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Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

**CONNECTED TRANSACTION
LEASE OF THE EXPLORATION IV DRILL RIG**

THE LEASE AGREEMENT

On 27 August 2019, Ocean Petroleum Engineering (a subsidiary of the Company) entered into a Lease Agreement with Shanghai Offshore Petroleum Bureau in relation to the Exploration IV Drill Rig for a term of 3 years. In accordance with IFRS 16, the Group is required to recognise the Expedition IV Drill Rig as a right-of-use asset. Therefore, the Lease Agreement and the Lease contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules.

LISTING RULES IMPLICATION

Shanghai Offshore Petroleum Bureau is a connected person of the Company under the Listing Rules as it is a subsidiary of CPC, the controlling shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the Lease contemplated under the Lease Agreement constitutes a one-off connected transaction of the Company.

As the highest applicable percentage ratio in respect of the value of the right-of-use assets under the Lease Agreement exceeds 0.1% but is less than 5%, the Lease contemplated under the agreement is subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the circular of the Company dated 27 October 2014 in relation to the Major Assets Reorganisation of the Group. As disclosed in the Circular, in order to avoid the competition of CPC with the Group, CPC issued the “Non-competition Undertaking” on 12 September 2014, and undertook that (i) it will not, and will endeavour to procure its controlled enterprises through the exercise of its shareholder rights not to compete with the Company in its core business; (ii) after the completion of Major Assets Reorganisation, if Sinopec Star’s new business opportunity compete, or is likely to compete, directly or indirectly with the core business of the Company, an option to take up the above-mentioned new business opportunity will be given to the Company. In addition, CPC undertakes to dispose the Exploration IV Drill Rig of Sinopec Star when appropriate within the 5 years after the completion of the Major Assets Reorganisation (i.e. prior to 12 September 2019); (iii) after the completion of the Major Assets Reorganisation, if CPC and its subsidiaries become aware of any new business opportunity which competes, or is likely to compete, directly or indirectly with the core business of the Company, an option to take up such new business opportunity will be given to the Company. If CPC intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the business interest which may compete with the Company’s core business, the Company may exercise its pre-emptive rights to avoid such competition; and (iv) it will pay the damages to the Company caused by its breach of the undertakings.

Since its undertakings, CPC has strictly complied with the aforementioned undertakings, has not engaged in activities that compete with the production and operations of the Company, and if it became aware of any new business opportunity which competes, or is likely to compete, directly or indirectly with the core business of the Company, SSC shall be given pre-emptive rights by CPC.

In December 2016, CPC transferred the Exploration IV Drill Rig and its supporting facilities owned by Sinopec Star to Shanghai Offshore Petroleum Bureau. The Company recently received a letter from CPC regarding the fulfillment of undertakings related to the “Exploration IV” drill rig. CPC intends to fulfill the aforementioned undertakings related to the Exploration IV Drill Rig, and relevant procedures shall be performed by the Company as soon as possible. Subject to relevant laws and regulations and based on our actual conditions, the Company will make comprehensive consideration and research to solve the problem of industry competition between the petroleum engineering services engaged in by the Exploration IV Drill Rig and that of the Company.

Exploration IV Drill Rig is a semi-submersible drill rig. It was built in Singapore in 1983, and was introduced by the formerly Geology and Mine Ministry in February 1994. Such asset was transferred to Sinopec Star in 1997 and merged into CPC along with Sinopec Star in 2000. Up to now, the Exploration IV Drill Rig has been used for over 20 years. The performance of diesel generator unit, power station and electric drive system equipment of the rig is degraded and aging, and the generator unit has high energy consumption, maintenance cost, and limited normal operating capacity. In order to restore the normal operating capability of the Exploration IV Drill Rig as soon as possible, CPC has agreed to renovate the Exploration IV Drill Rig in July 2019 with a planned amount of investment of approximately RMB100 million. Based on the abovementioned factors of the Exploration IV Drill Rig, and considering that if the Company purchases the rig now, it shall bear all renovation costs of the rig. Upon comprehensive consideration, the Board proposed to solve the relevant non-competition matters by leasing the Exploration IV Drill Rig.

INTRODUCTION

The Board is pleased to announce that on 27 August 2019, Ocean Petroleum Engineering (a subsidiary of the Company) entered into a Lease Agreement with Shanghai Offshore Petroleum Bureau in relation to the Exploration IV Drill Rig for a term of 3 years, the principal terms of which are as follows:

THE LEASE AGREEMENT

Date: 27 August 2019

Parties

- 1) Ocean Petroleum Engineering (as the Lessee); and
- 2) Shanghai Offshore Petroleum Bureau (as the Lessor and owner);

(Together, the “**Parties**”)

Shanghai Offshore Petroleum Bureau is a subsidiary of CPC.

Subject Matter of the Lease

The Lessee agreed to lease a semi-submersible rig (Exploration IV) to Lessor for drilling operations in the Xihu Trough in the East China Sea of the PRC.

Name, sign and flag of the vessel	Kan Tan IV–HO2806–Panama Flag
Vessel model	Mobile Offshore Drilling Unit – Semi-submersible Drilling Rig of Friede & Goldman / L-927
Net carrying amount of assets as at 31 July 2019	RMB38.47 million
Construction time/place	Britain's far east lipston shipyard / 1983
Time of delivery	15 days before lease commencement date

Lease Term

The lease term is 3 years from the lease commencement date, which shall be the effective date of the Lease Agreement.

Rental and Payment Method

Ocean Petroleum Engineering shall pay rental to the Lessor on a monthly basis since the lease commencement date. The rental for 2019 and 2020 shall be calculated at the daily rental of RMB15,500 per day. As the Exploration IV Drill Rig is planned to be renovated at the end of 2020, and its renovation will be completed in the first half of 2021, therefore, the rental after the completion of the renovation in 2021 will be calculated at the daily rental of no more than RMB109,500 per day (i.e. the annual rental for 2021 will be no more than RMB40 million), and the Lessee is not required to pay the rental during the renovation period.

The Lessee shall pay rental to the Lessor within thirty (30) consecutive days after the end of each work month. The

last installment of rental, if less than thirty (30) consecutive days, shall be calculated at proportion of days of the calendar month prior to delivery of the vessel and shall be paid in advance. If the Lessee delays the payment of rental, the Lessor shall be entitled to charge an overdue fine of 0.5% of the interest rate. The Company intends to pay the rental with internal resources of the Group.

The rental under the Lease Agreement was determined after arm's length negotiations between Ocean Petroleum Engineering and Shanghai Offshore Petroleum Bureau upon a comprehensive consideration of costs, taxes and management fees, as well as reasonable profits. According to the IFRS, fixed rental payments are capital in nature, and the leased property will be recognised as the right-of-use asset of the Group on the lease commencement date, and the amount recognised will be RMB44 million.

THE RIGHTS AND OBLIGATIONS OF PARTIES TO THE LEASE

Shanghai Offshore Petroleum Bureau shall be responsible for the annual fixed asset investment of the Exploration IV Drill Rig, and Ocean Petroleum Engineering shall bear the expenses such as maintenance, management and insurance of the Exploration IV Drill Rig.

Upon the expiry of the leasing terms, if the Lessee proposes to continue to lease the Exploration IV Drill Rig in accordance with the terms and conditions of the Lease Agreement, the Lessor shall agree.

EFFECTIVE CONDITIONS

The Lease Agreement shall take effect upon signing by the legal representatives or authorized representatives of the Parties thereto (or affixing their personal chops) thereon with the company seal, and the consideration and approval of the Resolution on Fulfillment of Undertakings Related to the "Exploration IV" Drill Rig by lease at the first extraordinary general meeting of the Company in 2019.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

The Board considers that the fulfillment of undertakings related to the Exploration IV Drill Rig by lease is based on the principles of solving the non-competition, and is also taking account the current actual situation of the Exploration IV Drill Rig in an objective and comprehensive manner. Having considered the above factors, the Directors consider that the terms of the Lease Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole

As Mr. Liu Zhongyun, Mr. Fan Zhonghai, Mr. Lu Baoping and Mr. Xiao Yi, the connected Directors are interested in the Lease Agreement and the transactions contemplated thereunder, the aforesaid Directors are required to abstain from voting on the relevant board resolutions of the Company.

INFORMATION OF OCEAN PETROLEUM ENGINEERING

Ocean Petroleum Engineering is a company established in the PRC with limited liability, which is principally engaged in offshore oil and gas exploration and development, marine geological survey, marine and geological engineering design, construction services, vessel repair, international lease of exploration equipment and international vessel management business.

INFORMATION OF SHANGHAI OFFSHORE PETROLEUM BUREAU

Shanghai Offshore Petroleum Bureau is a company established in the PRC with limited liability, which is principally engaged in offshore oil exploration and development, marine geological survey, engineering geological survey, mineral geological survey and exploration.

INFORMATION OF THE GROUP

The Company is a joint stock limited company established in the PRC and a leading provider of petroleum and gas engineering and technical services in the PRC. The Group has engineering equipment and technology for, among other things, geophysics, drilling, logging, mud logging, cementing, special downhole operations, oilfield ground surface construction, petroleum and natural gas pipeline construction, and is capable of providing comprehensive engineering and technical services to cover the entire life-cycle of oil and gas fields. The Group has over 50 years of solid operating results, its oil and gas engineering services have been conducted successively in 76 basins across the PRC, and its business is distributed over 14 provinces in China.

INFORMATION OF CPC

CPC 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, CPC transferred its principal petrochemical business to China Petroleum & Chemical Corporation. The principal operations of CPC 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.

LISTING RULES IMPLICATION

Shanghai Offshore Petroleum Bureau is a connected person of the Company under the Listing Rules as it is a subsidiary of China Petrochemical Corporation, the controlling shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the Lease contemplated under the Lease Agreement constitutes a one-off connected transaction of the Company.

As the highest applicable percentage ratio in respect of the value of the right-of-use assets under the Lease Agreement exceeds 0.1% but is less than 5%, the Lease contemplated under the agreement is subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

According to the relevant provisions of the A Shares of the Company, the fulfillment of undertakings related to the Exploration IV Drill Rig by lease shall be subject to the consideration at the first extraordinary general meeting in 2019 of the Company. The connected shareholder CPC and its associates shall abstain from voting in considering such resolution at the first extraordinary general meeting in 2019.

DEFINITION

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“A Shares”	domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, and the relevant shares are listed on the SSE
“Board”	the board of Directors of the Company
“Business Day”	a day other than a Saturday, Sunday or any day on which banking institutions in Beijing of the PRC and Hong Kong are closed
“Company”	Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司), a joint stock limited company established in the PRC and its A shares are listed on the Shanghai Stock Exchange and its H shares are listed on the Main Board of the Stock Exchange
“CPC”	China Petrochemical Corporation (中國石油化工集團公司), a wholly state-owned enterprise incorporated in the PRC and the Controlling Shareholder of the Company
“Circular”	the circular of the Company dated 27 October 2014, regarding major assets reorganisation of the Group
“Director(s)”	the director(s) of the Company
“Exploration IV Drill Rig”	the “Exploration IV” drill rig
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)
“Lease”	the lease of Exploration IV Drill Rig by the Lessee under the terms and conditions of the Lease Agreement
“Lessee” or “Ocean Petroleum Engineering”	Sinopec Ocean Petroleum Engineering Co., Ltd., a wholly-owned subsidiary of the Company
“Lease Agreement”	an agreement entered into by the Lessee and the Lessor on 27 August 2019 in relation to the lease of the Exploration IV Drill Rig

“Lessor” or “Shanghai Offshore Petroleum Bureau”	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd. (中國石化集團上海海洋石油局有限公司), a subsidiary of China Petrochemical Corporation
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Major Assets Reorganisation”	the assets reorganisation arrangements conducted by the Company in 2014, the details of which are set out in the Circular
“RMB”	Renminbi, the lawful currency of the PRC
“PRC”	the People’s Republic of China
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	ordinary shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sinopec Star”	Sinopec Star Petroleum Company Limited
“%”	per cent

By Order of the Board
Li Honghai
Company Secretary

Beijing, the PRC, 27 August 2019

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

+ Non-Executive Director

Executive Director

** Independent Non-Executive Director*