
THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If **you** are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licenced securities dealer or registered securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If **you have sold or transferred** all your shares in **Sinopec Oilfield Service Corporation**, you should at once hand this circular and its accompanying forms to the purchaser or to the bank, licenced securities dealer or registered institution or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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 WITH SINOPEC GROUP

II. PROPOSED PROVISION OF COUNTER-GUARANTEE FOR CHINA PETROCHEMICAL CORPORATION

III. CONTINUING RELATED TRANSACTIONS WITH PIPECHINA

AND

IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND THE RULES OF PROCEDURES FOR THE BOARD

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



The letter from the Board and the letter from the Independent Board Committee are set out respectively on pages 8 to 63 and pages 64 to 65 of the circular. The letter from the Independent Financial Adviser is set out on pages 66 to 82 of the circular, which contains its advice to the Independent Board Committee and Independent Shareholders.

The Company proposes to convene the EGM at Beijing Shengli Hotel, No. 3 Beishatan, Deshengmen Wai, Chaoyang District, Beijing on Tuesday, 2 November 2021 at 9:00 a.m. The notice of EGM, proxy form and reply slip have been despatched separately on 17 September 2021 to the Shareholders.

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 1 November 2021, 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
30 September 2021

CONTENTS

DEFINITIONS	1
LETTER FROM THE BOARD	8
I. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS WITH SINOPEC GROUP	9
II. PROPOSED PROVISION OF COUNTER-GUARANTEE FOR CHINA PETROCHEMICAL CORPORATION	57
III. CONTINUING RELATED TRANSACTIONS WITH PIPECHINA	60
IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND THE RULES OF PROCEDURES FOR THE BOARD	61
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	64
APPENDIX I – LETTER FROM MAXA CAPITAL	66
APPENDIX II – DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND THE RULES OF PROCEDURES FOR THE BOARD	83
APPENDIX III – GENERAL INFORMATION	90

DEFINITIONS

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

“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 entered between SSC and China Petrochemical Corporation on 18 October 2018
“2018 EGM”	the second extraordinary general meeting for 2018 convened on 24 December 2018, on which the 2018 Connected Transactions Framework Agreements (except for the Trademark License Agreement), the SPI Fund Document and the relevant annual caps for the three years ended 31 December 2021 were being considered and approved
“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
“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

DEFINITIONS

“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 Sinopec Group granting the Group permission to use certain trademarks
“2020 Equipment Leasing Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 25 August 2020, in relation to the mutual leasing of equipment between the Group and Sinopec Group
“2021 Connected Transactions Framework Agreements”	the 2021 Mutual Products Supply Framework Agreement, 2021 General Services Framework Agreement, 2021 Engineering and Construction Services Framework Agreement, 2021 Financial Services Framework Agreement, 2021 Technology R&D Framework Agreement, 2021 Land Use Rights and Property Leasing Framework Agreement, 2021 Equipment Leasing Framework Agreement and 2021 Trademark License Agreement
“2021 Engineering and Construction Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the provision of engineering services by the Group to Sinopec Group
“2021 Equipment Leasing Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the mutual leasing of equipment between the Group and Sinopec Group
“2021 Financial Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the provision of certain financial services by the Financial Services Providers to the Group
“2021 General Services Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the provision of certain general services mutually between the Group and Sinopec Group

DEFINITIONS

“2021 Land Use Rights and Property Leasing Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to Sinopec Group leasing certain land use rights to the Group and relevant properties leases between the Group and Sinopec Group
“2021 Mutual Products Supply Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the supply of certain products mutually between the Group and Sinopec Group
“2021 Technology R&D Framework Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to the provision of technology research and development services mutually between the Group and Sinopec Group
“2021 Trademark License Agreement”	the framework agreement entered into between SSC and China Petrochemical Corporation on 16 September 2021, in relation to Sinopec Group granting the Group permission to use certain trademarks
“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
“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
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the 2021 Connected Transactions Framework Agreements and the SPI Fund Document
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules

DEFINITIONS

“Director(s)”	Directors of the Company
“EGM”	the second extraordinary general meeting for 2021 of the Company to be convened on 2 November 2021
“Exploration IV Drill Rig”	the “Exploration IV” drill rig
“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 2024
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed under the Securities and Futures Ordinance to carry out Type 1 regulated activities (dealing in securities) and Type 6 regulated activities (advising on corporate finance), and 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
“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”	24 September 2021
“Lease Agreement on Exploration IV Drill Rig”	the agreement entered into by Ocean Petroleum Engineering and Shanghai Offshore Petroleum Bureau on 27 August 2019 in relation to the lease of the Exploration IV Drill Rig

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), 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, 5(1), 6(1) and 7(1) of “HONG KONG LISTING RULES IMPLICATIONS” in this circular
“Ocean Petroleum Engineering”	Sinopec Ocean Petroleum Engineering Co., Ltd., a wholly-owned subsidiary of the Company
“PBOC”	the People’s Bank of China
“PipeChina”	China Oil&Gas Pipeline Network Corporation, a limited liability company established in the PRC
“PRC”	People’s Republic of China
“Proposed Amendments”	the proposed amendments to the Articles of Association and the Rules of Procedures for the Board to be considered and approved at the EGM.
“RMB”	the lawful currency of the PRC
“Rules of Procedures for the Board”	the rules of procedures for the board of directors of Sinopec Oilfield Service Corporation
“SAFE”	The State Administration of Foreign Exchange of the PRC
“SFO”	the Securities and Futures Ordinance
“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
“Shareholder(s)”	shareholder(s) of the Company

DEFINITIONS

“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 China Banking and Insurance Regulatory Commission. 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)
“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

DEFINITIONS

“substantial shareholder(s)” has the meaning ascribed to it under the Hong Kong Listing Rules

“%” 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:

Chen Xikun
Yuan Jianqiang
Lu Baoping
Fan Zhonghai
Wei Ran
Zhou Meiyun

Independent Non-executive Directors:

Chen Weidong
Dong Xiucheng
Zheng Weijun

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

30 September 2021

To the Shareholders

Dear Sir or Madam:

**I. CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSABLE TRANSACTIONS WITH SINOPEC GROUP
II. PROPOSED PROVISION OF COUNTER-GUARANTEE FOR CHINA
PETROCHEMICAL CORPORATION
III. CONTINUING RELATED TRANSACTIONS WITH PIPECHINA
AND
IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND
THE RULES OF PROCEDURES FOR THE BOARD**

References are made to the announcements in relation to (i) the Continuing Connected Transactions and disclosable transactions with Sinopec Group; (ii) the proposed provision of counter-guarantee for China Petrochemical Corporation; (iii) the continuing related transactions with PipeChina; and (iv) the proposed amendments to the Articles of Association and the Rules of Procedures for the Board dated 16 September 2021 of the Company.

The purpose of this circular is to provide you with, inter alia, further information on (i) the Continuing Connected Transactions with Sinopec Group and the proposed annual caps; (ii) the proposed provision of counter-guarantee for China Petrochemical Corporation; (iii) the continuing related transactions with PipeChina and the 2021 annual cap; and (iv) the proposed amendments to the Articles of Association and the Rules of Procedures for the Board, so that you can make informed decisions on whether or not to vote for relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

I. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS WITH SINOPEC GROUP

INTRODUCTION

On 16 September 2021, the Company entered into the 2021 Connected Transactions Framework Agreements with China Petrochemical Corporation, and proposed to continue to conduct the continuing connected transactions with Sinopec Group. 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 2024 shall be submitted to the EGM for the approvals by the Independent Shareholders.

BACKGROUND

References are made to the circular “(I) CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTION (II) PROPOSED PROVISION OF GUARANTEE FOR WHOLLY-OWNED SUBSIDIARIES” dated 7 November 2018 published by the Company. On the 2018 EGM, Shareholders have approved the relevant continuing connected transactions and the annual caps for the three years ended 31 December 2021. References are also made to the announcement dated 27 August 2019 of the Company in relation to the Lease Agreement on Exploration IV Drill Rig and the announcement dated 25 August 2020 of the Company in relation to the 2020 Equipment Leasing Framework Agreement. The valid period of the Lease Agreement on Exploration IV Drill Rig is 3 years commencing from 6 November 2019 and the 2020 Equipment Leasing Framework Agreement shall expire on 31 December 2021.

The Company expected to continue to conduct the relevant continuing connected transactions with Sinopec Group after 31 December 2021. For the Continuing Connected Transactions commencing from 1 January 2022, the Company entered into the 2021 Connected Transactions Framework Agreements with China Petrochemical Corporation on 16 September 2021. The 2021 Connected Transactions Framework Agreements will become effective on 1 January 2022 for a period of three years. Those agreements will replace the 2018 Connected Transactions Framework Agreements, 2020 Equipment Leasing Framework Agreement and the Lease Agreement on Exploration IV Drill Rig. Terms and conditions of the 2021 Connected Transactions Framework Agreements are basically identical to those of the 2018 Connected Transactions Framework Agreements and the 2020 Equipment Leasing Framework Agreement.

LETTER FROM THE BOARD

2021 CONNECTED TRANSACTIONS FRAMEWORK AGREEMENT AND SPI FUND

1. *2021 Mutual Products Supply Framework Agreement*

Date: 16 September 2021

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 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; steelwork; API oil casing commissioned processing; casing accessories, tubing attachment; oil drilling equipment accessories; special tools; instruments and accessories; tower equipment; oilfield chemicals and chemical reagents; and other products.

LETTER FROM THE BOARD

Effectiveness and termination: 2021 Mutual Products Supply Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2021 Mutual Products Supply Framework Agreement. Before the expiration of 2021 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 2021 Mutual Products Supply Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2021 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 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 price standard is available, the price will be agreed within the range of the government-guided price.
- (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.

LETTER FROM THE BOARD

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

crude oil processing and oil products
(including gasoline, diesel,
kerosene, fuel oil, etc.)

Primary basis for price determination

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-guided price; the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps, and the producer 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 producer price of aviation gasoline. The price adjustment for refined oil products is subject to the documents issued by the relevant national competent authorities of 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 supplier and the customer 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 RMB0.1 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 domestic residents by increasing the price, 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 Qin 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 and accessories, instrumentation and accessories; special tools; 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. 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 34 to 35 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 2021 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 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 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. *2021 General Services Framework Agreement*

- Date: 16 September 2021
- 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 IT infrastructure and application softwares and relevant necessary support and services; finance, human resources and IT 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: 2021 General Services Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2021 General Services Framework Agreement. Before the expiration of 2021 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 2021 General Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2021 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

Agreed price is applicable to cultural, educational, training services and other related or similar services; 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 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. *2021 Engineering and Construction Services Framework Agreement*

- Date: 16 September 2021
- 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, natural 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: 2021 Engineering and Construction Services Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2021 Engineering and Construction Services Framework Agreement. Before the expiration of 2021 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 2021 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 2021 Engineering and Construction 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 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 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) 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 the services 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 a specific service 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.

LETTER FROM THE BOARD

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.

Types of services

engineering consulting (solution research, project proposal, feasibility study and early stage project consulting)

project management

Primary basis for price determination

Pursuant to the Interim Regulations on Consulting Fees for Early Stage Projects (Ji Jia Ge [1999] No. 1283) (《建設項目前期工作諮詢收費暫行規定》(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.

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.

LETTER FROM THE BOARD

project supervision

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.

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.

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》). The range of adjustment 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 adjustment)

LETTER FROM THE BOARD

- (2) Benchmark fee rate = basic design fee + other design fee
- (3) Basic design fee = engineering design benchmark fee x professional adjustment coefficient x engineering complexity coefficient x supplemental adjustment coefficient.

(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, natural gas and other mineral resources; project contracting and project 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, natural gas and other mineral resources; and other petroleum engineering services: the prices are determined, via public tendering with reference to design budget and entrusted working scope, 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 project contracting and project 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.

LETTER FROM THE BOARD

The tender process adopted by the Company is as follows: upon receipt of the bidding invitation letter issued by the tenderee, the relevant subsidiaries of the Company make proactive response based on its conditions (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. 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, the bidder will prepare the bidding documents and organize the project bidding work, and submit the bidding documents to the tenderee before the deadline 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 tenderee according to the Company's contract management requirements and the contractual terms as agreed in the bidding documents to complete the project bidding work.

(3) Market price

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

Types of services

machinery equipment processing and manufacturing services; and testing service

labour supply service and special transportation service

Primary basis for price determination

With reference to the average prices of similar enterprises in neighbouring areas.

In accordance with the average market prices in regions where relevant subsidiaries of the Company are located.

LETTER FROM THE BOARD

(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. 2021 Financial Services Framework Agreement

Date:	16 September 2021
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)
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:	2021 Financial Services Framework Agreement is valid for a term of three years commencing on 1 January 2022. 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 2021 Financial Services Framework Agreement. Before the expiration of 2021 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 2021 Financial Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2021 Financial Services Framework Agreement.

LETTER FROM THE BOARD

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 Loan Prime Rate (LPR) released by the PBOC on the 20th day of each month, with 10 basis points lowered (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).

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.

LETTER FROM THE BOARD

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. *2021 Technology R&D Framework Agreement*

Date: 16 September 2021

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: 2021 Technology R&D Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in 2021 Technology R&D Framework Agreement. Before the expiration of 2021 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 2021 Technology R&D Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2021 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 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 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. (https://www.cnipa.gov.cn/module/download/down.jsp?i_ID=155983&colID=1518)

Agreed price to be determined by adding a reasonable profit over a reasonable cost is applicable to other services under 2021 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. *2021 Land Use Rights and Property Leasing Framework Agreement*

- Date: 16 September 2021
- 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) The Group will lease land use rights and property from Sinopec Group.
- (b) Sinopec Group will lease property from the Group.
- Effectiveness and termination: 2021 Land Use Rights and Property Leasing Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate leases which will set out the specific terms and conditions according to the principles provided in 2021 Land Use Rights and Property Leasing Framework Agreement. Before the expiration of 2021 Land Use Right and Property Leasing Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2021 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 2021 Land Use Right and Property Leasing Framework Agreement.

Pricing policy:

Land Leasing:

The parcels of land leased by Sinopec Group to the Group can be categorized into the following two types

- (i) Authorised land for operation; and
- (ii) Assigned land

LETTER FROM THE BOARD

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 China Petrochemical Corporation and the Company in the same or 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 2021 Land Use Rights and Property Leasing Framework Agreement, the rent may be adjusted 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 is 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.

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.

Property leasing:

Under 2021 Land Use Rights and Property Leasing Framework Agreement, Sinopec Group have agreed to lease to the Group certain properties. 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. The rent payable is determined based on factors including the floor spaces, locations and purpose of use of the properties. The rent may be adjusted 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 property depreciation, relevant taxes and reasonable profit, where the reasonable profit shall be 6% of the cost.

LETTER FROM THE BOARD

Under 2021 Land Use Rights and Property Leasing Framework Agreement, the Group have agreed to lease to Sinopec Group certain properties. The rent of leased properties shall be agreed by both parties by reference to local comparable market rates (evaluated by the professional evaluation agencies). The rent payable is determined based on factors including the floor spaces, locations and purpose of use of the properties. The rent may be adjusted once a year and any revised rent shall not be higher than the prevailing market rent as confirmed by an independent valuer. Property taxes and other statutory taxes or fees in relation to the properties shall be borne by the Group. For those without any comparable market prices, the rent shall be determined considering property depreciation, relevant taxes and reasonable profit, where the reasonable profit shall be 6% of the cost.

7. *2021 Equipment Leasing Framework Agreement*

Date: 16 September 2021

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: Sinopec Group and the Group agreed to lease the equipment owned by them to each other for the purpose of production and operation:

(a) The equipments leased by the Group from Sinopec Group consists of:

drilling rigs and their main equipment, imaging loggers, conventional loggers, integrated loggers, gas loggers, wireless drilling and other logging equipment and tools, downhole work rigs, fracturing trucks (skids), continuous tubular work trucks and other special operating equipment, seismic collection, processing equipment, controllable seismic sources, air gun seismic sources and other seismic geophysical equipment, pipe hoists, directional drilling, automatic welding equipment, excavation machinery, pipeline construction machinery and other engineering machinery and equipment, marine transport vessels, marine geological survey vessels, geophysical exploration vessels, other marine engineering equipment and semi-submersible drilling platform (including but not limited to “Exploration IV Drill Rig”), etc.

LETTER FROM THE BOARD

- (b) The equipment leased to Sinopec Group from the Group consists of:

vehicles, ships and general equipment for machinery construction, power, electricity, etc.

Effectiveness and termination: 2021 Equipment Leasing Framework Agreement is valid for a term of three years commencing on 1 January 2022. Both parties will enter into separate leases which will set out the specific terms and conditions according to the principles provided in 2021 Equipment Leasing Framework Agreement. Before the expiration of 2021 Equipment Leasing Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew 2021 Equipment Leasing Framework Agreement to ensure the normal running of production operations of the relevant parties after expiration of the term of the 2021 Equipment Leasing Framework Agreement.

Pricing policy:

- (1) The rental paid by the Group for equipment leased from Sinopec Group shall be negotiated on an arm's length basis between the contracting parties, taking into account the following factors:
- i. The Group will consult with at least two independent third parties by e-mail, fax or telephone to provide quotations and market transaction prices for the same type of leased equipment with reference to local comparable market prices (as determined by the consultation or as appraised by a professional appraisal agency); and
 - ii. If comparable market prices are not available, it will be negotiated on the basis of depreciation of equipment, management fees, relevant taxes (VAT and surcharges) and reasonable profit.
- (2) The rental charged by the Group for equipment leased to Sinopec Group shall be negotiated on an arm's length basis between the contracting parties, taking into account the following factors:
- i. The Group will consult with at least two independent third parties by e-mail, fax or telephone to provide quotations and market transaction prices for the same type of leased equipment with reference to local comparable market prices (as determined by the consultation or as appraised by a professional appraisal agency); and
 - ii. If comparable market prices are not available, it will be negotiated on the basis of depreciation of equipment, management fees, relevant taxes (VAT and surcharges) and reasonable profit.

LETTER FROM THE BOARD

Rental and payments for specific lease transactions shall be negotiated by the parties or their subsidiaries in a specific lease agreement.

Whereas, the 2021 Equipment Leasing Framework Agreement already includes the lease of the Exploration IV Drill Rig by the Group from China Petrochemical Corporation, the 2021 Equipment Leasing Framework Agreement will replace the Lease Agreement on Exploration IV Drill Rig. On 16 September 2021, Ocean Petroleum Engineering and Shanghai Offshore Petroleum Bureau entered into the Termination Agreement of the Lease Agreement in relation to the “Exploration IV” Drill Rig, pursuant to which, the parties agreed to terminate the Lease Agreement on Exploration IV Drill Rig from 1 January 2022.

8. *2021 Trademark License Agreement*

Date:	16 September 2021
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 2021 Trademark License Agreement is valid for a term of three years commencing on 1 January 2022. 2021 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 2021 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 2021 Trademark License Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of 2021 Trademark License Agreement.
Pricing policy:	The consideration is nil. While trademarks under 2021 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.

LETTER FROM THE BOARD

9. *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 the Shareholders as a whole. Such procedures and internal control measures mainly include:

- (1) Transactions contemplated under 2021 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 and technical advantages of the parties to the transactions, 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.

LETTER FROM THE BOARD

- (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 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 supervisory committee of the Company are also responsible for, among others, supervising on the continuing connected transactions of the Company and reviewing the fairness of the transactions and whether the pricing of the transactions are fair and reasonable.
- (6) The Company's internal control and risk management departments, the Audit Committee of the Board and the supervisory committee of the Company 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 contract review and appraisal, 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 2021 Connected Transactions Framework Agreements.

By implementing the above procedures and internal control measures, the Directors are of the view that the Company has established sufficient internal control measures to ensure the pricing basis of 2021 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 continuing connected transactions with Sinopec Group for the two years ended 31 December 2020 and six months ended 30 June 2021, as well as the existing annual caps:

	Historical Figures and Existing Annual Caps (RMB100 million)					
	Annual Caps for 2019	For the year ended 31 December 2019 <i>(audited)</i>	Annual Caps for 2020	For the year ended 31 December 2020 <i>(audited)</i>	Annual Caps for 2021	For the six months ended 30 June 2021 <i>(audited)</i>
Continuing Connected Transactions						
1. 2018 Mutual Products Supply Framework Agreement						
(a) Provision of products by Sinopec Group to the Group	113	109.73	125	105.66	126	42.46
(b) Provision of products by the Group to Sinopec Group	4	2.81	4	1.1	4	0.16
2. 2018 General Services Framework Agreement						
(a) Provision of general services by Sinopec Group to the Group	17	5.42	17	7.4	17	3.07
(b) Provision of general services by the Group to Sinopec Group	2	1.39	2	0.96	2	0
3. 2018 Engineering and Construction Services Framework Agreement						
Provision of engineering services by the Group to Sinopec Group	400	398.74	450	432.55	500	220.41
4. 2018 Financial Services Framework Agreement						
(a) Provision of deposit services by the Financial Services Providers to the Group (maximum daily (balance))	30	26.52	30	24.37	30	28.5
(b) Provision of other financial services (such as payment settlement) by the Financial Services Providers to the Group	0.5	0	0.5	0	0.5	0
5. 2018 Technology R&D Framework Agreement						
(a) Provision of technology R&D services by the Group to Sinopec Group	4.5	1.91	5	0.79	5.5	0.32
(b) Provision of technology R&D services by Sinopec Group to the Group	2	0	2	0	2	0.002
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 ^{Note 1}	5.6	2.06	5.6	2.08	5.6	1

Note 1 The annual caps and historical amount were calculated based on the annual leasing fee paid in respect of the land and properties lease. In the light of the fact that International Financial Reporting Standard No. 16 “Leases” has become effective on 1 January 2019, for the two years ended 31 December 2020 and the six months ended 30 June 2021, the amount of the total value of right-of-use assets relating to the land and properties leased by the Group from Sinopec Group each year were approximately RMB206 million, RMB208 million and RMB100 million. The right-of-use assets are confirmed based on the land and properties leasing situations of the period of 2019-2021, with the consideration of lease renewal options.

LETTER FROM THE BOARD

	Historical Figures and Existing Annual Caps (RMB100 million)					
	Annual Caps for 2019	For the year ended 31 December 2019 <i>(audited)</i>	Annual Caps for 2020	For the year ended 31 December 2020 <i>(audited)</i>	Annual Caps for 2021	For the six months ended 30 June 2021 <i>(audited)</i>
Continuing Connected Transactions						
7. 2020 Equipment Leasing Framework Agreement						
(a) Lease of equipment by the Group from Sinopec Group (including the lease of Exploration IV Drill Rig) (total right-of-use assets)	-	0.44	4.5	2.65	8.5	1.61
(b) Lease of equipment by the Group to Sinopec Group (rental collected)	-	-	0.3	0	0.3	0.002
8. SPI Fund Document						
Premium payments from the Company to China Petrochemical Corporation	1.5	0.81	1.5	0.76	1.5	0.38

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

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 2024:

Continuing Connected Transactions	Proposed annual caps for the years ending 31 December (RMB100 million)		
	2022	2023	2024
1. 2021 Mutual Products Supply Framework Agreement			
(a) Provision of products by Sinopec Group to the Group	122	125	132
(b) Provision of products by the Group to Sinopec Group	4.5	6.0	6.5
2. 2021 General Services Framework Agreement			
(a) Provision of general services by Sinopec Group to the Group	9	10.5	11.5
(b) Provision of general services by the Group to Sinopec Group	2	2	2
3. 2021 Engineering and Construction Services Framework Agreement			
Provision of engineering services by the Group to Sinopec Group	520	540	550
4. 2021 Financial Services Framework Agreement			
(a) Provision of deposit services by the Financial Services Providers to the Group (maximum daily balance)	35	35	35

LETTER FROM THE BOARD

Continuing Connected Transactions	Proposed annual caps for the years ending 31 December (RMB100 million)		
	2022	2023	2024
(b) Provision of other financial services (such as payment settlement) by the Financial Services Providers	0.5	0.5	0.5
5. 2021 Technology R&D Framework Agreement			
(a) Provision of technology R&D services by the Group to Sinopec Group	4	4.5	5
(b) Provision of technology R&D services by Sinopec Group to the Group	2	2	2
6. 2021 Land Use Rights and Property Leasing Framework Agreement			
(a) Provision of land and properties by Sinopec Group to the Group by way of lease (total right-of-use assets)	13	3	3
(b) Provision of properties by the Group to Sinopec Group by way of lease (rental collected) ^{Note 2}	0.05	0.05	0.05
7. 2021 Equipment Leasing Framework Agreement			
(a) Lease of equipment by the Group from Sinopec Group (total right-of-use assets)	6	5	5.5
(b) Lease of equipment by the Group to Sinopec Group (rental collected)	0.7	0.7	0.7
8. SPI Fund Document			
Premium payments from the Company to China Petrochemical Corporation	1	1	1

In the above Continuing Connected Transactions, the Group expects that the annual leasing fee for land use rights and property leasing payable by the Group to Sinopec Group for a period of 2022 to 2024 will be approximately RMB420 million, RMB450 million and RMB450 million, respectively, and the annual leasing fee for equipment leasing payable by the Group to Sinopec Group for a period of 2022 to 2024 will be approximately RMB370 million, RMB400 million and RMB400 million, respectively.

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

Note 2: the rents collected by the Group from Sinopec Group for the leasing of properties to Sinopec Group was RMB900,000 for the six months ending 30 June 2021.

LETTER FROM THE BOARD

BASIS FOR CALCULATING 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

1. 2021 Mutual Products Supply Framework Agreement

- | | |
|---|--|
| (a) Provision of products by Sinopec Group to the Group | The proposed annual caps of the Company for 2022 and 2023 are 3.17% and 0.79% lower than the annual cap for 2021, respectively. The proposed annual cap of the Company for 2024 is 4.76% higher than the annual cap for 2021. In determining the above annual caps, the Company has considered the following: (i) the value of products provided by Sinopec Group during 2019, 2020 and first six months of 2021; (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; (iii) the estimated crude oil prices from 2022 to 2024 will be USD80/barrel, USD85/barrel and USD85/barrel, respectively; and (iv) 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. Directors are of the view that, the proposed annual caps for 2022 to 2024 represent the transaction volume under an ordinary market condition 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 2019, 2020 and first six months of 2021, 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. |

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

2. 2021 General Services Framework Agreement

- (a) Provision of general services by Sinopec Group to the Group
- The proposed annual caps for each of 2022 to 2024 of the Company are approximately 47.06%, 38.24% and 32.35% lower than the annual cap of 2021, respectively. In determining the above annual caps, the Company has 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 the office and factory area properties management and other relevant services or similar auxiliary services provided by Sinopec Group which is estimated to be approximately RMB300 million. Such annual fee is determined based on the audited cost actually incurred by Sinopec Group in providing cultural, educational, training and auxiliary services in 2020; (iii) the annual fee to be paid for the miscellaneous services (including information technology system services, etc.) provided by Sinopec Group, including 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; (iv) the annual fee regarding to finance, human resources and information technology sharing services at present is approximately RMB100 million, meanwhile, under the plan, Sinopec Group will promote overseas financial, human resources and information technology sharing services, thus expenses in connection with such services will further increase; and (v) the provision by Sinopec Group of such services as publicity and news report to the Group at a cost of approximately RMB100 million.
- (b) Provision of general services by the Group to Sinopec Group
- In determining the above annual caps, the Company has considered: the annual fee to be paid for the training services, conference facilities and non-working personnel management service to be provided by the Group.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

3. 2021 Engineering and Construction Services Framework Agreement

Provision of engineering services by the Group to Sinopec Group

The proposed annual caps for each of 2022, 2023 to 2024 is approximately 4%, 8% and 10% higher than the annual caps for 2021. In determining the above annual caps, the Company has considered the following: (i) the historical amount 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 2022 to 2024 will increase as compared to the historical transaction volume.

Based on the international oil price forecast for the next three years, the proposed annual caps for 2022 to 2024 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.

The Directors are of the view 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 2021 Engineering and Construction Services Framework Agreement which represents more than 70% of the Company's revenue for the year ended 31 December 2020, 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.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

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 2018 Engineering and Construction Services Framework Agreement, the revenue generated from Sinopec Group represented approximately 57.07% and 63.54% of the operating income of the Company for 2019 and 2020, respectively and 72.4% for the six months ended 30 June 2021. 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 2019 and 2020 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 2024 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 2022, 2023 and 2024.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

4. 2021 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 June 2021 together with interest income; (ii) part of net cash inflow which will be deposited into Financial Services Providers; and (iii) the accrued interests thereof.

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 historical amount of other financial services such as payment and settlement provided by Sinopec Group during 2019, 2020 and the first six months of 2021; (ii) the estimated cash settlement handling fees with reference to our estimated business volume for each of the three years ending 31 December 2024 and the historical ratio of cash settlement amount to handling fees; and (iii) other financial and consulting services to be provided under 2021 Financial Services Framework Agreement.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

5. 2021 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. 2021 Land Use Rights and Property Leasing Framework Agreement

- (a) Lease of land and properties by Sinopec Group to the Group
- In light of the fact that the International Financial Reporting Standard No. 16 “Leases” has become effective on 1 January 2019 and pursuant to the requirements of the Hong Kong Stock Exchange, the Company changed the basis of determination of the proposed annual cap with reference to the annual value of right-of-use assets relating to land and properties lease. The annual value of the right-of-use assets is mainly based on the recognition of the current value of the minimum lease payment and the measurement of the corresponding lease liability. The proposed annual caps of 2022-2024 for land and properties lease are mainly based on: (i) the total value of right-of-use assets relating to land and properties lease in the period of 2022-2024; (ii) the annual leasing fee to be paid in respect of the land and properties lease in the period of 2022-2024 and relevant situation of the market price of land and properties lease; (iii) potential new properties lease between the Group and Sinopec Group; and (iv) discount rate determined by the Company’s incremental borrowing rates.
- (b) Lease of properties by the Group to Sinopec Group
- In determining the above annual caps, the Group has considered (i) the rents of the properties leased from the Group to Sinopec Group during the first six months ended 30 June 2021, (ii) the possible increases in the rents of properties in the PRC in the future, (iii) potential new properties lease between the Group and Sinopec Group; and (iv) discount rate determined by the Company’s incremental borrowing rates.

LETTER FROM THE BOARD

Continuing Connected Transactions Basis for annual caps

7. 2021 Equipment Leasing Framework Agreement

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

8. SPI Fund Document

- | | |
|--|---|
| 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 June 2021, 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. 2021 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. |
|---|---|

LETTER FROM THE BOARD

Continuing Connected Transactions	Reasons for Continuing Connected Transactions
--	--

- | | |
|---|--|
| (b) Provision of products by the Group to Sinopec Group | <p>(2) As the owner of projects of SSC, Sinopec Group itself or its designated suppliers are required to provide products to SSC.</p> <p>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.</p> |
|---|--|

2. 2021 General Services Framework Agreement

- | | |
|---|---|
| (a) Provision of general services by Sinopec Group to the Group | <p>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.</p> |
|---|---|

LETTER FROM THE BOARD

Continuing Connected Transactions	Reasons for Continuing Connected Transactions
(b) Provision of general services by the Group to Sinopec Group	The Group will from time to time provide trainings services and management services for non-working staff to certain workers from Sinopec Group which is required for those workers to perform their duties at the relevant entities under Sinopec Group.

3. 2021 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. 2021 Financial Services Framework Agreement

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.

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. 2021 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. 2021 Land Use Rights and Property Leasing Framework Agreement

- | | |
|---|--|
| (a) Lease of land use rights and properties by Sinopec Group to the Group | The Group has been using the relevant properties in recent years mainly as dormitories, offices and factory buildings. Any relocation will cause unnecessary disruption of business operation. |
| (b) Lease of properties by the Group to Sinopec Group | Due to the convenience of their location and for the purpose of revitalization of assets, the Group leased several idle properties to Sinopec Group. |

7. 2021 Equipment Leasing Framework Agreement

In order to effectively deal with the impact of low oil prices on the Group, the Group has coordinated market layout, optimised resource allocation, further controlled and optimised the scale of investment, and strived to maintain a lean and efficient scale of its own equipment to adapt to the changing external market environment and enhance the ability to resist risks. Due to the unbalanced exploration and exploitation workload released by the owners and seasonal factors, there are often structural gaps in their own construction equipment, which is usually adjusted through the external equipment leasing market. However, with the increasing domestic development of deep and ultra-deep oil and gas reservoirs and deep shale gas, the owner's requirements for construction equipment and technology continue to increase, and the original external equipment leasing market cannot fully satisfy the equipment leasing needs of the Group. Sinopec Group owns related equipment manufacturing enterprises, as well as Taiping & Sinopec Financial Leasing Co., Ltd. and PEC International Leasing Co., Ltd. that can carry out financial leasing business. The Company and China Petrochemical Corporation have entered into the Equipment Leasing Framework Agreement, which can enable the Group to stably obtain the leasing source of related equipment and effectively solve the Group's equipment structural gap issues. In the meantime, in addition to adjustments within the Group, for the equipment that is under downtime and idle due to insufficient workload, the active pursuit of external leasing market can effectively vitalise the equipment that is under downtime or idle. Taiping & Sinopec Financial Leasing Co., Ltd. and PEC International Leasing Co., Ltd. have extensive experience in the development of external equipment leasing business, and can also quickly find lessees for the Group's related equipment that is under downtime or idle.

8. 2021 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.

9. SPI Fund Document

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

LETTER FROM THE BOARD

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. The Company shall comply with the reporting, announcement and Independent Shareholders' approval (if necessary) requirements in respect of such Continuing Connected Transactions. In addition, the deposit services to be provided by the Financial Services Providers to the Group will also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules.

1. 2021 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. 2021 General Services Framework Agreement

(1) Provision of general 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.

(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.

LETTER FROM THE BOARD

3. 2021 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. 2021 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. 2021 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. 2021 Land Use Rights and Property Leasing Framework Agreement

(1) Lease of land use rights and properties 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.

(2) Lease of properties by the Group to Sinopec Group

As the relevant applicable percentage ratios are less than 0.1%, they are exempt from reporting, announcement and Independent Shareholders' approval requirements.

7. 2021 Equipment Leasing Framework Agreement

(1) Lease of equipment by the Group from 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) Lease of equipment 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.

8. 2021 Trademark License Agreement

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

9. SPI Fund Document

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

LETTER FROM THE BOARD

Continuing Connected Transactions, the Non-Major Continuing Connected Transactions and their annual caps for the three years ending 31 December 2024 shall be submitted to the EGM for the approvals by the Independent Shareholders.

APPROVAL BY THE BOARD AND INDEPENDENT SHAREHOLDERS

On 16 September 2021, the sixth meeting of the tenth session of the Board was held. The Board considered and approved the 2021 Connected Transactions Framework Agreements, the SPI Fund Document and the proposed relevant annual caps for the three years ending 31 December 2024, 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, Mr. Fan Zhonghai and Mr. Zhou Meiyun 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.

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 2024. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the Continuing Connected Transactions.

The Company has appointed Maxa Capital 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 2024.

The Company will seek for the approval from the Independent Shareholders on the Major Continuing Connected Transactions, the Non-Major Continuing Connected Transactions and the proposed annual caps for the three years ending 31 December 2024 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, including approximately 56.51% shares the Company held by China Petrochemical Corporation, and 13.67% shares held by Sinopec Century Bright, a wholly-owned overseas subsidiary of China Petrochemical Corporation, through HKSCC Nominee Limited) will abstain from voting on the ordinary resolutions in relation to Continuing Connected Transactions at the EGM.

LETTER FROM THE BOARD

II. PROPOSED PROVISION OF COUNTER-GUARANTEE FOR CHINA PETROCHEMICAL CORPORATION

Summary of the Guarantee

As approved at the first general meeting in 2019 of the Company, the Company provided counter guarantee to China Petrochemical Corporation in relation to the joint guarantee liability undertaken by China Petrochemical Corporation for no more than RMB500 million credit line used by the Group for 2 years commencing from 6 November 2019. The Company expects that it will continue to use the credit line granted by China Construction Bank Corporation (“CCB”) to China Petrochemical Corporation after 5 November 2021 and China Petrochemical Corporation will continue to undertake the joint guarantee liability for the RMB300 million credit line. Thus, according to the requirements of internal management, the Company still need to provide corresponding counter guarantee to China Petrochemical Corporation.

On 16 September 2021, the 6th meeting of the tenth session of the Board considered and approved Resolution on Provision of Counter-guarantee to China Petrochemical Corporation by the Company, which approved the Company to provide corresponding counter-guarantee in respect of the joint guarantee liability under the financing credit line of no more than RMB300 million provided by China Petrochemical Corporation to the Company (the “**Guarantee**”).

As of the Latest Practicable Date, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company in total, accounting for 70.18% of the total issued share capital of the Company, therefore is a controlling shareholder and a related party of the Company. The Guarantee constitutes a related party transaction of the Company and is subject to consideration and approval at the EGM pursuant to the SSE listing rules.

Basic Information of the Guaranteed Party in the Counter-guarantee

The basic information of China Petrochemical Corporation is as follows:

Date of establishment:	14 September 1983
Type of enterprise:	Limited liability company (wholly state owned)
Domicile:	22 Chaoyangmen North Street, Chaoyang District, Beijing
Legal representative:	Zhang Yuzhuo
Registered capital:	RMB326,547.222 million

LETTER FROM THE BOARD

China Petrochemical Corporation, formerly known as China National Petrochemical Corporation (中國石油化工總公司), is an enterprise owned by the whole people established according to Reply of the State Council on Relevant Issues concerning the Establishment of China Petrochemical Corporation. It is an institution approved by the State Council to carry out state-authorized investments and is a state-controlling company. China Petrochemical Corporation is principally engaged in organising its affiliated companies' exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive utilization of oil and natural gas; oil refining; wholesale and retail of refined oil products; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration design, construction and installation of petroleum and petrochemical engineering projects; repairing and maintenance of petroleum and petrochemical equipment; manufacture of mechanical and electrical equipment; research, development, application and consultation services of technology, information and alternative energy products; import and export business.

According to the Audit Report (XHSBZ(2021) No. ZK20888) issued by BDO China Shu Lun Pan Certified Public Accountants LLP on 26 April 2021, as of 31 December 2020, China Petrochemical Corporation had total consolidated assets of RMB2,239,960 million, total liabilities of RMB1,077,847 million and total net assets of RMB1,162,113 million. In 2020, China Petrochemical Corporation recorded a total consolidated operating income of RMB2,142,332 million, total profits of RMB72,622 million and net cash flows generating from operating activities of RMB134,553 million.

Principal Terms of Letter of Counter-guarantee

1. Scope of the counter-guarantee: the indemnity and compensation for the corresponding joint guarantee liability assumed by China Petrochemical Corporation for the financing credit business of the Company with CCB.
2. Amount of the counter-guarantee: the amount of the counter-guarantee provided by the Company is the same as the amount of the joint guarantee liability assumed by China Petrochemical Corporation, and the equivalent amount is RMB300 million.
3. Term of the counter-guarantee: the term of the counter-guarantee provided by the Company is the same as that of the joint guarantee liability assumed by China Petrochemical Corporation, that is, it shall take effect on the effective date of the relevant joint guarantee liability and shall expire on the date of termination of the relevant joint guarantee liability. For the joint guarantee liability actually assumed by China Petrochemical Corporation for the financing credit business of the Company with CCB prior to the effective date of this letter of counter-guarantee, the actual effective date of this counter-guarantee can be traced back.

LETTER FROM THE BOARD

4. Claim method: demand guarantee. When China Petrochemical Corporation actually incurs joint guarantee liability compensation for the financing credit business of the Company with CCB, China Petrochemical Corporation may directly claim compensation from the Company. Within 10 days from the date of receipt of the written notice of compensation claim from China Petrochemical Corporation, the Company shall unconditionally pay in a lump sum, the full amount of the joint guarantee liability assumed by China Petrochemical Corporation.
5. Validity period of the letter of counter-guarantee: this letter of counter-guarantee is valid for two years from the effective date.
6. This letter of counter-guarantee shall become effective upon being signed by the authorized representative of the Company and affixed with the official seal, and after being considered and approved at the EGM.

Opinions of the Independent Directors

The independent directors of the Company have given their prior approval for the Guarantee and the related party transaction, and have expressed their independent opinions that: (1) China Petrochemical Corporation, the controlling shareholder of the Company, provides joint liability guarantee for the Company's comprehensive credit line of not more than RMB300 million, and the provision of corresponding counter-guarantee by the Company to China Petrochemical Corporation is a normal economic practice of the Company, which is beneficial for the Company to conduct relevant credit business, and is in line with the needs of the business development and internal management of the Company; (2) the decision-making procedures of the board of directors of the Company for considering the relevant resolution on the Guarantee are in compliance with relevant laws, regulations and the Articles of Association, and there is no circumstance that is detrimental to the interests of the Company and all Shareholders.

The Accumulated Amount of External Guarantees and the Amount of Overdue Guarantees

As of 16 September 2021, the accumulated total amount of external guarantees provided by the Company and its controlled subsidiaries is RMB16,748 million, accounting for 249.11% of the latest audited net assets of the Company, among which, the total amount of guarantees provided by the Company to its controlled subsidiaries is RMB16,748 million, accounting for 249.11% of the latest audited net assets of the Company. As of the Latest Practicable Date, the Company has no overdue guarantee.

LETTER FROM THE BOARD

III. CONTINUING RELATED TRANSACTIONS WITH PIPECHINA

PipeChina was established on 6 December 2019. On 23 July 2020, China Petroleum & Chemical Corporation and its subsidiaries (“**Sinopec Corp Group**”) entered into the agreement with PipeChina, in relation to subscribe for additional equity issued by PipeChina. Sinopec Corp Group paid the consideration with its equity interests in the relevant oil and gas pipeline companies to subscribe for PipeChina’s registered capital of RMB70 billion upon completion of the PipeChina reorganization, representing 14% of capital contribution of PipeChina. On 30 September 2020, PipeChina held a signing ceremony for the closing of oil and gas pipeline assets and operation handover. PipeChina took over the relevant oil and gas pipeline infrastructure assets (businesses) and employees originally belonging to the three major domestic petroleum companies, and duly emerging the network for operation. Since its establishment, the Company has been providing services such as long-distance oil and gas pipeline construction, natural gas station construction, pipeline operation, maintenance and protection to Sinopec Corp Group. On 30 September 2020, upon PipeChina’s duly emerging the network for operation PipeChina the Company continued to provide those services to PipeChina.

Mr. Ling Yiqun, an exiting director of PipeChina, serves as the deputy general manager of the Company’s Controlling Shareholder China Petrochemical Corporation. Pursuant to the SSE listing rule, PipeChina constitutes the related party of the Company. Based on the needs of the production and operation, the continuing related transactions between the Group and PipeChina include long-distance pipeline construction, natural gas stations construction, pipeline operation, maintenance and protection and relevant technology services. It is expected that the annual cap for the relevant continuing transactions from 1 January 2021 to 31 December 2021 is RMB4 billion. The annual cap above is mainly based on the following considerations: (i) the amount of the transaction between the Group and PipeChina in the first half of 2021 was RMB1.503 billion; (ii) the amount of new contracts between the Group and PipeChina in the first half of 2021 was approximately RMB2.1 billion; and (iii) projects fees are generally settled in the second half of the year under market practices, therefore the revenue in the second half is expected to be higher than that of the first half. The continuing related transactions between the Group and PipeChina do not constitute the connected transactions of the Company under the Hong Kong Listing Rules.

Each of the prices of long-distance pipeline construction, natural gas station construction, pipeline operation, maintenance and protection and relevant technology services is and/or will be determined based on the tender and bidding price. The continuing related transactions between the Group and PipeChina are normal business activities required by the Company’s daily operation, which complies with the principle of openness, fairness and justice and are conducted based on the professional collaboration and complementary advantages of both parties. The related transactions will not affect the Company’s normal production and operation.

LETTER FROM THE BOARD

Prior to the relevant resolution on the continuing related transactions between the Group and PipeChina submitted to the Board for consideration, independent Directors have recognized and expressed independent opinion on the relevant resolution that the price of the continuing related transactions between the Group and PipeChina is fair and in line with the Company's commercial benefit, and does not harm the interests of the Company and the Shareholders, especially minority shareholders. On 16 September 2021, the sixth meeting of the tenth session of the Board was held. The Board considered and approved the continuing related transactions between the Group and PipeChina and the 2021 annual cap, and agreed that the continuing related transactions between the Group and PipeChina and the 2021 annual cap be submitted to the EGM for approval. Mr. Lu Baoping, Mr. Fan Zhonghai and Mr. Zhou Meiyun were deemed having interest in these transactions due to their positions in the related person of the Company and therefore abstained from voting.

IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND THE RULES OF PROCEDURES FOR THE BOARD

With the implementation of the PRC Administrative Measures for the Formulation of Articles of Association of State-owned Enterprises (《國有企業公司章程制定管理辦法》), the Guidelines on the Bylaws of Listed Companies (《上市公司章程指引》) and the relevant regulations, for further improving corporate governance and the practical conditions of the Company, amendments will be made to the relevant contents of the Articles of Association and the Rules of Procedure for the Board by the Company.

At the sixth meeting of the tenth session of the Board convened by the Company on 16 September 2021, the relevant resolution on the amendments to the Articles of Association and the Rules of Procedure for the Board was considered and approved. The Company proposed to make amendments to the Articles of Association and its appendix the Rules of Procedure for the Board. Please refer to the appendix II to this circular for the details of the Proposed Amendments. The Proposed Amendments are subject to the approval of shareholders by passing a special resolution at the EGM.

V. 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 60 years of operation, and has provided oil and gas engineering services in 76 basins over time with operations across 14 provinces.

LETTER FROM THE BOARD

China Petrochemical Corporation was established in July 1998, and it is a state owned and authorized investment organization. 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.

PipeChina was established on 6 December 2019 in China with other limited liability. The State-owned Assets Supervision and Administration Commission of the State Council held 100% equities in PipeChina's establishment in July 2020, PipeChina increased capital and shares and its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. The businesses of PipeChina mainly cover a range of pipeline transportation; warehousing services; equipment import; technology import and export; scientific and technological research; information technology research and application; technology consulting, technology services, technology transfer and promotion.

VI. EGM

The Company proposes to convene the EGM at the Beijing Shengli Hotel, No. 3 Beishatan, Deshengmen Wai, Chaoyang District, Beijing, PRC on Tuesday, 2 November 2021 at 9:00 a.m. The EGM notice, proxy form and reply slip have been despatched separately on 17 September 2021 to the Shareholders.

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 1 November 2021, 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, including approximately 56.51% shares the Company held by China Petrochemical Corporation, and 13.67% shares held by Sinopec Century Bright, a wholly-owned overseas subsidiary of China Petrochemical Corporation, through HKSCC Nominee Limited) will abstain from voting on the ordinary resolutions in relation to (i) the Continuing Connected Transactions with Sinopec Group; and (ii) the proposed provision of counter-guarantee for China Petrochemical Corporation at the EGM.

LETTER FROM THE BOARD

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.

VII. RECOMMENDATION

Your attention is drawn to (I) the letter from the Independent Board Committee dated 30 September 2021 on pages 64 to 65 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 30 September 2021 on pages 66 to 82 of the circular, being the recommendation from Maxa Capital, 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 (i) the Continuing Connected Transactions with Sinopec Group and their relevant annual caps and (ii) the continuing related transactions with PipeChina and the 2021 annual cap 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 (i) the proposed provision of counter-guarantee for China Petrochemical Corporation and (ii) the Proposed Amendments are 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 Maxa Capital, 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 64 to 65 of this circular and the text of the letter from Maxa Capital containing its advise is set out on pages 66 to 82 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

Mr. Chen Waidong

Mr. Dong Xiucheng

Mr. Zheng Weijun

30 September 2021

To the Independent Shareholders

Dear Sir or Madam:

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSABLE TRANSACTIONS WITH SINOPEC GROUP

INTRODUCTION

We refer to the circular (the “**Circular**”) dated 30 September 2021 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 Maxa Capital. You are strongly urged to read Maxa Capital’s letter to the Independent Board Committee which is set out on pages 66 to 82 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, and the basis upon which their terms have been determined. We have also considered

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the key factors taken into account by Maxa Capital in arriving at its opinion regarding the Major Continuing Connected Transactions (including the relevant proposed annual caps) as set out in the letter from Maxa Capital on pages 66 to 82 of the Circular, which we urge you to read carefully.

The Independent Board Committee concurs with the views of Maxa Capital 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,

Mr. Chen Weidong, Mr. Dong Xiucheng, Mr. Zheng Weijun

Independent Non-executive Directors

The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

30 September 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTIONS WITH SINOPEC GROUP**

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 proposed annual caps for each of the three years ending 31 December 2024 (the “**Proposed Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 30 September 2021 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 16 September 2021, the Company and China Petrochemical Corporation entered into the 2021 Mutual Products Supply Framework Agreement, the 2021 Engineering and Construction Services Framework Agreement and the 2021 Financial Services Framework Agreement (collectively known as the “**Non-exempt Framework Agreements**”). Such framework agreements are valid for a term of three years commencing on 1 January 2022 and they will, upon effective, replace the 2018 Mutual Products Supply Framework Agreement, the 2018 Engineering and Construction Services Framework Agreement and the 2018 Financial Services Framework Agreement entered into between the Company and China Petrochemical Corporation.

As at the Latest Practicable Date, China Petrochemical Corporation together with its associates held approximately 70.18% of the Company’s issued share capital and is therefore the Company’s substantial Shareholder. Accordingly, China Petrochemical Corporation and its associates are connected persons of the Company and the transactions contemplated under the Non-exempt 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 Proposed Annual Caps are subject to, among other things, the approval by the Independent Shareholders. We, Maxa Capital, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. We are not associated with the Company, its subsidiaries, its associates, or their respective substantial shareholders or associates or any other parties to the Non-exempt Framework Agreements, and accordingly, are eligible to give independent advice and recommendations on the terms of the Major Continuing Connected Transactions and the Proposed Annual Caps. Save for this appointment, there was no other engagement between the Company and us in last two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our advices and recommendations, we have reviewed, among others, (i) the Non-exempt Framework Agreements; (ii) the annual reports of the Company for the two years ended 31 December 2019 (the “**2019 AR**”) and 31 December 2020 (the “**2020 AR**”) and the interim report of the Company for the six months ended 30 June 2021 (the “**2021 IR**”); (iii) the basis of calculation of the Proposed Annual Caps; and (iv) the Company’s internal control procedures and records in relation to continuing connected transactions.

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 to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also assumed that all statements of belief, opinion, expectation, and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors’ representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that it has, at our request, 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 the Circular so as to provide a reasonable basis for 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 the Circular nor do 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, conducted 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 of the Company, China Petrochemical Corporation and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

1.1 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 60 years of operation, and has provided oil and gas engineering services in 76 basins over time with operations across 14 provinces. Set out below is the summarised financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 (“FY2018”, “FY2019” and “FY2020”, respectively) and for the six months ended 30 June 2020 and 2021 (“1H2020” and “1H2021”, respectively), as extracted from the financial statements prepared in accordance with the International Financial Reporting Standards in the 2019 AR, the 2020 AR and the 2021 IR:

	For the year ended 31 December			For the six months	
				ended 30 June	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Total revenue	58,409,078	69,870,147	68,073,394	31,432,437	31,570,061
Profit before tax	613,769	1,428,397	233,339	763,148	776,204
Profit/(Loss) for the year/period	240,188	986,873	(35,737)	608,555	694,256

The total revenue of the Group was approximately RMB69,870.1 million for FY2019, representing an increase of approximately RMB11,461.0 million as compared to approximately RMB58,409.1 million for FY2018, whereas the profit for the year was approximately RMB986.9 million for FY2019, representing an increase of approximately RMB746.7 million as compared to approximately RMB240.2 million for FY2018. Such

significant increase in the revenue and the profit for the year was primarily attributable to (i) the recovery of the oil service industry; (ii) the Group's tremendous project management ability; and (iii) the decrease in operating costs resulting from the Group's effective control of key costs and expenses.

The total revenue of the Group was approximately RMB68,073.4 million for FY2020, representing a decrease of approximately RMB1,796.7 million as compared to approximately RMB69,870.1 million for FY2019, whereas the loss for the year was approximately RMB35.7 million for FY2020 as compared to the profit for the year amounted to approximately RMB986.9 million for FY2019. Such decrease in the revenue and turnaround from the profit for the year to the loss for the year was primarily attributable to the workload of the Group in the main profession drastically decreased while the expenses in epidemic prevention increased resulting from the facts that (i) the outbreak of COVID-19; (ii) the plunge of oil prices in 2020; and (iii) the oil companies reduced expenditure in upstream exploration and exploitation.

The total revenue of the Group was approximately RMB31,570.1 million for 1H2021, representing an increase of approximately RMB137.7 million as compared to approximately RMB31,432.4 million for 1H2020, whereas the profit for the period was approximately RMB694.3 million for 1H2021, representing an increase of approximately RMB85.7 million as compared to approximately RMB608.6 million for 1H2020. Such increase in the revenue and the profit for the period was primarily attributable to (i) the Group has achieved stable growth in the total cumulative amount of newly signed contracts and turnover; (ii) the Group's effective control of key costs and expenses; and (iii) the favorable opportunities of rising international oil prices and the sustained recovery of the domestic oil service market.

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)
Total assets	60,904,715	62,069,378	61,091,195	63,979,713
Total liabilities	55,126,305	55,305,506	54,368,329	56,562,591
Net assets	5,778,410	6,763,872	6,722,866	7,417,122

Despite the impact of the outbreak of COVID-19 and the plunge of oil prices in 2020, the Group's total assets increased gradually from approximately RMB60.9 billion as at 31 December 2018 to approximately RMB64.0 billion as at 30 June 2021. The Group's total liabilities remained largely stable at approximately RMB55.1 billion as at 31 December 2018 and approximately RMB56.6 billion as at 30 June 2021. The Group's net assets have been increasing stably from approximately RMB5.8 billion as at 31 December 2018 to approximately 7.4 billion as at 30 June 2021.

1.2 Information of China Petrochemical Corporation

China Petrochemical Corporation was established in July 1998, and it is a state owned and authorised investment organisation. 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.

1.3 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 center for centralised cash management for China Petrochemical Corporation and its subsidiaries in 2007. Sinopec Century Bright only provides financial services to China Petrochemical Corporation and its subsidiaries. Sinopec Century Bright is used as an interim/short term deposit platform by the Company particularly to settle trade payables and receivables in respect of overseas projects. Sinopec Century Bright obtained an A2 rating from Moody's with a stable outlook in 2020 and an A rating from Standard & Poor with a stable outlook in 2021.

1.4 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 China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) (“CBIRC”). 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 CBIRC and its operation is subject to the ongoing supervision of the CBIRC. Non-banking financial institutions shall comply with applicable regulations relating to interest rates issued by the PBOC and CBIRC. 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.

2. Terms of the Major Continuing Connected Transactions

On 16 September 2021, the Company and China Petrochemical Corporation entered into the Non-exempt Framework Agreements, which are valid for a term of three years commencing on 1 January 2022 and will, upon effective, replace the 2018 Mutual Products Supply Framework Agreement, the 2018 Engineering and Construction Services Framework Agreement and the 2018 Financial Services Framework Agreement entered into between the Company and China Petrochemical Corporation. 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.

2.1 Transactions

Pursuant to the 2021 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 2021 Engineering and Construction Services Framework Agreement, the Group will provide to Sinopec Group the following types of engineering and construction 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, natural 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 2021 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.

2.2 Pricing policy

2.2.1 2021 Mutual Products Supply Framework Agreement

The pricing of the products provided under the 2021 Mutual Products Supply Framework Agreement shall be determined in accordance with the 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; and
- (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 12 to 15 of the Circular for further details in relation to pricing mechanism to particular products under the 2021 Mutual Products Supply Framework Agreement.

2.2.2 2021 Engineering and Construction Services Framework Agreement

The pricing of the services provided under the 2021 Engineering and Construction Services Framework Agreement shall be determined in accordance with the 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 required 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 transactions with the independent third party for the same period when determining whether the price for any service under the agreement is market price; and

- (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 and construction services, both parties further agreed as follows:

- (1) Prices of the services under the 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; and
- (2) The pricing of a specific service 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 20 to 24 of the Circular for further details in relation to pricing mechanism to particular services under the 2021 Engineering and Construction Services Framework Agreement.

Through discussion with the management of the Company, we understand that majority of the services provided under the 2021 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.

2.2.3 2021 Financial Services Framework Agreement

Under the 2021 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.

2.2.4 *Assessment on the pricing policy*

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, natural 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 14 of the Circular. Based on our discussion with the management of the Group, we understood 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 Control".

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 profit margin of 7.3% and 7.5% of the Company for 1H2021 and FY2020, respectively, and we consider such profit margin is fair and reasonable.

3. 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 63.1%, 57.5% and 60.3% of the total revenue of the Company for FY2018, FY2019 and FY2020, while purchase from Sinopec Group represented approximately 28.9%, 25.6% and 22.1% 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 Non-exempt Framework Agreements 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 Non-exempt Framework Agreements are elaborated below.

3.1 2021 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.

3.2 2021 Engineering and Construction Services Framework Agreement

Provision of engineering services by the Group to Sinopec Group

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.

3.3 2021 Financial Services Framework Agreement

Deposits services provided by the Financial Services Providers to the Group

(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 Sinopec Group. In line with Sinopec Group's internal group policy, Sinopec Group 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 Services Providers and have been advised by the Company 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 Services Providers. Sinopec Century Bright obtained an A2 rating from Moody's with a stable outlook in 2020 and an A rating from Standard & Poor with a stable outlook in 2021. The Financial Services Providers only provide financial services to China Petrochemical Corporation and its subsidiaries (including the Group). Sinopec Group has made an undertaking towards Sinopec Finance as its controlling shareholder that if, in an emergency, Sinopec Finance faces difficulties in meeting its payment obligations, it will increase the capital of Sinopec Finance as required to solve such payment difficulties. 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+ long-term corporate credit rating from Standard & Poor with a stable outlook in 2021 and an A1 long-term corporate credit rating from Moody's with a stable outlook in 2020. Accordingly, we consider that Sinopec Group's ability to honour its undertaking in favour of the Group is strong and the credit risks of Financial Services Providers are not less controllable as compared to that to public licensed commercial banks. 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.

4. Proposed Annual Caps

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the Company about the basis and underlying assumptions used in the determination of the Proposed Annual Caps. The proposed annual caps represent the maximum amounts 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 and concur with the management of the Company that the Proposed Annual Caps will provide more flexibility to the Group and the Proposed Annual Caps are at the appropriate level after taken into account the historical transaction amounts and expected future growth.

4.1 Historical Amount, Existing and Proposed Annual Caps

The following table sets forth (i) the historical amounts for the two years ended 31 December 2020 and for the six months ended 30 June 2021; (ii) the existing annual caps for each of the two years ended 31 December 2020 and for the year ending 31 December 2021; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2024.

<i>RMB million</i>		Existing Annual Caps for the years ended/ending 31 December			Proposed Annual Caps for the years ending 31 December		
		2019	2020	2021	2022	2023	2024
		2021 Mutual Products Supply Framework Agreement					
Provision of products by	Annual Caps	11,300	12,500	12,600	12,200	12,500	13,200
Sinopec Group to the Group	Actual amounts	10,973	10,566	4,246 ¹			
	Utilisation rates	97.1%	84.5%	33.7% ²			
2021 Engineering and Construction Services Framework Agreement							
Provision of engineering and	Annual Caps	40,000	45,000	50,000	52,000	54,000	55,000
construction services by	Actual amounts	39,874	43,255	22,041 ¹			
the Group to Sinopec Group	Utilisation rates	99.7%	96.1%	44.1% ²			
2021 Financial Services Framework Agreement							
Provision of deposit services by	Annual Caps	3,000	3,000	3,000	3,500	3,500	3,500
the Financial Service	Actual amounts	2,652	2,437	2,850 ¹			
Providers to the Group	Utilisation rates	88.4%	81.2%	95.0% ²			
(maximum daily balance)							

1. Historical amount for the six months ended 30 June 2021.
2. The utilisation rates for the year ending 31 December 2021 are computed based on the actual amounts up to 30 June 2021.

4.2 *Basis of determination of the Proposed Annual Caps*

4.2.1 *2021 Mutual Products Supply Framework Agreement*

In determining the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2021 Mutual Products Supply Framework Agreement, the Company has mainly considered:

- (i) the value of products provided by Sinopec Group during 2019, 2020 and first six months of 2021;
- (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;
- (iii) the estimated crude oil prices from 2022 to 2024 will be USD80/barrel, USD85/barrel and USD85/barrel, respectively; and
- (iv) 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.

According to our research on Wind, we note that key oil price indicators such as Brent crude oil prices dropped from approximately US\$60/barrel early 2020 to as low as below US\$20/barrel in April 2020 due to, among other reasons such as COVID-19 virus causing a global pandemic situation and more importantly, the Organization of the Petroleum Exporting Countries (OPEC) failing to reach an agreement to continue limiting oil production. We also noted that the Brent crude oil price has recovered to above US\$70/barrel in recent months, essentially recovering all of its losses since the slump in 2020. In light of the historical fluctuations, and the fact that the oil prices has consistently reversed all of its losses in early 2020, we consider the forecast of oil prices used by the Company, being US\$80/barrel in 2022 and US\$85/barrel in 2023 and 2024 respectively and in line with China Petroleum & Chemical Corporation's forecast as disclosed in its circular dated 3 September 2021, to be with reasonable basis.

We have reviewed the historical amounts for FY2019, FY2020 and 1H2021 and noted (i) the historical utilisation rates are high for FY2019 and FY2020; (ii) the proposed annual cap for 2022 represents a buffer of approximately 11.2% to the highest historical transaction amount for FY2019; and (iii) the proposed annual caps for 2022 and 2023 represent annual growth rates of approximately 2.5% and 5.6% respectively. Based on the above, we consider the proposed annual caps in respect of provision of products by Sinopec Group to the Group under the 2021 Mutual Products Supply Framework Agreement are fair and reasonable.

4.2.2 2021 Engineering and Construction Services Framework Agreement

In determining the proposed annual caps for the provision of engineering and construction services by the Group to Sinopec Group under the 2021 Engineering and Construction Services Framework Agreement, the Company has mainly considered:

- (i) the value of engineering and construction 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.

In assessing the fairness and reasonableness of the proposed annual caps for the engineering and construction services provided by the Group to Sinopec Group and/or its associates, we have reviewed the historical amounts of the relevant engineering and construction services for FY2019, FY2020 and 1H2021, which represent the utilisation rates of approximately 99.7%, 96.1% and 44.1% for the corresponding periods. The proposed annual cap for 2022 represents a buffer of approximately 20.2% to the highest historical transaction amount for FY2020; and (iii) the proposed annual caps for 2022 and 2023 represent annual growth rates of approximately 3.8% and 1.9% respectively.

As the Brent crude oil price has recovered to above US\$70/barrel in recent months, the management of the Company predicts that the oil prices will be at US\$80/barrel in 2022 and US\$85/barrel in 2023 and 2024 respectively, and thus the engineering and construction services provided by the Group to Sinopec Group will increase along with such oil price increase for the coming three years.

Therefore, the proposed annual caps for 2022 to 2024 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 management of the Company is of the view that provision of engineering and construction 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 condition as estimated by the Company.

Having considered (i) the high utilisation rates for FY2019 and FY2020; (ii) the expected increasing engineering and construction services to be provided by the Group to Sinopec Group resulting from the expected increase of the oil prices for the next three years; and (iii) the specific nature and concentration of the oil engineering and construction market in China, we concur with the Company that the proposed annual caps for the engineering and construction services provided by the Group to Sinopec Group are fair and reasonable.

4.2.3 2021 Financial Services Framework Agreement

In determining the maximum daily balance of deposits and interest income under the 2021 Financial Services Framework Agreement, the Company has mainly considered:

- (i) cash and cash equivalent of the Group as at 30 June 2021 together with interest income;
- (ii) part of net cash inflow which will be deposited into Financial Services Providers; and
- (iii) the accrued interests thereof.

When determining whether funds are placed as deposits with Financial Services Providers, following the principles of maximisation 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.

In assessing the fairness and reasonableness of the proposed annual caps for the deposits and interest income, we have reviewed the historical amounts of the deposits and interest income for FY2019, FY2020 and 1H2021 and noted that (i) the utilisation rates are approximately 84.4%, 81.2% and 95.0% for the corresponding periods; and (ii) the maximum daily balance for 1H2021 represents an increase of approximately 16.9% as compared with that for FY2020. We have also reviewed and discussed the forecast model for determining the proposed annual caps with the Company, and noted that the proposed annual caps represent a buffer of approximately 22.8% to the historical maximum daily balance.

We noted that (i) the utilisation rates of the annual caps for the deposits and interest income remain high for the corresponding periods; and (ii) the implied growth rate of proposed annual caps is generally in line with the historical growth of the maximum daily balance, and therefore we concur with the Company that the proposed annual caps for the maximum daily balance of deposit and related interest income are fair and reasonable.

5. Internal Control

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, details of which are included in the section headed “Procedures and internal control system for pricing and terms of continuing connected transactions” in the Letter from the Board. We have reviewed such internal control measures and procedures of the Company, and 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 Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and issue confirmations regarding the continuing connected transactions of the Company each year. We have reviewed the 2019 AR and the 2020 AR, and noted that the independent non-executive Directors and the auditor of the Company have reviewed the Major Continuing Connected Transactions and provided the relevant confirmations. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Hong Kong Listing Rules on an on-going basis.

Based on the above, we concur with the Company that the Group has effective internal policies in place to continue to monitor the Major Continuing Connected Transactions and the Proposed Annual Caps, therefore the interests of the Company and its Shareholders would be safeguarded.

6. Recommendation

Having considered the above factors and reasons, we are of the opinion that (i) the Major Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the terms of the Major Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and its 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 in relation to the Major Continuing Connected Transactions and the Proposed Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Dian Deng
Managing Director

Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in corporate finance industry.

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

Proposed Amendments to the Articles of Association

No.	Original Article in the Articles of Association	Revised Article
Article 6	The Company is a joint stock limited company which has perpetual existence.	The Company is a joint stock limited company which has perpetual existence. <u>The Company insists on lawful corporate governance, strives to establish a lawfully governed enterprise with sound governance, compliance in operation, management standards, legal compliance and integrity.</u>
Article 10	<p>These Articles of Association and its appendices shall be binding upon the Company and its shareholders, directors, supervisors and senior management personnel, all of whom are entitled to make claims regarding the Company’s affairs in accordance with these Articles of Association and its appendices. Shareholders may sue the Company in accordance with these Articles of Association and its appendices. The Company may sue its shareholders, directors, supervisors and senior management personnel in accordance with these Articles of Association and its appendices. Shareholders may sue shareholders in accordance with these Articles of Association and its appendices. Shareholders may sue directors, supervisors and senior management personnel of the Company in accordance with these Articles of Association and its appendices.</p> <p>The term “sue” referred to in the preceding paragraph shall include the initiation of proceedings in a court or the application for arbitration before an arbitration organization.</p> <p>Unless otherwise defined in the contexts, senior management personnel referred to in these Articles of Association and its appendices refers to general manager, deputy general manager, chief financial officer, secretary of the board of directors and any other person designated by the Company.</p>	<p>These Articles of Association and its appendices shall be binding upon the Company and its shareholders, directors, supervisors and senior management personnel, all of whom are entitled to make claims regarding the Company’s affairs in accordance with these Articles of Association and its appendices. Shareholders may sue the Company in accordance with these Articles of Association and its appendices. The Company may sue its shareholders, directors, supervisors and senior management personnel in accordance with these Articles of Association and its appendices. Shareholders may sue shareholders in accordance with these Articles of Association and its appendices. Shareholders may sue directors, supervisors and senior management personnel of the Company in accordance with these Articles of Association and its appendices.</p> <p>The term “sue” referred to in the preceding paragraph shall include the initiation of proceedings in a court or the application for arbitration before an arbitration organization.</p> <p>Unless otherwise defined in the contexts, senior management personnel referred to in these Articles of Association and its appendices refers to general manager, deputy general manager, chief financial officer, secretary of the board of directors, <u>general legal counsel</u> and any other person designated by the Company.</p>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

No.	Original Article in the Articles of Association	Revised Article
Article 135	<p>The board of directors shall be accountable to the shareholder's shareholders' meeting and shall exercise the following functions and powers:</p> <p>(1) to be responsible for convening shareholders' meetings and to report its work to the shareholders' meeting;</p> <p>(2) to implement the resolutions of the shareholders' meeting;</p> <p>(3) to determine the Company's business plans and investment proposals;</p> <p>(4) to formulate the Company's annual financial budgets and final accounts;</p> <p>(5) to formulate the Company's profit distribution plans (including plans for distribution of final dividends) and plans for loss recovery;</p> <p>(6) to formulate the debt and financial policies of the Company, the proposals for the increase or reduction of the Company's registered capital and for the issue and listing of corporate bonds, any kind of securities, warrants or other similar securities or proposals for the repurchase of the Company's shares;</p> <p>(7) to formulate plans for material acquisition, acquisition of the Company's shares, merger, division, dissolution of the Company or change of corporate form of the Company;</p> <p>(8) to determine the external investment, purchase or sale of assets, mortgage of assets, entrusted wealth management, connected transactions and other matters of the Company within the scope of authority granted by the shareholders' general meeting;</p> <p>(9) to decide on the setup of the Company's internal management structure;</p> <p>(10) to appoint or remove the Company's general manager and to appoint or remove the deputy general manager and chief financial officer of the Company based on the nomination of general manager; to appoint or remove the secretary of the board of directors; and to decide on their remuneration;</p>	<p>The board of directors shall be accountable to the shareholder's <u>general meeting</u> and shall exercise the following functions and powers:</p> <p>(1) to be responsible for convening shareholders' <u>general meetings</u> and to report its work to the shareholders' <u>general meetings</u>;</p> <p>(2) to implement the resolutions of the shareholders' <u>general meeting</u>;</p> <p>(3) to determine the Company's business plans and investment proposals;</p> <p>(4) to formulate the Company's annual financial budgets and final accounts;</p> <p>(5) to formulate the Company's profit distribution plans (including plans for distribution of final dividends) and plans for loss recovery;</p> <p>(6) to formulate the debt and financial policies of the Company, the proposals for the increase or reduction of the Company's registered capital and for the issue and listing of corporate bonds, any kind of securities, warrants or other similar securities or proposals for the repurchase of the Company's shares;</p> <p>(7) to formulate plans for material acquisition, acquisition of the Company's shares, merger, division, dissolution of the Company or change of corporate form of the Company;</p> <p>(8) to determine the external investment, purchase or sale of assets, mortgage of assets, entrusted wealth management, connected transactions and other matters of the Company within the scope of authority granted by the shareholders' general meeting;</p> <p>(9) to decide on the setup of the Company's internal management structure;</p> <p>(10) <u>to decide on the Company's risk management system, internal control system and legal compliance management system; to carry out overall monitoring and appraisal of the Company's risk management, internal control and legal compliance management systems and their effective implementation;</u></p>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

No.	Original Article in the Articles of Association	Revised Article
	<p>(11) to appoint or replace members of the board of directors and the supervisory board of any wholly owned subsidiary of the Company;</p> <p>(12) to decide on the setup of the Company' branches;</p> <p>(13) to formulate the Company's basic management system;</p> <p>(14) to formulate proposals for amendment of these Articles of Association and its appendices;</p> <p>(15) to examine external guarantees of the Company in accordance with laws, regulations and the provisions of these Articles of Association;</p> <p>(16) to manage the disclosure of information of the Company;</p> <p>(17) to propose the engagement or replacement of the accounting firm serving as the auditor of the Company to the shareholders' meeting;</p> <p>(18) to hear the general manager's work reports and inspect the performance of the general manager;</p> <p>(19) to exercise any other powers conferred by the laws, administrative regulations, rules of the competent authorities or these Articles of Association and its appendices or granted by the shareholders' general meeting.</p> <p>Other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (14) of this Article which shall be passed by the affirmative votes of more than two thirds of all the directors, resolutions in respect of all other matters may be passed by the affirmative votes of over half of the directors (matters specified in sub-paragraph (15) should be approved by more than two thirds of the directors attending the meeting).</p> <p>The Company shall not provide any guarantee for personal indebtedness.</p>	<p>(11) to appoint or remove the Company's general manager and to appoint or remove the deputy general manager, chief financial officer <u>and general legal counsel</u> of the Company based on the nomination of general manager; to appoint or remove the secretary of the board of directors; and to decide on their remuneration;</p> <p>(12) to appoint or replace members of the board of directors and the supervisory board of any wholly owned subsidiary of the Company;</p> <p>(13) to decide on the setup of the Company' branches;</p> <p>(14) to formulate the Company's basic management system;</p> <p>(15) to formulate proposals for amendment of these Articles of Association and its appendices;</p> <p>(16) to examine external guarantees of the Company in accordance with laws, regulations and the provisions of these Articles of Association;</p> <p>(17) to manage the disclosure of information of the Company;</p> <p>(18) to propose the engagement or replacement of the accounting firm serving as the auditor of the Company to the shareholders' general meeting;</p> <p>(19) to hear the general manager's work reports and inspect the performance of the general manager;</p> <p>(20) to exercise any other powers conferred by the laws, administrative regulations, rules of the competent authorities or these Articles of Association and its appendices or granted by the shareholders' general meeting.</p> <p>Other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (15) of this Article which shall be passed by the affirmative votes of more than two thirds of all the directors, resolutions in respect of all other matters may be passed by the affirmative votes of over half of the directors (matters specified in sub-paragraph (16) should be approved by more than two-thirds of the directors attending the meeting).</p> <p>The Company shall not provide any guarantee for personal indebtedness.</p>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

No.	Original Article in the Articles of Association	Revised Article
Article 137	<p>When making resolutions on significant matters such as direction of reform and development, major goals and objectives and key work arrangements of the Company, the board of directors should first seek advice from the Party organization. When the board of directors proposes to engage a senior management personnel of the Company, the Party organization shall consider and provide their opinions and suggestions on the candidates nominated by the board of directors or the general manager, or recommend candidates to the board of directors or the general manager.</p>	<p>When making resolutions on significant matters such as direction of reform and development, major goals and objectives and key work arrangements of the Company, the board of directors should first seek advice from the Party organization. When the board of directors proposes to engage a senior management personnel of the Company, the Party organization shall consider and provide their opinions and suggestions on the candidates nominated by the board of directors or the general manager, or recommend candidates to the board of directors or the general manager.</p> <p><u>If any matter considered by the board of directors involves legal issues, the general legal counsel shall be present and provide legal advice.</u></p>
Article 162	<p>The general manager shall be accountable to the board of directors and shall exercise the following duties and powers:</p> <p>(1) to be in charge of the production, operation and management of the Company and to organize the implementation of the resolutions of the board of directors and to report his work to the board of directors;</p> <p>(2) to organize the implementation of the Company's annual business plans and investment proposals;</p> <p>(3) to formulate the plan for establishment of the Company's internal management structure;</p> <p>(4) to formulate the Company's basic management system;</p> <p>(5) to formulate the basic rules and regulations of the Company;</p> <p>(6) to propose the engagement or dismissal of the deputy general managers and chief financial officer of the Company;</p> <p>(7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors; and</p> <p>(8) other powers conferred by these Articles of Association and its appendices and granted by the board of directors.</p>	<p>The general manager shall be accountable to the board of directors and shall exercise the following duties and powers:</p> <p>(1) to be in charge of the production, operation and management of the Company and to organize the implementation of the resolutions of the board of directors and to report his work to the board of directors;</p> <p>(2) to organize the implementation of the Company's annual business plans and investment proposals;</p> <p>(3) to formulate the plan for establishment of the Company's internal management structure;</p> <p>(4) <u>to formulate the plans for the establishment of risk management system, internal control system and legal compliance management system, and to organize their implementation after approval by the board of directors;</u></p> <p>(5) to formulate the Company's basic management system;</p> <p>(6) to formulate the basic rules and regulations of the Company;</p> <p>(7) to propose the engagement or dismissal of the deputy general managers and chief financial officer of the Company;</p> <p>(8) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors; and</p> <p>(9) other powers conferred by these Articles of Association and its appendices and granted by the board of directors.</p>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

No.	Original Article in the Articles of Association	Revised Article
Add an Article 178, the number of Articles thereafter shall be revised in ascending order accordingly	-	<u>The Company implements the general legal counsel system, which shall have one general legal counsel, and the general legal counsel shall play the role of a gate-keeper in legal review of operational and management matters to promote lawful operation and compliance management in the Company.</u>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

Proposed Amendments to the Rules of Procedure for the Board

No.	Original Article in the Rules of Procedure for the Board	Revised Article
Article 2	<p>If any matter of a board resolution involves material issues, such as the direction of reform and development, major target mission and key work arrangements of the Company, the opinions of the party organization shall be heard first. When the board of directors appoints senior management personnel of the Company, the party organization shall consider the candidates nominated by the board of directors or the general manager and provide opinions and proposals, or recommend nominated candidates to the board of directors or the general manager.</p>	<p>If any matter of a board resolution involves material issues, such as the direction of reform and development, major target mission and key work arrangements of the Company, the opinions of the party organization shall be heard first. When the board of directors appoints senior management personnel of the Company, the party organization shall consider the candidates nominated by the board of directors or the general manager and provide opinions and proposals, or recommend nominated candidates to the board of directors or the general manager.</p> <p><u>If any matter considered by the board of directors involves legal issues, the general legal counsel shall be present and provide legal advice.</u></p>
Article 3	<p>The board of directors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers:</p> <p>(1) to be responsible for convening shareholders' general meetings and to report its work to the shareholders' general meetings;</p> <p>(2) to implement the resolutions of the shareholders' general meeting;</p> <p>(3) to determine the Company's business plans and investment proposals;</p> <p>(4) to formulate the Company's annual financial budgets and final accounts;</p> <p>(5) to formulate the Company's profit distribution plans (including plans for distribution of final dividends) and plans for loss recovery;</p> <p>(6) to formulate the debt and financial policies of the Company, the proposals for the increase or reduction of the Company's registered capital and for the issue and listing of corporate bonds, any kind of securities, warrants or other similar securities or proposals for the repurchase of the Company's shares;</p> <p>(7) to formulate plans for material acquisition, acquisition of the Company's shares, merger, division, dissolution of the Company or change of corporate form of the Company;</p>	<p>The board of directors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers:</p> <p>(1) to be responsible for convening shareholders' general meetings and to report its work to the shareholders' general meetings;</p> <p>(2) to implement the resolutions of the shareholders' general meeting;</p> <p>(3) to determine the Company's business plans and investment proposals;</p> <p>(4) to formulate the Company's annual financial budgets and final accounts;</p> <p>(5) to formulate the Company's profit distribution plans (including plans for distribution of final dividends) and plans for loss recovery;</p> <p>(6) to formulate the debt and financial policies of the Company, the proposals for the increase or reduction of the Company's registered capital and for the issue and listing of corporate bonds, any kind of securities, warrants or other similar securities or proposals for the repurchase of the Company's shares;</p> <p>(7) to formulate plans for material acquisition, acquisition of the Company's shares, merger, division, dissolution of the Company or change of corporate form of the Company;</p>

**APPENDIX II DETAILS OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND THE RULES OF PROCEDURES FOR THE BOARD**

No.	Original Article in the Rules of Procedure for the Board	Revised Article
	<p>(8) to determine the external investment, purchase or sale of assets, mortgage of assets, entrusted wealth management, connected transactions and other matters of the Company within the scope of authority granted by the shareholders' general meeting;</p> <p>(9) to decide on the setup of the Company's internal management structure;</p> <p>(10) to appoint or remove the Company's general manager and to appoint or remove the deputy general manager and chief financial officer of the Company based on the nomination of general manager; to appoint or remove the secretary of the board of directors; and to decide on their remuneration;</p> <p>(11) to appoint or replace members of the board of directors and the supervisory board of any wholly owned subsidiary of the Company;</p> <p>(12) to decide on the setup of the Company' branches;</p> <p>(13) to formulate the Company's basic management system;</p> <p>(14) to formulate proposals for amendment of these Articles of Association and its appendices;</p> <p>(15) to examine external guarantees of the Company in accordance with laws, regulations and the provisions of these Articles of Association;</p> <p>(16) to manage the disclosure of information of the Company;</p> <p>(17) to propose the engagement or replacement of the accounting firm serving as the auditor of the Company to the shareholders' meeting;</p> <p>(18) to hear the general manager's work reports and inspect the performance of the general manager;</p> <p>(19) to exercise any other powers conferred by the laws, administrative regulations, rules of the competent authorities or these Articles of Association and its appendices or granted by the shareholders' general meeting.</p>	<p>(8) to determine the external investment, purchase or sale of assets, mortgage of assets, entrusted wealth management, connected transactions and other matters of the Company within the scope of authority granted by the shareholders' general meeting;</p> <p>(9) to decide on the setup of the Company's internal management structure;</p> <p>(10) <u>to decide on the Company's risk management system, internal control system and legal compliance management system; to carry out overall monitoring and appraisal of the Company's risk management, internal control and legal compliance management systems and their effective implementation;</u></p> <p>(11) to appoint or remove the Company's general manager and to appoint or remove the deputy general manager, chief financial officer <u>and general legal counsel</u> of the Company based on the nomination of general manager; to appoint or remove the secretary of the board of directors; and to decide on their remuneration;</p> <p>(12) to appoint or replace members of the board of directors and the supervisory board of any wholly owned subsidiary of the Company;</p> <p>(13) to decide on the setup of the Company' branches;</p> <p>(14) to formulate the Company's basic management system;</p> <p>(15) to formulate proposals for amendment of these Articles of Association and its appendices;</p> <p>(16) to examine external guarantees of the Company in accordance with laws, regulations and the provisions of these Articles of Association;</p> <p>(17) to manage the disclosure of information of the Company;</p> <p>(18) to propose the engagement or replacement of the accounting firm serving as the auditor of the Company to the shareholders' <u>general meeting</u>;</p> <p>(19) to hear the general manager's work reports and inspect the performance of the general manager;</p> <p>(20) to exercise any other powers conferred by the laws, administrative regulations, rules of the competent authorities or these Articles of Association and its appendices or granted by the shareholders' general meeting.</p>

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, Mr. Sun Bingxiang, a deputy general manager of the Company and a beneficial owner, held 50,300 A shares of the Company, representing 0.00037% of the issued A shares of the Company and 0.00026% issued shares of the Company. Except for the above mention and 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, 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)	
					class of shares	% of the Company's Total Issued Capital
Sun Yongzhuang	Employee Representative Supervisor	Beneficial owner	A Share Option	60,000(L)	0.0004	0.0003
Zhang Yongjie	Deputy General Manager	Beneficial owner	A Share Option	76,000(L)	0.0005	0.0004
Zuo Yaojiu	Deputy General Manager	Beneficial owner	A Share Option	72,000(L)	0.0005	0.0004

Name of Shareholders	Position	Type of Interests	Class of Shares	Number of Shares	% of the class of shares	% of Company's Total Issued Capital
Zhang Jinhong	Deputy General Manager	Beneficial owner	A Share Option	72,000(L)	0.0005	0.0003
Zhang Jiankuo	Deputy General Manager	Beneficial owner	A Share Option	40,000(L)	0.0005	0.0003
Sun Bingxiang	Deputy General Manager	Beneficial owner	A Share Option	36,000(L)	0.0002	0.0002
Li Honghai	Former Secretary to the Board	Beneficial owner	A Share Option	56,000(L)	0.0004	0.0002

(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 RMB60.65 million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. 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. On 25 January 2021, 23,148,854 A Shares with selling restrictions held by Qi Xin Gong Ying Scheme have ended their limited sales period and were listed for trading.

In Qi Xin Gong Ying Scheme, the Company's directors, supervisors and senior management subscribed for a total of 4.85 million, accounting for approximately 8.0% of the total share of the scheme. The total number of directors, supervisors and senior management of the Company who subscribed for the Qi Xin Gong Ying Scheme was 14 persons. For details of the participation of the directors, supervisors and senior management of the Company in the Qi Xin Gong Ying Scheme, see the following table.

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme (RMB)	Subscription scheme shares under Qi Xin Gong Ying Scheme (share)	Subscription Price (RMB/A Share)	Subscription of A share (share)
Chen Xikun	Chairman, Secretary of Party Committee	400,000	400,000	2.62	152,671

Name	Position	Subscription	Subscription	Subscription	Subscription
		amount under	scheme shares		
		Qi Xin Gong	under Qi Xin	Price	of A share
		Ying Scheme	Gong Ying	(RMB/A Share)	(share)
		(RMB)	Scheme		
			(share)		
Sun Yongzhuang	Employee Representative Supervisor	300,000	300,000	2.62	114,503
Zhang Bailing	Employee Representative Supervisor	350,000	350,000	2.62	133,587
Du Guangyi	Employee Representative Supervisor	350,000	350,000	2.62	133,587
Zhang Yongjie	Deputy General Manager	350,000	350,000	2.62	133,587
Zuo Yaojiu	Deputy General Manager	350,000	350,000	2.62	133,587
Zhang Jinhong	Deputy General Manager	350,000	350,000	2.62	133,587
Zhang Jiankuo	Deputy General Manager	300,000	300,000	2.62	114,503
Li Honghai	Former Secretary to the Board	300,000	300,000	2.62	114,503
Sun Qingde	Former Deputy Chairman, General Manager	400,000	400,000	2.62	152,671
Li Wei	Former Chairman of the Supervisory Committee	350,000	350,000	2.62	133,587
Li Tian	Former Chief Financial Officer	350,000	350,000	2.62	133,587
Huang Songwei	Former Supervisor	350,000	350,000	2.62	133,587
Zhang Hongshan	Former Supervisor	350,000	350,000	2.62	133,587
Total	/	<u>4,850,000</u>	<u>4,850,000</u>	<u>-</u>	<u>1,851,134</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. Zhou Meiyun is the Deputy General Manager of Finance Department of China Petrochemical Corporation;
- (ii) Mr. Lu Baoping is the President of Sinopec Petroleum Engineering Technology Research Institute; and
- (iii) Mr. Fan Zhonghai is the Deputy Manager 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 in the Company's total issued share capital (%)	Percentage of total number of such class of shares (%)
China Petrochemical 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)

Notes:

1. China Petrochemical Corporation holds 2,595,786,987 H Shares of the Company through its offshore wholly-owned subsidiary Sinopec Century Bright. China Petrochemical 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 other person (other than director, supervisor or senior management of the Company) 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 2020, 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 2020, being the date of the latest published audited financial statements of the Company.

8. CONSENTS

Maxa Capital 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, Maxa Capital did not have any shareholding in any member of the Group, whether directly or indirectly, 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.

As at the Latest Practicable Date, Maxa Capital had no direct or indirect interest in any assets which had been since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to 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
Maxa Capital	a corporation licensed under the Securities and Futures Ordinance to carry out Type 1 regulated activities (dealing in securities) and Type 6 regulated activities (advising on corporate finance), 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 of the Company is Mr. Shen Zehong.
- (2) The registered office and head office of the Company is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, PRC, 100728.
- (3) The register of members of H Shares of the Company is Hong Kong Registrars Limited, located at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (4) Unless otherwise specified, the English version of this circular shall prevail over the Chinese version in case of inconsistency.

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 15 October 2021:

- (a) 2018 Connected Transactions Framework Agreements;
- (b) 2021 Connected Transactions Framework Agreements;
- (c) SPI Fund Document;
- (d) 2020 Equipment Leasing Framework Agreement;
- (e) Lease Agreement on Exploration IV Drill Rig;
- (f) Termination Agreement of the Lease Agreement in relation to the “Exploration IV” Drill Rig;
- (g) The letter from Maxa Capital to the Independent Board Committee and the Independent Shareholders dated 30 September 2021;
- (h) The letter from the Independent Board Committee to the Independent Shareholders dated 30 September 2021; and
- (i) The consent letter from Maxa Capital as mentioned in paragraph 8 of this appendix.

By the order of the Board
Shen Zehong
Company Secretary

Beijing, 30 September 2021

As at the date of this circular, the Board of Directors comprises Mr. Chen Xikun[#], Mr. Yuan Jianqiang[#], Mr. Lu Baoping⁺, Mr. Fan Zhonghai⁺, Mr. Wei Ran⁺, Mr. Zhou Meiyun⁺, Mr. Chen Weidong^{}, Mr. Dong Xiucheng^{*} and Mr. Zheng Weijun^{*}.*

[#] Executive Director

⁺ Non-Executive Director

^{*} Independent Non-Executive Director