement. Such framework agreements are valid for a term of three years commencing

on 1 January 2019 and they will, upon effective, replace the 2015 Mutual Products Supply Framework Agreement, the 2015 General Services Framework Agreement, the 2015 Engineering and Construction Services Framework Agreement, and the 2015 Financial Services Framework Agreement entered into between the Company and China Petrochemical Corporation dated 28 October 2015. The terms and conditions of such new framework agreements are substantially the same as those of the existing framework agreements. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in such new framework agreements.

Transactions

Pursuant to the 2018 Mutual Products Supply Framework Agreement, amongst other things, Sinopec Group will provide the following types of products to the Group: crude oil, crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, lubricants, etc.); natural gas (including pipeline gas, CNG, LNG, etc.); steel; chemicals, oilfield chemicals and chemical reagents; petroleum-specific equipment; oil drilling and exploitation equipment and accessories; instrumentation and accessories; special tools; engineering machinery; timber, cement and construction materials; electric material; pipeline fittings; paint coating; valve; natural rubber, rubber products and plastic products; petrochemical-specific equipment and accessories; electrical equipment and accessories; and other products.

Pursuant to the 2018 General Services Framework Agreement, amongst other things, Sinopec Group will provide the following types of services to the Group: cultural, educational, training services and other related or similar services; information system like infrastructure and application softwares and relevant necessary support and services; finance, human resources and information technology sharing services; office and logistics services; product procurement services; other services.

Pursuant to the 2018 Engineering and Construction Services Framework Agreement, the Group will provide to Sinopec Group the following types of engineering services including but not limited to geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, and marine engineering of oil, gas and other mineral resources; engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision; contracting; engineering design; construction; machinery equipment processing and manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labour supply service; testing service; special transportation service; and other engineering supporting services.

Pursuant to the 2018 Financial Services Framework Agreement, the Financial Service Providers, subsidiaries of China Petrochemical Corporation, will provide financial services to the Group, such financial services primarily include deposits, loans, entrustment loans and deposit, settlement services, and other financial services provided by the Financial Service Providers as approved by applicable laws and regulations.

Pricing

The pricing of the products provided under the 2018 Mutual Products Supply Agreement shall be determined in accordance with the general principles and order as follows:

- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product, such product shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price.
- (2) Market price: the price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third party for the same period when determining whether the price for any product transaction under the agreement is market price.

Please refer to pages 8 to 12 of the circular for further details in relation to pricing mechanism to particular products under the 2018 Mutual Products Supply Agreement.

The pricing of the general services provided by Sinopec Group to the Group under the 2018 General Services Framework Agreement shall be determined in accordance with the general principles and order as follows:

- (1) Charges of cultural, educational, training services and other related or similar services are determined in accordance with the audited costs actually incurred in cultural, educational, training and community services provided by Sinopec Group in 2017, and shared between the Group and Sinopec Group in accordance with factors such as the number of employees of the Group.
- (2) Agreed price is applicable to information system like infrastructure and application softwares and relevant necessary support and services; office and logistics services; product procurement services and other services. The agreed price is determined by adding a reasonable profit (the markup should be no more than 6% to the cost) over a reasonable cost. The supplier of the service will provide a cost list which is based on the actual costs incurred in providing the service by Sinopec Group, and the purchaser will conduct comparison with the comparable average cost of similar enterprises in the neighbouring areas to negotiate and determine the reasonable cost for ascertaining the price. The management shall consider at least two comparable deals with the independent third party for the same period when determining the reasonable profit of a general service under the agreement. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

Agreed price is applicable to finance, human resources and information technology services sharing. The reasonable cost is determined on the basis of FTE (full-time labor equivalent). At this stage, the cost and tax are used as the cost benchmark, and the profit rate is controlled within 6% to determine the price of the sharing service. The price of connected transaction once determined and signed, shall not be changed by one party voluntarily.

The pricing of the services provided under the 2018 Engineering and Construction Services Framework Agreement shall be determined in accordance with the general principles and order as follows:

- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price.
- (2) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (3) Market price: the price of the same or similar products, technology or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with the independent third party for the same period when determining whether the price for any service under the agreement is market price.
- (4) Agreed price: to be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable deals with the independent third party for the same period when determining the reasonable profit of any service under the Agreement. The reasonable profit is 6% or less of the operating cost.

On the basis of the above agreement, with respect to the pricing policies of the transactions of engineering services, both parties further agreed as follows:

- (1) Prices of service transactions under this agreement shall be fair and reasonable to both parties and determined according to the principle of market-orientation and based on the attributes of the contract. Pricing factors to consider include the operations area, the amount of work, job content, duration of contract, sales strategy, overall customer relationship and subsequent contract opportunities.
- (2) The pricing of specific service transactions under this agreement shall follow the pricing order as specified above, and be determined on normal commercial terms and conditions through fair negotiation. When there are no sufficient comparable transactions to judge whether the pricing is in compliance with normal commercial terms and conditions, the pricing shall be determined on terms and conditions no less favourable than those available to independent third parties.

Please refer to pages 15 to 20 of the circular for further details in relation to pricing mechanism to particular services under the 2018 Engineering and Construction Services Framework Agreement. Through discussion with the management of the Company, we understand that majority of the services provided under the 2018 Engineering and Construction Services Framework Agreement shall be determined in accordance with (1) government-prescribed price and government-guided price or (2) tender and bidding price.

Under the 2018 Financial Services Framework Agreement, the interest rate applicable to the deposits with the Financial Service Providers from the Group is determined in accordance with the relevant interest rate as promulgated by the PBOC. For deposit services provided by Financial Services Providers, the interest rates of the relevant deposit will be not lower than those provided by independent third parties for the deposits of the same nature and the same maturity.

In relation to products and services applicable to the government-prescribed price and government-guided price, including crude oil processing and oil products (including gasoline, diesel, kerosene, fuel oil, etc.), natural gas (including pipeline gas, CNG, LNG, etc.), engineering consulting (solution research, project proposal, feasibility study and early stage project consulting), project management, project supervision, engineering design, we have reviewed the relevant regulations issued by regulatory authorities in the PRC.

In relation to services applicable to the tender and bidding price, including geophysical and geochemical drilling and completion, logging, downhole operation, construction, machinery involved in the exploitation, gathering and transportation, ground construction, plumbing, construction, marine engineering of oil, gas and other mineral resources, contracting, and construction, we have reviewed the internal bidding regulation of the Company which set out the detailed requirements for the bidding process and the responsibility of departments involved.

In relation to products and services applicable to market price, including crude oil, oil products (lubricants), coal, steel, chemicals, oilfield chemicals and chemical reagents, petroleum-specific equipment, oil drilling and exploitation equipment instrument and accessories, and engineering machinery, we have visited the relevant websites mentioned on page 11 and Bloomberg; based on our discussion with the management of the Group, we understand that the pricing terms entered into with the Sinopec Group were no less favourable to the Group than those with independent third parties involving comparable type of transaction, and the Group's pricing determination was in accordance with its internal control measures in principle, which will be further analysed in the section below headed "Internal Controls".

In relation to agreed price, we noted the 6% profit margin applies to the transactions for both products and services provided by the Group to Sinopec Group and products and services provided by Sinopec Group to the Group and consider such pricing principle is not in favor of any party. In addition, the 6% profit margin is close to the gross margin of 5.9% of the Company for the six months period ended 30 June 2018 as disclosed in the Company's interim report and we consider such profit margin is fair and reasonable.

The Major Continuing Connected Transactions contemplated under the 2018 Mutual Products Supply Framework Agreement, 2018 General Services Framework Agreement, 2018 Engineering and Construction Services Framework Agreement and 2018 Financial Services Framework Agreement will be on a non-exclusive basis and conducted on normal commercial terms or better to the Group or on terms not less favourable than those offered to or obtained from independent third parties under comparable market conditions. Based on the above, we are of the view that the pricing principles and mechanism of the Major Continuing Connected Transactions are fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole.

Internal controls

The Company has formulated a series of internal control measures and procedures in order to ensure the pricing mechanism and the terms of the Major Continuing Connected Transactions are fair and reasonable and no less favourable to the Company than the terms available to or from independent third parties, and in the interest of the Company and its Shareholders as a whole.

We have reviewed such internal control measures and procedures of the Company, and noted that for products or services without government-prescribed price or government-guided prices, the purchasing departments of the members of the Group will seek to obtain information about market price through various channels, for examples, considering at least two comparable transactions with the independent third party for the same period, keeping regular contacts with and from time to time obtaining price quotations through enquiries from established suppliers of scale (including the Sinopec Group and connected suppliers), conducting market price research through various independent industry information vendors (e.g. industry websites), and participating in activities and meetings organised by industry organisations. Market price information obtained through these channels above will be provided to other companies within the Group to assist in pricing of relevant continuing connected transactions. As a purchaser, the purchasing departments of the members of the Group shall compare and negotiate the terms of quotations from connected parties and independent third parties, and choose the supplier and service provider who offers the best commercial terms and technical terms to the Group upon obtained the approvals from the manager of the purchasing department and/or the senior management committee of relevant members of the Group, depending on the size of the transaction. Based on the above, we are of the view that such internal control measures and procedures could ensure the terms of individual transactions for the Major Continuing Connected Transactions are in line with market practice.

Pursuant to the requirements under rule 14A.55 and 14A.56 of the Hong Kong Listing Rules, the independent non-executive Directors and the auditors of the Company will conducted annual review and issue confirmations regarding the continuing connected transactions of the Company each year. We have reviewed the annual reports of the Company for the three financial years ended 31 December 2017 and noticed the independent non-executive Directors of the Company and the auditor of the Company have reviewed the connected transactions conducted during such period and provided the relevant confirmation letter. Based on such compliance record, we are of the view that the Company's internal control measures are effective. The Company also confirms that it will fully comply with all relevant requirements in relation to the Major Continuing Connected Transactions under Chapter 14A of the Hong Kong Listing Rules, including the requirement for annual review by the independent non-executive Directors and the auditor of the Company.

Reasons for and benefits of entering into the Major Continuing Connected Transactions

Sinopec Group is the largest client and also the main supplier of the Group. Revenues from Sinopec Group contributed 63.0%, 53.3%, 58.5% and 56.4% of the total revenue of the Company for each of the three years ended 31 December 2015, 2016, 2017 and the six months ended 30 June 2018, while purchase from Sinopec Group represented approximately 37.2%, 22.9%, 27.4% and 37.9% of the total purchases of the Group for such periods. Due to historical relationship between Sinopec Group and the Group, they have better understanding of each other's business and can better ensure the standards of technology, quality, delivery and technical support of the products and services to meet each other's requirements. In general, the entering into the 2018 Mutual Products Supply Framework Agreement, the 2018 General Services Framework Agreement, the 2018 Engineering and Construction Services Framework Agreement and the 2018 Financial Services Framework Agreement would provide flexibility for the Group to continue its existing arrangements with Sinopec Group of providing products and services to each other, and facilitate the overall operations and growth of the Groups' business by leveraging the resources and advantages of Sinopec Group. The specific reasons for and benefits of entering into the 2018 Connected Transactions Framework Agreements are elaborated below.

2018 Mutual Products Supply Framework Agreement*Provision of products by Sinopec Group to the Group*

Prior to the establishment of the Company, it was Sinopec Group that provided products to the subsidiaries and branches of the Company. After its establishment, the Company conducts procurement activities through its developing procurement system. Also, in order to ensure the stable supply, Sinopec Group is required to continue to provide products. As the owner of the Group's projects, Sinopec Group itself or its designated suppliers are required to provide the Group with products.

2018 General Services Framework Agreement*Provision of general services by Sinopec Group to the Group*

Some offices of the Company and its subsidiaries are located in a building in which Sinopec Group has been providing ancillary administrative and logistical services, including conference facilities, property management services and information technology services, to those of its subsidiaries which occupy the building for a number of years. Given the quality, cost efficiency and convenience of using such ancillary services, it will be beneficial to the Group to continue purchasing such services from Sinopec Group. In addition, the Group has been receiving cultural and educational training provided by Sinopec Group since the Company's inception, including foreign language and cultural training courses, international project management courses, occupational skills training courses and management skills training seminars, which the Company believes to be beneficial to the professional development of the Group's staff. Sinopec Group has an extensive network of global suppliers and an advanced IT platform, which are of great significance to the Group to find premium

vendors and reduce acquisition costs. In addition, the Group will receive professional supportive services in relation to finance, human resources and information technology sharing services from Sinopec Group Sharing Company Limited (中國石化集團共享服務有限公司), and this is expected to further optimise the refined management and improve the operation efficiency of the Group.

2018 Engineering and Construction Services Framework Agreement

The Company was founded with the assets from the oil engineering and technical service segment of Sinopec Group. Prior to its foundation, these assets had been providing Sinopec Group with oil field services and engineering and construction services, such as drilling, oil field technologies, and geophysical prospecting and construction, for its oil and gas exploration, exploitation and production activities. Therefore, the engineering service related connected transactions between the Group and Sinopec Group generally originates from the operating system for the development of the oil industry in China, the history of Sinopec Group and the foundation of the Group through reorganisation. Sinopec Group is promoting its EPC business (including product procurement). As an integrated oil engineering and technical services company, the Group has extensive EPC experience and therefore will provide Sinopec Group with product procurement services. These transactions guarantee the rapid development of Sinopec Group's oil and gas exploration and exploitation business on one hand and provide the Group a stable and long-term oil field technical service market on the other hand. In turn, it benefits the operation and growth of the Group and acts as a sort of guarantee for the Group to explore new markets and new businesses.

2018 Financial Services Framework Agreement

Deposits services

- (a) Centralised cash management. It is the Group's policy to centralise its cash management function. As the terms offered by the Financial Service Providers are no less favourable than the deposit interest rates published by the PBOC (in the case of Sinopec Finance) or independent commercial banks in Hong Kong (in the case of Sinopec Century Bright) for deposits of a similar type for the same period, the terms of placing deposits with the Financial Service Providers are no less favourable to the Group than placing deposits with independent commercial banks. In addition, the centralised deposit of funds with the Financial Service Providers will enable the Group to use the Financial Service Providers as a primary clearing and settlement platform, provide the Group with access to a centralised cash pool (both onshore and offshore), give it the flexibility to make timely withdrawals from time to time to meet its funding needs and reduce the need for the Group to obtain third party financing, which will in turn help the Group to achieve a lower cost of funding and maximise cost and operational efficiencies.
- (b) Clearing and settlement platform. In its ordinary course of business, as Sinopec Group is the Group's largest client, the Group transacts with numerous subsidiaries/affiliated companies of Sinopec Group. In line with Sinopec Group's internal group policy, such subsidiaries/affiliated companies generally maintain settlement accounts with the Financial Service Providers. The centralised maintenance of deposits by the Group with the Financial Service Providers will facilitate clearing with other members of the Sinopec Group (some of whom are the Group's

clients), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent banks. It would not be efficient for Sinopec Group and the Group to separately maintain bank accounts with independent banks for clearing and settlement.

- (c) Familiarity with the Group's business. As the Financial Service Providers only provide financial services to members of the Sinopec Group and the Group, they have over the years acquired extensive knowledge of the industry. In the context of the Group, the Financial Service Providers are familiar with its capital structure, business operations, funding needs and cash flow pattern, which enables them to anticipate better the Group's business needs. As a result, the Financial Service Providers are well-positioned to provide the Group with specialised and cost efficient services which would not be easy for independent commercial banks to replicate.
- (d) Flexibility. The Group has the sole discretion to deposit and withdraw its deposits with the Financial Service Providers from time to time. There is no restriction on its ability to deposit its cash with independent commercial banks in or outside the PRC now or in the future should the Group so wish. Currently, the Group maintains deposits with independent commercial banks in and outside the PRC and expects to continue to do so depending on the contractual and other requirements. The Group chooses to deposit its cash with the Financial Service Providers as it helps the Group centralise its treasury management function.

We have reviewed the licenses of the Financial Service Providers and have been advised by the Directors that to their best knowledge, up to the Latest Practicable Date, there is no record of non-compliance with relevant laws, rules and regulations of the PRC and Hong Kong on the Financial Service Providers. Sinopec Century Bright obtained a credit rating of A /A-1 rating from with a stable outlook and an A-1 rating with a stable outlook on its commercial paper from S&P Global Ratings on 22 September 2017. Sinopec Century Bright and Sinopec Finance only provide financial services to China Petrochemical Corporation and its subsidiaries (including the Group). China Petrochemical Corporation has made an undertaking towards Sinopec Finance as its controlling shareholder that, in case of any payment difficulties from Sinopec Finance's operation, China Petrochemical Corporation shall provide capital injection to Sinopec Finance. Meanwhile, Sinopec Century Bright signed a "Keep-well Deed" (《維好協議》) with China Petrochemical Corporation, according to which, China Petrochemical Corporation made an undertaking to Sinopec Century Bright that in case of payment difficulties of Sinopec Century Bright, China Petrochemical Corporation would ensure Sinopec Century Bright to meet the payment needs through various means. China Petrochemical Corporation obtained an A+/A-1 corporate credit rating with a stable outlook from S&P Global Ratings on 22 September 2017. Accordingly, we consider that China Petrochemical Corporation's ability to honour its undertaking in favour of the Group is strong and the credit risks of Financial Service Providers are not less controllable as compared to that to other financial entities. Taking into account the above and the no less favourable interest rates and other commercial benefits to the Group, we concur with the Company that the maintenance of deposits with the Financial Service Providers is beneficial to the Company's Shareholders as a whole.

Historical and proposed caps of the Major Continuing Connected Transactions

Set out below are the historical transaction amounts of each category of the Major Continuing Connected Transactions for the two financial years ended 31 December 2018 and the nine months ended 30 September 2018 and the proposed annual caps of each of the Major Continuing Connected Transactions for the three years ended 31 December 2021:

	Historical figures			Proposed annual caps					
	For the nine months			For the year ended 31 December 2019	change*	For the year ended 31 December 2020	change	For the year ended 31 December 2021	change
	For the year ended 31 December 2016	For the year ended 31 December 2017	ended 30 September 2018						
	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(%)	(RMB billion)	(%)	(RMB billion)	(%)
2018 Mutual Products Supply Framework Agreement									
- Provision of products by Sinopec Group to the Group	5.220	5.797	3.238	11.3	94.9%	12.5	10.6%	12.6	0.8%
2018 General Services Framework Agreement									
- Provision of general services by Sinopec Group to the Group	1.870	1.877	0.750	1.7	-9.4%	1.7	0.0%	1.7	0.0%
2018 Engineering and Construction Services Framework Agreement									
- Provision of engineering services by the Group to Sinopec Group	22.570	28.019	21.358	40	42.8%	45	12.5%	50	11.1%
2018 Financial Services Framework Agreement									
- Provision of deposit services by the Financial Service Providers to the Group (maximum daily balance)	2.573	2.057	2.931	3	45.8%	3	0.0%	3	0.0%

* *Note:* the percentage of change of the proposed annual cap for the year ended 31 December 2019 is compared to the transactions amount incurred during the full financial year of 2017.

We have reviewed the historical transaction amounts of each category of the Major Continuing Connected Transactions and have also communicated with the Company in relation to the basis of the proposed annual caps as set out below.

Basis of determination of the proposed annual caps

In determining the annual caps in respect of provision of products by Sinopec Group to the Group under the 2018 Mutual Products Supply Framework Agreement, the Company has considered:

- (i) the value of products provided by Sinopec Group during 2016, 2017 and first nine months of 2018;
- (ii) the future growth of the Group's business contributes to the additional volume of the products to be supplied by Sinopec Group; and
- (iii) the possible fluctuation in the price of products to be supplied by Sinopec Group in the next three years, fluctuation in the market price of bulk commodity, upgrade of quality of oil products and other unforeseeable factors.

As advised by the Company, the significant increase of proposed caps compares to the transaction amount in respect of provision of products by Sinopec Group to the Group for the nine months ended 30 September 2018 and the year of 2017 is mainly because of low crude oil price level at that time lead to low transaction amounts in respect of the provision of products by Sinopec Group to the Group. With the recent Brent crude oil price rallied and reached approximately USD86 per barrel, the business volume and demand for products of the Group is expected to increase significantly, as evidenced by the increase of transaction amounts in respect of provision of products by Sinopec Group to the Group for the first half of 2018 by 23.0% compares to the same period of that of 2017, reaching RMB1.65 billion. As such we considered the significant increase in proposed cap for the year of 2019 is fair and reasonable.

We further noted the proposed annual cap of RMB12.5 billion for 2020 represent a further increase by 10.6% to the proposed 2019 annual caps of RMB11.3 billion. As advised by the Company, such increase is mainly set to cater for future growth of procurement which would be mainly driven by the forecast engineering and construction services for the same period.

The Directors are of the view that, as the increasing market price of crude oil in 2018 is a normal business situation, the transaction volume is expected to increase in the next three years and the proposed annual caps represent the transaction volume under an ordinary market conditions as estimated by the Company. In arriving at the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2018 Mutual Products Supply Framework Agreement for the three years ending 31 December 2021, the Company expects the business volume will increase by assuming the crude oil price will be USD90 per barrel, USD95 per barrel and USD95 per barrel in 2019, 2020 and 2021 respectively.

According to information from Bloomberg, the crude oil price has been rallied and the closing prices of international crude oil from September 2015 to September 2018 were within the range of approximately USD27 to USD86 per barrel. As the Company's estimated prices are close to the recent market price and in line with Sinopec Group's estimation as disclosed in its announcement dated on 26 August 2018, we consider the assumptions adopted by the Company in estimating the business growth for 2019 to 2021 are fair and reasonable. Based on the above, we consider the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2018 Mutual Products Supply Framework Agreement are fair and reasonable.

In determining the annual caps in respect of provision of general services by Sinopec Group to the Group under the 2018 General Services Framework Agreement, the Company has considered

- (i) the annual fee to be paid for the training services and conference facilities provided by Sinopec Group which is estimated to be approximately RMB200 million, including estimated training services fee RMB160 million to train about 55,000 employees; and estimated Conference service fee RMB40 million upon considered the factors such as conference length, size and locations of the conference rooms, cantering and accommodation services;
- (ii) the annual fee to be paid for office and mining area properties management, cafeteria, dormitory, retirement management and other relevant services or similar auxiliary services provided by Sinopec Group which is estimated to be approximately RMB1.4 billion. Such annual fee is determined based on the audited cost actually incurred by Sinopec Group in providing cultural, educational, training and auxiliary services in 2017, and shared between the Company and Sinopec Group in accordance with factors such as the number of employees of the Company;
- (iii) the annual fee to be paid for the miscellaneous services (including information technology system services, etc.) provided by Sinopec Group which is estimated to be approximately RMB10 million. Such annual fee included estimated ERP system maintenance fee; OA office system fee; contract management system fee; archives and website service fee; and IT infrastructure (including servers) maintenance fee, which are based on the market rates charged for those services; and
- (iv) annual fee regarding finance, human resources and information technology sharing services is estimated to be approximately RMB80 million.

As advised by the Company, the proposed annual cap of RMB1.7 billion represents a decrease of approximately 29.4% to the annual cap of 2018, which is mainly because of the requirements from the State-owned Assets Supervision and Administration Commission of the State Council and Ministry of Finance of the PRC to transfer the relevant assets from Sinopec Group to the local governments. Hence, certain transactions contemplated under the 2015 General Services Framework Agreement are no longer included in the 2018 General Services Framework Agreement.

We noted the proposed annual caps of RMB1.7 billion are generally in line with the historical transaction amount in respect of provision of general services by Sinopec Group to the Group of approximately RMB1.88 billion for the year ended 31 December 2017. Based on the above, we consider the proposed annual caps in respect of provision of general services by Sinopec Group to the Group under the 2018 General Services Framework Agreement are fair and reasonable.

In determining the annual caps in respect of provision of engineering services by the Group to Sinopec Group under the 2018 Engineering and Construction Services Framework Agreement, the Company has considered:

- (i) the value of engineering services provided to Sinopec Group for the past three years; and
- (ii) in light of the turnaround in international oil price, Sinopec Group will increase its investment in exploration and development of crude oil, natural gas, shale gas, as well as development of new energy such as geothermal resources.

As advised by the Company, the significant increase in the proposed annual caps by 42.8% to the transaction amount in respect of provision of engineering services by the Group to Sinopec Group for the year ended 31 December 2017 is mainly because of the increase in international crude oil prices. As the crude oil price gradually and steadily recover since 2018, the engineering services provided by the Group to Sinopec Group increase along with it. Such transaction amount from January to September 2018 reached RMB21.36 billion, representing an increase of 32.58% as compared to the RMB16.11 billion for the same period in 2017. The Directors are of the view that such increase will continue base on the international oil price forecast for the next three years.

Therefore, the proposed annual caps for 2019 to 2021 is set to satisfy the future business growth of the Group. In addition, after taken into consideration of the specific nature and concentration of the oil engineering and construction market in China, the Directors are of view that provision of engineering services by the Group to Sinopec Group is necessary in terms of the Company's continuous operation. Flexibility should be built into the proposed annual caps for such transactions and the proposed annual caps represent the transaction volume under an ordinary market conditions as estimated by the Company.

In arriving at the proposed the annual caps in respect of provision of engineering services by the Group to Sinopec Group under the 2018 Engineering and Construction Services Framework Agreement for the three years ending 31 December 2021, the Company has estimated the crude oil price reaching USD90, USD95 and USD95 per barrel in 2019, 2020 and 2021 respectively.

According to information provided by Bloomberg, the crude oil price has been rallied and the closing prices of international crude oil from September 2015 to September 2018 were within the range of approximately USD27 to USD86 per barrel, and as the Company's estimated prices are close to the recent market price and in line with Sinopec Group's estimation as disclosed in its announcement dated on 26 August 2018, we consider the assumptions adopted by the Company in

estimating the business growth for 2019 to 2021 are fair and reasonable. Based on the above, we consider the proposed annual caps in respect of provision of engineering services by the Group to Sinopec Group under the 2018 Engineering and Construction Services Framework Agreement are fair and reasonable.

In determining the maximum daily balance of deposits and interest income under the 2018 Financial Services Framework Agreement, the Company has mainly considered:

- (i) cash and cash equivalent of the Group as at 30 September 2018 together with interest income;
- (ii) part of net cash inflow which will be deposited into the Financial Service Providers; and
- (iii) the accrued interests thereof.

We noted the proposed maximum daily balance of deposits and interest income RMB3 billion is comparable to the maximum daily balance of deposits and interest income in the nine months period ended 30 September 2018 which is RMB2.93 billion. Based on the above, we consider the maximum daily balance of deposits and interest income under the 2018 Financial Services Framework Agreement are fair and reasonable.

The proposed annual caps represent the maximum amount of transactions the Group would enter into with Sinopec Group, rather than the obligation of the Group to accept or provide products and service from or to Sinopec Group at that amount. We have discussed with Company and concur with the management of the Company that the proposed annual caps of the Major Continuing Connected Transactions under the 2018 Connected Transactions Framework Agreements will provide more flexibility to the Group and the proposed caps are at the appropriate level after taken into account the historical transaction amounts and expected future growth. Having considered the above, we are of the view that the proposed caps in respect of the Major Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Based on the above principal factors and reasons, we consider that the terms of the Major Continuing Connected Transactions and the related proposed annual caps are fair and reasonable, and the Major Continuing Connected Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Major Continuing Connected Transactions and the related proposed annual caps.

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 ten years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

(a) *Directors, supervisors and chief executives of the Company*

As at the Latest Practicable Date, except for the share option incentive scheme and Qi Xin Gong Ying Scheme disclosed below, so far as was known to the Directors, none of the Directors, proposed director, supervisors and chief executive of the Company or, their respective associates or any persons acting in concert which the Directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange.

(i) *Share option granted to Directors, Supervisors and Senior Management under the share option incentive scheme*

Name of Shareholders	Position	Type of Interests	Class of Shares	Number of Shares	Unit: share(s)	
					% of such class of shares	% of the Company's Total Issued Capital
Sun Qingde	Vice Chairman, General Manager	Beneficial owner	A Share Option	147,000(L)	0.01(L)	0.01(L)
Zhang Yongjie	Deputy Manager	Beneficial owner	A Share Option	133,000(L)	0.01(L)	0.01(L)
Zuo Yaojiu	Deputy Manager	Beneficial owner	A Share Option	126,000(L)	0.01(L)	0.01(L)

Name of Shareholders	Position	Type of Interests	Class of Shares	Number of Shares	% of the Company's Total Issued Capital	
					such class of shares	
Zhang Jinhong	Deputy Manager	Beneficial owner	A Share Option	126,000(L)	0.01(L)	0.01(L)
Li Honghai	Secretary to the Board	Beneficial owner	A Share Option	98,000(L)	0.01(L)	0.01(L)

(L) — long position; (S) — short position

(ii) *Directors, Supervisors and Senior Management Participated in Qi Xin Gong Ying Scheme*

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 restricted-sale A shares to China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension, and its scheme shares were subscribed by certain directors, supervisors, senior management and other core management personnel of the Company. The total number of subscribers is 198, and the subscription amount is RMB 60.65million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB 1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

Under Qi Xin Gong Ying Scheme, directors, supervisors and chief executives of the Group have subscribed 3.55 million scheme shares in total, accounting for approximately 5.9% of the total scheme shares of Qi Xin Gong Ying Scheme. There are 10 directors, supervisors and chief executives of the Company in total who have subscribed for Qi Xin Gong Ying Scheme, the subscription by the directors, supervisors and chief executives of the Company under Qi Xin Gong Ying Scheme are as follows:

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme (RMB thousand)	Subscription Scheme shares under Qi Xin Gong Ying Scheme ('000 shares)	Subscription Price (RMB/A Share)	Subscription of A share (share)
Sun Qingde	Vice Chairman, General Manager	400,000	400,000	2.62	152,671
Chen Xikun	Director, Deputy Manager	400,000	400,000	2.62	152,671
Li Wei	Chairman of Supervisory Committee	350,000	350,000	2.62	133,587
Zhang Hongshan	Supervisor	350,000	350,000	2.62	133,587
Huang Songwei	Supervisor	350,000	350,000	2.62	133,587
Zhang Yongjie	Deputy Manger	350,000	350,000	2.62	133,587
Zuo Yaojiu	Deputy Manger	350,000	350,000	2.62	133,587
Zhang Jinhong	Deputy Manger	350,000	350,000	2.62	133,587
Li Tian	CFO	350,000	350,000	2.62	133,587
Li Honghai	Secretary to the Board	300,000	300,000	2.62	114,503
Total		<u>3,550,000</u>	<u>3,550,000</u>	<u>—</u>	<u>1,354,954</u>

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

- (i) Mr. Lu Baoping is the President of Sinopec Petroleum Engineering Technology Research Institute; and
- (ii) Mr. Fan Zhonghai is the Deputy Director of Oil Field Exploration and Development Department of China Petroleum & Chemical Corporation.

(b) Substantial Shareholders and other parties

As at the Latest Practicable Date, according to the Shareholders' register and related application documents received by the Company, so far as the Directors, supervisors and senior management of the Company were aware, each of the following persons, not being a Director, supervisor or senior management of the Company, had an interest in the shares which was required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Names of Shareholder	Type of Interests	Number of Shares held (Shares)	Approximate percentage of shareholding	Percentage of total number of such class of shares
			in the Company's total issued share capital (%)	of such class of shares (%)
China Petroleum Chemical Corporation	Beneficial owner	10,727,896,364(L) (A Shares)	56.51(L)	79.06(L)
		2,595,786,987(L) (H Shares) ¹	13.67(L)	47.94(L)
CITIC Limited	Beneficial owner	1,035,000,000(L) (A Shares)	5.45(L)	7.63(L)

Note:

1. China Petroleum Chemical Corporation holds 2,595,786,987 H Shares of the Company through its offshore wholly-owned subsidiary Sinopec Century Bright. China Petroleum Chemical Corporation is deemed to be interested in the H Shares held by Sinopec Century Bright.
2. (L) — long position; (S) — short position

Save as disclosed above and so far as the Directors, supervisors and senior management of the Company were aware, as at the Latest Practicable Date, no substantial shareholder of the Company or other person held any interest or short position in the shares or underlying shares (as the case may be) which was required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO, or was directly or indirectly interested in five per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors, or their respective associates had any interest in a business which competed or was likely to compete with the business of the Company.

5. INTEREST IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed director had any direct or indirect interest in any asset which had been, since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, the any member of the Group.

None of the Directors are materially interested in any contract or arrangement entered between the Group, which are effective as at the Latest Practicable Date and are significant in relation to the business of the Group.

6. PROCEDURES FOR VOTING

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

7. MATERIAL ADVERSE CHANGE

Save as disclosed below, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date of the latest published audited financial statements of the Company.

8. CONSENTS

Anglo Chinese has given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, Anglo Chinese did not have any shareholding in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group.

9. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional adviser who has given opinions or advice contained in this circular:

Name	Qualifications
Anglo Chinese	a corporation 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 SFO, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Major Continuing Connected Transactions and the relevant annual caps

10. LITIGATION

As at the Latest Practicable Date, except for the litigations disclosed by the Company on Hong Kong Stock Exchange, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

11. GENERAL

- (1) The Company Secretary is Mr. Li Honghai;
- (2) The registered office of the Company is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, PRC, 100728.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours on any business day from the date of this circular until 23 November 2018:

- (a) Connected Transactions Framework Agreements;
- (b) 2015 Connected Transactions Framework Agreements;
- (c) 2018 Connected Transactions Framework Agreements;
- (d) SPI Fund Document;
- (e) The letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders dated 7 November 2018;

- (f) The letter from the Independent Board Committee to the Independent Shareholders dated 7 November 2018; and
- (g) The consent letter from Anglo Chinese as mentioned in paragraph 8 of this appendix.

By the order of the Board
Li Honghai
Company Secretary

Beijing, 7 November 2018

As at the date of this circular, the Board of Directors comprises Mr. Sun Qingde[#], Mr. Chen Xikun[#], Mr. Lu Baoping⁺, Mr. Fan Zhonghai⁺, Mr. Wei Ran⁺, Ms. Jiang Bo^{}, Mr. Pan Ying^{*}, Mr. Chen Weidong^{*} and Mr. Dong Xiucheng^{*}.*

+ Non-Executive Director

Executive Director

**Independent Non-Executive Director*

NOTICE OF EGM



Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

Notice of the Second Extraordinary General Meeting for 2018

Notice Is Hereby Given that the second extraordinary general meeting for 2018 (the “EGM”) of Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司) (the “Company”) will be held at Meeting Room 6, the Third Floor of Kun Tai Royal Hotel B12 Chaowai Street, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”) on Monday, 24 December 2018 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary Resolutions:

1. “THAT the resolution in relation to the 2018 Mutual Products Supply Framework Agreement and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”
2. “THAT the resolution in relation to the 2018 General Services Framework Agreement and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”
3. “THAT the resolution in relation to the 2018 Engineering and Construction Services Framework Agreement and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”
4. “THAT the resolution in relation to the 2018 Financial Services Framework Agreement and the Major Continuing Connected Transactions contemplated thereunder (as defined in the announcement dated 18 October 2018 published by the Company in relation to the continuing connected transactions), and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”
5. “THAT the resolution in relation to the 2018 Technology R&D Framework Agreement and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”

NOTICE OF EGM

6. “THAT the resolution in relation to the 2018 Land Use Rights and Property Leasing Framework Agreement and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”
7. “THAT the resolution in relation to the execution of SPI Fund Document and the Continuing Connected Transactions contemplated thereunder and the proposed annual caps of such transaction for 2019, 2020 and 2021 be and is hereby approved”

Special Resolution:

“THAT the resolution in relation to the provision of guarantees by the Company for its wholly-owned subsidiaries be and is hereby approved”.

Details of the above-mentioned resolutions will be included in the circular of the EGM to be dispatched to the holders of H shares of the Company.

By the order of the Board
Li Honghai
Company Secretary

7 November 2018

Notes:

1. According to the articles of association of the Company, a holder of H share whose name is in the register of members of the Company as at the close of business on Friday, 23 November 2018 shall be entitled to attend and vote at the EGM. The register of holders of H shares of the Company will be closed from Sunday, 25 November 2018 to Monday, 24 December 2018, both days inclusive, for the purpose of determining a shareholders' list for the EGM. In order to qualify for attending the EGM, holders of H shares whose transfers have not been registered must deliver their transfer documents together with the relevant share certificates to the Company's H share registrars in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 23 November 2018.
2. Those shareholders entitled to attend the EGM shall return the reply slip to the registered address of the Company on or before Tuesday, 4 December 2018, although the reply slip will not affect the shareholders' entitlement to attend and vote at the EGM as shown in Note 1.
3. Shareholders attending the EGM shall present their own identity cards as well as their shareholding account cards (if applicable).
4. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company. In the event the appointor is a body corporate, such shareholder shall be represented in the EGM by the legal representative or such person authorized by the resolution of the board of directors or decision-making body of such appointor.
5. A shareholder or his proxy may exercise the right to vote by poll.
6. Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the ordinary resolutions No. 1-7 of the EGM is subject to the independent shareholders' approval. China Petrochemical Corporation and its associates will abstain from voting on the resolutions No. 1-7 at the EGM.

NOTICE OF EGM

7. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorized. In the event the appointor is a body corporate, the instrument appointing a proxy shall either be under seal or signed by the director or his/her attorney duly authorized. If the instrument appointing a proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, such power of attorney or other authority must be notarized. To be valid, the notarially certified power of attorney or other authority and form of proxy must be returned to the Company's office address no less than 24 hours before the designated time for holding the EGM.
8. The form of proxy/original certified power of attorney or other authority shall be completed and returned to the office address of the Company or to Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM (i.e. 9:00 am on 23 December 2018, Hong Kong time), in order to be valid. Completion and return of the forms of proxy will not preclude H Shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) as they wish.
9. Shareholders or their proxies attending the EGM when voting on any resolution, shall clearly signify whether he or she is voting for or against such resolution. The shares "withheld" or "abstained" from voting will not be counted in the calculation of the required majority.
10. The EGM is expected to last for a half day. Shareholders and proxies attending the EGM shall be responsible for their own traveling, food and accommodation expenses.
11. Office 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

As at the date of this notice, the Board of Directors comprises Mr. Sun Qingde#, Mr. Chen Xikun#, Mr. Lu Baoping+, Mr. Fan Zhonghai+, Mr. Wei Ran+, Ms. Jiang Bo, Mr. Pan Ying*, Mr. Chen Weidong* and Mr. Dong Xiucheng*.*

+ Non-Executive Director

Executive Director

** Independent Non-Executive Director*