Sinopec Oilfield Service Corporation

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

(Stock Code: 1033)

ANNOUNCEMENT IN RELATION TO THE REPLY MADE IN RESPECT OF CSRC'S FEEDBACK ON THE A SHARE PLACEMENT

The board of directors and all members of the board of directors of the Company warrant that the contents of the announcement do not contain any false statement, misleading representation or material omission and accept responsibility severally and jointly for the truthfulness, accuracy and completeness of the contents of this announcement.

Reference is made to the circular of Sinopec Oilfield Service Corporation (the "**Company**") dated 18 October 2017 (the "**Circular**") in respect of, inter alia, the proposed issuance of new A Shares and H Shares of the Company. Unless otherwise stated, terms used in this announcement shall have the same meanings as defined in the Circular.

References are also made to the announcement of the Company dated 28 December 2017 in relation to the reply of the Notice Regarding CSRC's First Feedback on the Review of Administrative Permission Items" (No. 172296) (《中國證監會行政許可項目審查一次反饋意見通知書》(172296 號)) in relation to the A Share Placement, the overseas regulatory announcement published on the same date (the "**First ORA**"), the announcement dated 4 January 2018 in relation to the reply of the Notification Letter in respect of preparing for the meeting of the issuance committee of the CSRC to consider the A Share Placement "(《關於請做好相關專案發審委員會準備工作的函》) in relation to the A Share Placement and the overseas regulatory announcement published on the same date (the "**Second ORA**"). Set out in the appendices I and II of this announcement are the English transaction of the First ORA and the Second ORA, respectively.

The A Share Placement is subject to the approval by the CSRC and it is uncertain whether the A Share Placement will be approved. The Company will disclose the relevant information based on the progress of the A Share Placement in a timely manner. The A Share Placement and the H Share Placement are conditional upon each other. Investors are advised to pay attention to the investment risks thereof.

By Order of the Board
Li Honghai
Secretary to the Board

Beijing, PRC, 5 January 2018

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

+ Non-executive Director
 # Executive Director
** Independent Non-executive Director*

Appendices I

English translation is for reference only. Chinese version shall prevail in case of inconsistency.

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OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the following pages for the document which has been published by Sinopec Oilfield Service Corporation (the "**Company**") on the website of Shanghai Stock Exchange, for information purpose only.

Yours Faithfully
By order of the Board
Li Honghai
Secretary of the Board
28 December 2017

As at the date of this announcement, the Board of Directors comprises Mr. Jiao Fangzheng +, Mr. Sun Qingde#, Mr. Zhou Shiliang#, Mr. Li Lianwu+, Ms. Jiang Bo, Mr. Zhang Huaqiao* and Mr. Pan Ying*.*

" + " Non-Executive Director
" # " Executive Director
*" * " Independent Non-Executive Director*

REPLY TO FEEDBACK ON THE APPLICATION DOCUMENTS OF SINOPEC OILFIELD SERVICE CORPORATION IN RESPECT OF THE NON-PUBLIC ISSUANCE OF A SHARES

Sponsor (Lead Underwriter):

CICC
中金公司

(27th-28th Floor, China World Tower 2, No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing)

December 2017

To China Securities Regulatory Commission:

The Company received the "Notice Regarding China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items" (No. 172296) (《中國證監會行政許可項目審查一次反饋意見通知書》 (172296 號)) (the "**Feedback**") issued by the CSRC. In accordance with the requirements of the Notice, Sinopec Oilfield Service Corporation (hereinafter referred to as "Sinopec Oilfield", the "Company", the "Applicant" or the "Issuer"), China International Capital Corporation Limited (hereinafter referred to as the "Sponsor") and Haiwen & Partners (hereinafter referred to as the "Company Lawyer" or the "Issuer's Lawyer") and the relevant intermediaries have conducted careful verification and confirmation regarding the Feedback. We hereby reply (the "**Reply**") on the inquiries raised in the Feedback as follows for your review.

Notes:

1. Unless the context otherwise requires, terms used in the Reply have the same definitions as those defined in the Sponsor's Due Diligence Report on Non-public Issuance of A Shares by Sinopec Oilfield Service Corporation.

2. The fonts in the Reply represent:

Bold: the issues listed in the Feedback
Times New Roman: the reply to the issues listed in the Feedback

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I. Key issues

Key issue 1

Applicant, why the non-public offering of A shares and the non-public offering of H shares are inter-conditional to each other? please explain the reason by combining the performance loss, the purpose of this offering and other factors. At the same time, since A shares and H shares are both ordinary shares, Applicant please clarify whether the issuance schedules of A shares and H shares comply with Article 126 of the Company Law and the provisions of the *Supervision Q&A on Issuance —Regulatory Requirements relating to Guidance on Standardizing Financing Activities of Listed Companies* (《發行監管問答—關於引導規範上市公司融資行為的監管要求》) in respect of issue size. Sponsor and lawyers please comment.

Reply:

I. Applicant's Reply

(1) Why the non-public offering of A shares and the non-public offering of H shares are inter-conditional to each other

The Company underwent significant decline in its performance in the past three years, please see "Key issue 3 (1) The reason for the poor management of the company" for details. To improve its financial condition, reduce its gearing ratio and enhance its ability of going concern and risk-resisting, the Company intends to implement the non-public offering. In order to support the Company's commitment and reflect their confidence in the future development of the Company and ensure the stable and sustainable development of the Company, China Petrochemical Corporation ("Sinopec Group"), the controlling shareholder of the Company, and Century Bright Company, a wholly-owned subsidiary of Sinopec Group established in Hong Kong, intend to subscribe for the non-public offering of A shares and the non-public offering of H shares respectively.

In light of: 1) both the non-public offering of A shares and the non-public offering of H shares are subject to shareholders' approvals at the general meeting and class meeting of the Company, and the Company's A share was RMB 3.20 per share when the 21st meeting of the Eighth session of the Board was held to consider the resolutions in respect of the non-public offering on 20 September 2017, higher than the H share price of HK$1.35 per share for the non-public offering, the non-public issuance of H shares alone may not be approved by the class meeting; 2) Currently, the Company has 14,142,660,995 shares in total, of which 2,100,000,000 shares are H shares (all being public float), accounting for 14.85% of the total share capital of the Company. Non-public issuance of A shares alone will result in the public float of the Company's H shares not complying with the relevant requirements of the Listing Rules of the Stock Exchange of Hong Kong. By taking into account the foregoing factors, in order to protect the interests of minority shareholders and gain the support from minority shareholders, and considering the simultaneous performance of regulatory approval processes can raise funds as soon as possible so as to supplement working capital, the Company made the non-public offering of A shares and the non-public offering H shares inter-conditional with each other.

(2) Schedule and issue size for A-share and H-share issuances

As at the date of the Reply, the total share capital of the Company were 14,142,660,995 shares, of which A shares were 12,042,660,995 shares and H shares were 2,100,000,000 shares. According to the offering plan, the maximum number of the non-public offering of A shares is 2,828,532,199 shares, no more than 20% of the total share capital of the Company prior to the non-public offering, and its issue size is in line with the requirement that "For listed companies applying for non-public offering of shares, the number of shares to be issued shall not exceed 20% of the total share capital before this issue" under the *Supervision Q&A on Issuance —Regulatory Requirements relating to Guidance on Standardizing Financing Activities of Listed Companies (《發行監管問答——關於引導規範上市公司融資行為的監管要求》).*

According to Article 126 of the Company Law, the same type of shares issued in the same issuance shall have the same issuance conditions and price per share. For any shares subscribed by any entity or individual, the same price shall be paid for each share. According to the offering plan, the non-public offering of A shares and the non-public offering of H shares are ordinary shares. Regarding the issuance schedule, the Company will choose to issue A shares first and then H shares or vice versa according to the situation in the securities market both at home and abroad after the non-public offering of A shares and the non-public offering of H shares are both approved by the China Securities Regulatory Commission. In accordance with Article 126 of the Company Law, the non-public offering of A shares and the non-public offering of H shares will not be simultaneously issued. Therefore, the non-public offering of A shares and the non-public offering of H shares will not violate the provisions as stipulated in Article 126 of the Company Law.

II. Verification Opinions of the Sponsor and the Issuer's Lawyer

After verification, the Sponsor and the Issuer's Lawyer believe that the issuance schedule and issue size are in compliance with Article 126 of the Company Law and the provisions of the *Supervision Q&A on Issuance —Regulatory Requirements relating to Guidance on Standardizing Financing Activities of Listed Companies* (《發行監管問答—關於引導規範上市公司融資行為的監管要求》).

Key issue 2

The subscriber of the non-public offering is Sinopec Group which is the controlling shareholder of the Applicant. Sinopec Group please issue an undertaking that it will not reduce its shares from the six months prior to the pricing reference date to the six months after completion of the Offering and make public announcement. In addition, since some of the Applicant 's directors, supervisors and senior management participate in subscription though products, they should issue

undertakings and make public announcement as prescribed by the foregoing provision if they hold shares of the listed company before the Offering.

Reply:

I. Undertakings made by Sinopec Group, the controlling shareholder of the Applicant

Sinopec Group, the controlling shareholder of the Applicant, has issued the *Commitment Letter on No Short-term Trading and Stock Reduction Plans* on 27 December 2017, and made the following undertakings:

"1. Within the period from the six months prior to the pricing reference date (i.e. the first day of the non-public offering of shares) of the Non-Public Offering of the listed company to the six months after the completion of the non-public offering, the Company and other companies controlled by the Company will not reduce the shares of the listed company in any way and there will not be any stock reduction plan involving the listed company.

2. The undertaking shall be irrevocable. Any breach of the undertakings committed, the proceeds from the reduction of shares by the Company and other companies controlled by the Company shall be attributable to the listed company. If the listed company was suffered losses or penalties due to the share reduction, the Company shall assume full legal responsibilities and make restitution or compensation in full and in time for the listed company."

The Applicant made an announcement on 28 December 2017 to publicly disclose above undertakings.

II. Restrictions on share reduction for certain directors, supervisors and senior management of the Applicant

As of the date of the Reply, none of the directors, supervisors and senior management who intend to participate in the non-public offering through the Qi Xin Gong Ying Management Investment Plan hold the shares of the Company. According to the *Supplementary Agreement to the Entrusted Management Contract on Changjiang Sheng Shi Hua Zhang Collective Pension Insurance Management Products* entered into between the Company and Changjiang Pension, the lock-up period for the Company's shares under the Qi Xin Gong Ying Management Investment Plan is 36 months and no share reduction is allowed during the lock-up period. Share reduction after the lock-up period shall comply with the laws and regulations and other relevant provisions.

Key issue 3

Given the Issuer experienced significant performance decline in the past three years, in the event that the audited net profit of Sinopec Oilfield for 2017 remains negative

or its audited net assets for 2017 are negative, a delisting risk warning may be issued for the A shares of Sinopec Oilfield. Applicant please make additional disclosure on: (1) the reason for the poor management of the Company; (2) the preventive measures taken by the Company responding to the delisting risk warning and delisting risk and whether the Company has fully disclosed relevant risks or not; (3) whether the Offering helps enhance the Issuer's ability to continue as a going concern; (4) Whether there are major asset reorganization, acquisition of assets and other issues that affect the share price of the Company within 12 months after the completion of the offering.

Reply:

I. The reason for the poor management of the Company

Affected by the decline in international oil prices and the low volatility since the second half of 2014, the international and domestic oil companies reduced their investments, which brought a great impact on the operation of the companies in oilfield industry. The Company achieved operating revenue of RMB94.48 billion in 2014, decreased to RMB60.35 billion in 2015 and further decreased to RMB42.92 billion in 2016, and suffered a loss in 2016 with a net profit of RMB-16.11 billion. Despite the rebound in international oil prices in 2017, the investment in domestic oil companies slowed and lagged. The investment in the upstream business increased less than the increase in oil prices and about 70% of the Company's workload came from the domestic market, therefore, the Company experienced insufficient workload growth combined with the higher fixed costs expenses and the Company achieved operating income of RMB30.03 billion and net profit of RMB-3.31 billion during January to September 2017.

II. Preventive measures taken by the Company responding to the delisting risk warning and delisting risk and whether the Company has fully disclosed relevant risks or not

The Company has disclosed the relevant risk warning in relation to potential delisting of A shares in the relevant section of the Proposal for Non-public Offering of A Shares of Sinopec Oilfield Service Corporation (《中石化石油工程技術服務股份有限公司非公開發行 A 股股票預案》). Meanwhile, the Sponsor has explained such risk in the relevant sections of the Report on Application for Non-public Offering of A Shares of Sinopec Oilfield Service Corporation (《中石化石油工程技術服務股份有限公司關於非公開發行 A 股股票的申請報告》), the Sponsorship Letter for Non-public Offering of A Shares of Sinopec Oilfield Service Corporation (《關於中石化石油工程技術服務股份有限公司非公開發行 A 股股票的發行保薦書》) and the Sponsor's Due Diligence Report for Non-public Offering of A Shares of Sinopec Oilfield Service Corporation (《關於中石化石油工程技術服務股份有限公司非公開發行 A 股股票之保薦人盡職調查報告).

In order to mitigate operation difficulties and eliminate the delisting risk, the Company has actively implemented the Notice on Special Governance of Loss-making Subsidiaries under State-owned Enterprises (《關於中央企業開展虧損企業專項治理工作的通知》) issued by the SASAC and formulated the special governance plan for deepening reforms, turning losses into profits, getting out of difficulties and maintaining listing status under which the Company intends to adopt the following, but not limited to, measures to use its best effort to turn losses into profits: make great efforts to expand market by capitalizing on favorable opportunities including oil price recovery and increase in upstream capital of oil companies; strengthen its principal business and improve working efficiency through adjusting business structure; make active efforts to reduce costs and expenses, and explore potentials and enhance efficiency in a deep-going way; strengthen scientific innovation and enhance core competitiveness to refine its technical services and emerging business. As one of the important integrated measures for turning losses into profits, getting out of difficulties and maintaining listing status, the Company intends to supplement its liquidity, lower its gearing ratio, improve its financial conditions, enhance its ability to continue on a going-concern basis and to withstand risks through this non-public offering of A shares and H shares.

III. Whether the Offering helps enhance the Issuer's ability to continue as a going concern

The proceeds from the non-public offering will to a certain extent enhance the scale of the Company's net assets, reduce the gearing ratio, enhance the debt-servicing capacity, optimize the capital structure, ease the cash flow pressure and reduce the financial risk. As of 30 September 2017, the Company's gearing ratio was 92.16%. All proceeds from the non-public offering are planned to be used to supplement the liquidity. After the proceeds of RMB8 billion from the non-public offering of A shares and H shares are raised, the Company's gearing ratio will drop to 82.45%, which helps to avoid the Company's dependence on borrowing and reduce finance costs, thereby enhancing the Company’s profitability in the long run. At the same time, after completion of the non-public offering, the Company’s cash flow from financing activities will increase and the Company’s working capital will be supplemented, which will help to ease the tight cash flow of the Company and ensure the normal production and operation of the Company and its subordinate enterprises.

In summary, the non-public offering is conducive to enhancing the Company's ability to continue as a going concern and laying the foundation for sustainable development.

IV. Whether there are major asset reorganization, acquisition of assets and other issues that affect the share price of the Company within 12 months after the completion of the offering

As at the date of the Reply, the Company temporarily has no planned matters which would affect the share prices of the Company such as major asset restructuring and acquisition of assets as stipulated in Article 2 of the Administrative Measures on Major Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) within twelve months from completion of this non-public offering; for currently unpredictable and potential significant matters which would affect the share prices of the Company such as major asset restructuring and acquisition of assets, the Company will make decisions and perform information disclosure obligations in accordance with relevant laws and regulations such as the Administrative Measures on Information Disclosure of Listed Companies (《上市公司信息披露管理辦法》) and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (《上海證券交易所股票上市規則》) and the provisions of the Articles of Association.

Key Issue 4

Issue in relation to appointment of directors, supervisors and senior management. Lu Baoping, deputy general management of the issuer, was the dean of Sinopec Oil Engineering Technology Research Institute (中國石化集團石油工程技術研究院) which is controlled by Sinopec Group, and received remuneration therefrom; the number of directors and supervisors is below the number as stipulated in the Articles of Association; one of the independent directors concurrently holds positions in many companies. The applicant please provide supplemental explanations on the reason for the above, and whether it complies with the relevant requirements or not, if not, please provide the rectifying measures proposed to be taken. The Sponsor and the lawyer please review, and express specific opinions on the effect of the relevant circumstances on the Company's operations and this offering of shares.

Reply:

I. Applicant's Reply

(1) In relation to concurrent positions of deputy general manager

During the reporting period, Lu Baoping, deputy general manager of the Company, held concurrent position as the dean of Sinopec Oil Engineering Technology Research Institute (中國石化集團石油工程技術研究院) and received remuneration therefrom, which is not in compliance with the regulatory requirements in relation to concurrent positions of senior management of listed companies.

On 20 December 2017, Lu Baoping has tendered his resignation as the deputy general manager of the Company to the board of directors of the Company with effect from 20 December 2017. Therefore, as at the date of the Reply, the aforesaid noncompliance in relation to concurrent positions has been rectified.

(2) In relation to the number of directors and supervisors below the number as stipulated in the Articles of Association

The 8th session of the board of directors of the Company comprised nine directors and the 8th session of the supervisory committee of the Company comprised eight supervisors upon their respective establishment, and the number of members of each of the board of directors and supervisory committee is in compliance with then Articles of Association of the Company. Thereafter, for reasons such as director's death due to illness as well as resignation, the number of existing directors of the Company is seven for the time being; due to resignation of supervisors, the number of existing supervisors of the Company is six for the time being, which is not in compliance with the provisions that the board of directors of the Company shall comprise nine directors and the supervisory committee of the Company shall comprise seven to nine supervisors in the Articles of Association of the Company currently in force.

Given the term of the 8th session of the board of directors and the 8th session of the supervisory committee of the Company will expire on 8 February 2018, the Company held the 23rd meeting of the 8th session of the board of directors on 20 December 2017, at which nine persons in total, namely Jiao Fangzheng, Sun Qingde, Zhou Shiliang, Ye Guohua, Lu Baoping, Fan Zhonghai, Jiang Bo, Zhang Huaqiao and Panying, were nominated as candidates for directors of the 9th session of the board of directors of the Company; and four persons in total, namely Zou Huiping, Du jiangbo, Zhang Qin and Zhang Jianbo, were nominated as candidates for non-employee representative supervisors of the 9th session of the supervisory committee of the Company. The Company issued the Notice of the First Extraordinary General Meeting for 2018 on 21 December 2017 and proposed to hold the first extraordinary general meeting for 2018 on 8 February 2018 to elect the aforesaid candidates for directors and candidates for supervisors. In addition, three employee representative supervisors of the 9th session of the supervisory committee will be elected by employees of the Company through democratic election.

According to the aforesaid arrangement, the Company will complete the general election of the Board of Directors and the Supervisory Committee on 8 February 2018. If the General Meeting considered and passed the relevant proposals for the general election, the newly-elected 9th Board of Directors will be composed of 9 directors. The newly-elected 9th Supervisory Committee will be composed of 7 supervisors, which are in compliance with the existing Articles of Association of the Company.

(3) Part-time Jobs of the Independent Director

In addition to serving as an independent director of the Company, Zhang Huaqiao serves as independent directors of six overseas-listed companies, namely Yancoal Australia Limited (ASX: YAL), a company listed on the Australian Stock Exchange, Fosun International Limited (0656.HK) , Luye Pharma Group Ltd. (2186.HK), Zhong An Real Estate Limited (0672.HK), China Huirong Financial Holdings Limited (1290.HK) and Logan Property Holdings Company Limited (3380.HK), all of which are listed on the Hong Kong Stock Exchange.

According to the Guide of Shanghai Stock Exchange to the Filing and Training of Independent Directors in Listed Companies (《上海證券交易所上市公司獨立董事備案及培訓工作指引》) promulgated by the Shanghai Stock Exchange, a person who has served as independent directors of 5 domestic-listed companies may no longer be nominated as independent director candidates of other listed companies. The other 6 listed companies where Zhang Huaqiao served as independent directors are oversea-listed companies. The proposal in relation to his qualification as an independent director of the 8th Board of Directors has been reviewed without objection by the Shanghai Stock Exchange. The aforementioned part-time jobs do not violate the requirements of the Guide of Shanghai Stock Exchange to the Filing and Training of Independent Directors in Listed Companies. Meanwhile, the Company has communicated with Zhang Huaqiao. In order to better perform his duties, Zhang Huaqiao will resign as independent directors of 2 of the aforementioned 6 companies in the near future.

II. Verification Opinion of the Sponsor and the Issuer's Lawyer

(1) Part-time Jobs of the Deputy General Manager

After verification, the Sponsor and the Issuer's Lawyer believe that the situation mentioned above did not have any material adverse effect on the normal production and operation of the issuer and the Non-public Issuance, and the rectification was completed on 20 December 2017. As of the date of the Reply, none of the senior management of the issuer held any other duties other than directors and supervisors of the controlling shareholder and other enterprises under its control, and none of the financial officers of the issuer held any part-time positions in the controlling shareholder and other enterprises under its control.

(2) The Number of Directors and Supervisors is below the Number Stipulated in the Articles of Association

After verification, the Sponsor and the Issuer's Lawyer believe that there are some objective reasons for the number of directors and supervisors of the Issuer fall below the number stipulated in the Articles of Association within a certain period. The above situations do not have any material and adverse impact on the normal production and operation of the Issuer and the Non-public Offering. In addition, the Issuer intends to convene the 1st Extraordinary General Meeting of 2018 on 8 February 2018, to elect directors and supervisor candidates. If the General Meeting considered and passed the relevant proposals for the general election, the newly-elected 9th Board of Directors and the 9th Supervisory Committee will be in compliance with the existing Articles of Association of the Issuer.

(3) Part-time Jobs of the Independent Director

After verification, the Sponsor and the Issuer's Lawyer believe that, the other 6 listed companies where Zhang Huaqiao served as independent directors are oversea-listed companies. The proposal in relation to his qualification as an independent director of the

8th Board of Directors has been reviewed without objection by the Shanghai Stock Exchange. The aforementioned part-time jobs of Zhang Huaqiao as independent directors do not violate the requirements of the Guide of Shanghai Stock Exchange to the Filing and Training of Independent Directors in Listed Companies. Meanwhile, according to a written confirmation of the Issuer, it has communicated with Zhang Huaqiao. In order to better perform his duties, Zhang Huaqiao will resign as independent directors of 2 of the aforementioned 6 companies in the near future.

Key issue 5

Please advise the calculation basis and purpose for the supplementation of liquidity.

Applicant shall advise the content, transaction amount, source of funds, the progress and schedule of any major investment or asset purchase transaction executed or to be executed by the Company from the six months prior to the date of the Board resolution in relation to the Non-public Issuance up to the present, apart from this fund-raising investment project.

Please advise whether there is any plan for major investment or asset purchase in the next three months.

Please advise whether there is any disguised implementation of major investment or asset purchase by supplementing liquidity.

Sponsor shall verify the above matters.

The scope of the above major investment or asset purchase refers to the relevant provisions of the Administrative Measures for the Disclosure of Information of Listed Companies (《上市公司信息披露管理辦法》) and the Rules Governing the Listing Shares of the Stock Exchange (《股票上市規則》).

Reply:

I. Applicant's Reply

(1) The calculation basis and purpose for the supplementation of liquidity.

According to the resolutions made on the 21st Meeting of the 8th Board of Directors held on 20 September 2017and the 1st Extraordinary General Meeting of 2017, the 1st A Share Class Meeting of 2017 and the 1st H Share Class Meeting of 2017 held on 16 November 2017, the total funds raised from the Non-public Issuance of A Shares will not exceed RMB4 billion (including RMB4 billion) and will be fully used to supplement the liquidity after deducting relevant issuance costs.

As of 30 September 2017, the gearing ratios of the Company and its domestically-listed counterparts in the same industry are as follows:

Abbreviated name of securities	Stock code	30 September 2017
中海油服	601808.SH	53.04%
傑瑞股份	002353.SZ	19.37%
海油工程	600583.SH	22.37%
惠博普	002554.SZ	51.26%
石化機械	000852.SZ	73.40%
通源石油	300164.SZ	27.54%
Mean of comparable companies		**41.16%**
石化油服	600871.SH	92.16%

Source: Wind

As of 30 September 2017, the gearing ratio of the Company was 92.16%, which is approximately 51 percentage points higher than the mean of comparable companies. After receiving RMB8 billion raised from the Non-public Issuance of A shares and H shares, the gearing ratio of the Company will drop to 82.45%, still higher than the level of listed companies in the same industry. The funds raised from the Non-public Issuance are intended to be fully used to supplement liquidity, help to enhance the net assets scale, reduce the debt ratio, enhance repayment capability, help to optimize the capital structure, ease the cash flow pressure, reduce financial risks and improve sustainable development capacity of the Company.

In addition, the Company considered its actual conditions and referred to the Interim Measures for the Administration of Liquidity Loans (《流動資金貸款管理暫行辦法》) for the calculation of the working capital to be supplemented. Calculation basis and process are as follows:

1) Calculation basis

According to the Attachment of the Interim Measures for the Administration of Liquidity Loans: A Reference for the Measurement of the Demand for Liquidity Loans (《流動資金貸款管理暫行辦法之附件：流動資金貸款需求量的測算參考》), the liquidity demand of the Company shall be determined on the basis of the difference between the working capital required for the daily production and operation of the Company and the current liquidity (i.e. the liquidity gap).

2) Calculation process

Liquidity shortfall = working capital amount - borrower's own funds - existing liquidity loans - working capital provided through other channels.

Item	Formulation	Amount (10 million)
Working capital	a*(1-b)*(1+c)/d	26.24
Sales revenue of 2016	a	429.24
Sales profit margin of 2016	b	-37.54%
CAGR of sales revenue (2013-2016)	c	-26.34%

Working capital turnover	d	16.57
Less: Borrower's own funds	e-f	-249.21
Owner's equity of 2016	e	84.42
Non-current assets of 2016	f	333.63
Less: Existing liquidity loans	g+h	170.34
Short-term borrowings of 2016	g	170.34
Bonds payable of 2016	h	-
Less: working capital provided through other channels	i-j	-53.92
Total inventory, accounts receivable and prepayments of 2016	i	335.79
Total accounts payable and receipts in advance of 2016	j	389.71
Liquidity shortfall		**159.03**

The funds planned to be raised from the Non-public Issuance of A shares does not exceed the company's future liquidity shortfall calculated by the above method, which is RMB15.903 billion.

(2) Major investment or asset purchase transaction executed or to be executed by the Company from the six months prior to the date of the Board resolution in relation to the Non-public Issuance up to the present

According to the relevant provisions of the Administrative Measures for the Disclosure of Information of Listed Companies (《上市公司信息披露管理辦法》) and the Rules Governing the Listing Shares of the Shanghai Stock Exchange(《上海證券交易所股票上市規則》), where the transaction of the listed company meets any of the following criteria, it shall be disclosed in a timely manner:

“ (i) Where the total assets value involved in the transaction (where there is a book value and an estimated value, the higher shall be used) is more than 10% of the listed company’s latest audited total assets value;

(ii) Where the consideration of the transaction (including liabilities and fees assumed) is more than 50% of the listed company’s latest audited net assets value, and the absolute amount exceeds RMB 10,000,000;

(iii) Where the profit arising from the transaction is more than 10% of the listed company’s latest audited net profit, and the absolute amount exceeds RMB 1,000,000;

(iv) Where the operation income arising from the subject matter of the transaction (e.g. equity interest) in the latest financial year exceeds 10% of the listed company’s latest audited operation income, and the absolute amount exceeds RMB 10,000,000;

(v) Where the net profit arising the subject matter of the transaction (e.g. equity interest) in the latest financial year exceeds 10% of the listed company’s latest audited net profit, and the absolute amount exceeds RMB 1,000,000.

Where any figures above involve a negative value, the absolute value thereof shall be used.”

Based on the aforesaid criteria, there are no major investment or asset purchase transaction executed or to be executed by the Company from the six months prior to the date of the Board resolution in relation to the Non-public Issuance up to the present.

(3) Plan for major investment or asset purchase in the next three months

As of the date of the Reply, the company has no plan for major investment or asset purchase in the next three months. If major investment or asset purchase are to be initiated in the future, the Company will conduct information disclosure and review and approval procedures in accordance with the relevant provisions, so as to effectively protect the immediate interests of listed company and investors.

(4) Whether there is any disguised implementation of major investment or asset purchase by supplementing liquidity

The plan for the usage of raised funds has been approved by the Board of Directors and the General Meeting during relevant review and approval procedures. After receiving the funds raised, the Company will use the funds raised in strict accordance with the prescribed purposes. There is no disguised implementation of major investment or asset purchase by supplementing liquidity.

II. Verification Opinion of the Sponsor

The Sponsor consulted the regular reports, auditing reports and other public disclosure documents of the Issuer, interviewed the relevant personnel of the Issuer, reviewed the periodic announcements and temporary announcements of the Issuer and other information disclosure documents that may be related to the overseas investment and assets purchase and learned the major investment or asset purchase plan in the next three months and the usage of funds raised from the senior management of the Issuer.

After verification and confirmed by the Issuer, the Sponsor believes that the calculation basis and usage of the funds raised to supplement liquidity are reasonable. There are no major investment or asset purchase transaction executed or to be executed by the Company from the six months prior to the date of the Board resolution in relation to the Non-public Issuance up to the present. As of the date of the Reply, the Issuer has no plan for major investment or asset purchase in the next three months. The Issuer will use the funds raised in strict accordance with the prescribed purposes. There is no disguised implementation of major investment or asset purchase by supplementing liquidity.

Key issue 6

Please provide reasons and reasonableness for the sharply decline in and negative figure of the gross profit margins of all major businesses in 2016. Please provide historical reasons and reasonableness for the higher gearing ratio of the Company. Please advise whether the financial structure of the applicant is exposed to significant risks, whether the cash flow is sufficient to support the development of the enterprise and whether there is any material uncertainty about the ability of the Company to continue as a going concern.

To be verified by the Sponsor.

Reply:
I. Applicant's Reply

(1) Reasons and reasonableness for the sharply decline in and negative figure of the gross profit margins of all major businesses in 2016

In 2016, the international crude oil price fell below US$30 per barrel and has maintained in a slump with the average price of the year recording the lowest level in 12 years, and the average spot price of North Sea Brent crude oil of the year was only US$43.6 per barrel. The operating revenue of the Company decreased by 28.9% year on year, which was due to that the low oil price has caused domestic and international oil companies to substantially cut their capital expenditure on upstream exploration and development in 2016, oilfield services industry has suffered substantial impact, and the Company's work volumes and service prices have declined with varying degrees.

The total operating cost was RMB58,960 million in 2016, representing a year-on-year decrease of 2.1%, of which the operating cost was RMB53,520 million, representing a year-on-year decrease of 1.9%, which was mainly due to that:

1) The revenue decreased as a result of the decrease in service price. The service price of the Company in major markets decreased by 5%-15% year on year in 2016, resulting in the decrease in revenue, while the costs did not decrease accordingly.

2) The Company had high fixed cost expenses. In 2016, the Company incurred depreciation of fixed assets and amortization of other non-current assets of RMB5,530 million, integrated service fee of RMB1,590 million, administration and operation expenses of RMB5,700 million, loan interest expenses of RMB480 million and impairment losses on assets of RMB750 million, all of which were not affected by the revenue change. The employee costs were RMB13,920 million, which were less affected by the revenue change.

3) The cost of the Company increased substantially due to the prolonged construction period and increased cost and expense of certain engineering construction projects of the wholly-owned subsidiaries of the Company.

4) In 2016, the Company had high revenue contribution from regions such as Jiaoshiba

Block, Ebei Daniudi, Southeast Region and western Sichuan where the complexity of construction works was high, which gave rise to high percentage of total variable costs including raw materials, fuel and power, predrilling operation, technological service and outsource costs.

As the company's revenue decreased by 28.9% in 2016, total operating costs decreased by only 2.1%, resulting in a sharp decline in and negative figure of the gross profit margin.

(2) Historical reasons and reasonableness for the higher gearing ratio of the Company, whether the financial structure is exposed to significant risks

As of 31 December 2014, the gearing ratio of the Company was 77.00%. The sharply decline in profit of 2015 and loss of 2016 have resulted in a substantial decrease in equity of the Company. To maintain the capital for normal production and operation, the Company borrowed short-term borrowings from Sinopec Finance Co., Ltd. (Finance Company) and Sinopec Century Bright Capital Investment Ltd. (Century Bright Company), resulting a further increase in the gearing ratio of the Company. As of 30 September 2017, the gearing ratio of the Company was 92.16%, an increase of 15.16 percentage points from the end of 2014. After the Issuance, the capital structure and financial position of the Company will be improved.

The Company's interest-bearing liabilities mainly arise from inter-company loans of Sinopec Group. As a high amount of credit lines granted to the Company by Sinopec Finance Company and Century Bright Company enable the Company to meets its short-term and long-terms capital needs, there is no significant risk in the Company's financial structure. As at 30 September 2017, the Company's interest-bearing liabilities from Sinopec Group were RMB20,221 million, comprising short-term borrowings of RMB19,689 million and long-term borrowings of RMB532 million. Due to significant decrease in the Company's profits in 2015, the Company recorded a significant loss in 2016, resulting in significant decrease in owner's equity of the Company. As at 30 September 2017, the gearing ratio of the Company was 92.16%, significantly higher than the average level of listed companies in the industry; the current ratio was 0.61 and the quick ratio was 0.39, both lower than the average level of listed companies in the industry. Through this non-public offering, the Company's capital structure will be optimized to certain extent and its gearing ratio will decrease.

(3) Whether the Company's cash flow is sufficient to support its development and whether there is any significant uncertainty about the Company's ability to continue on a going-concern basis

In 2016, the Company recorded a net cash outflow from operating activities of approximately RMB3,900 million. In 2017, the Company enhanced management and control on accounts receivable and inventory, strictly controlled the scale of interest-bearing liabilities and optimized debt structure, which is expected to significantly lower its net cash outflow from operating activities. In addition, the

Company has a credit line of RMB18,900 million granted by Sinopec Group and a credit line under, among others, letter of guarantee and acceptance of RMB12,000 million granted by external commercial banks. With the continuing improvement of the Company's operations and the proceeds from this non-public offering becoming available, it is expected that the Company's cash flow can support its sustainable development.

With the oil price recovery, the oil and gas exploration activities have increased, the Company has continually explored overseas markets and the oil price has experienced a steady rise in the domestic market. Meanwhile, the Company has made an active effort to reduce costs and expenses, explored potentials and enhanced efficiency in a deep-going way, improved its operational capability and used its best effort to turn losses into profits. Therefore, there is no significant uncertainty about the Company's ability to continue on a going-concern basis.

II. Verification Opinions of the Sponsor

The Sponsor has reviewed the industry research report and the relevant documents of the issuer such as the periodic report and audit report, and has interviewed the senior management and business staff of the issuer in respect of the development strategy and business development plan of the issuer.

The Sponsor, after reviewing, is of the opinion that the issuer recorded a significant decrease in and a negative gross profit margin of its principal business in 2016 primarily as a result of a significant year-on-year decrease in the work amount of its principal business segments such as drilling and engineering construction as well as a year-on-year decrease in service prices in major markets; high gearing ratio of the issuer was due to significant decrease in its profits, increase in its short-term borrowings and loss-making resulting in significant decrease in its owner's equity; there is no significant risk in the issuer's financial structure and there is no significant uncertainty about its ability to continue on a going-concern basis.

II. General Issues

General Issue 1

Applicant please perform consideration and approval procedures and information disclosure obligations as required under the Guiding Opinions on Matters relating to the Dilution on Current Returns as a result of Initial Public Offering, Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)). If current returns are diluted, the return recovery measures and undertakings shall be specifically stated and be practicable. The Sponsor please express review opinions on the implementation of the above requirements by the applicant.

Reply:

I. Applicant's Reply

(1) Consideration and approval procedures and information disclosure obligations performed by the Company

On 20 September 2017, the Company held the 21st meeting of the 8th session of the board of directors, at which the Resolution on the Dilution on Current Returns as a result of the Initial Public Offering, the Return Recovery Measures and the Undertakings by Controlling Shareholder, Directors and Senior Management on the Relevant Measures (《關於非公開發行股票攤薄即期回報、填補回報措施及控股股東、董事和高級管理人員就相關措施作出承諾的議案》) was considered and approved and was then submitted to the shareholders' general meeting for consideration.

On 21 September 2017, the Company disclosed the Announcement on the Dilution on Current Returns as a result of the Initial Public Offering, the Current Return Recovery Measures and the Undertakings by Relevant Parties (《關於非公開發行股票攤薄即期回報、填補即期回報措施及相關主體承諾的公告》). The controlling shareholder, all directors and senior management of the Company have made relevant undertakings on the recovery measures adopted in respect of dilution on current returns as a result of this non-public offering.

On 16 November 2017, the Company held the first extraordinary general meeting for 2017, at which the Resolution on the Dilution on Current Returns as a result of the Initial Public Offering, the Return Recovery Measures and the Undertakings by Controlling Shareholder, Directors and Senior Management on the Relevant Measures (《關於非公開發行股票攤薄即期回報、填補回報措施及控股股東、董事和高級管理人員就相關措施作出承諾的議案》) was considered and approved.

In conclusion, the Company has performed the consideration and approval procedures and information disclosure obligations as required under the Guiding Opinions on Matters relating to the Dilution on Current Returns as a result of Initial Public Offering, Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)).

(2) Specific return recovery measures

In order to safeguard the interests of investors, minimize the risk of dilution on current returns and increase returns to shareholders, the Company intends to adopt various measures to recover current returns:

1. Regulating the management of proceeds and ensuring the safe use of proceeds

   In order to regulate the management and use of proceeds and ensure the proceeds from this offering are specially used for projects funded by the proceeds, in accordance with the Company Law, the Securities Law and Guideline No. 2 on Listed Companies Regulation — Supervisory Requirements for Management and Use of Raised Funds of Listed Companies (《上市公司監管指引第2號— 上市公司募集資金管理和使用的監管要求》) and other requirements of laws and regulations, the Company has , in light of its actual conditions, formulated its regulations on the deposit, management, use and change in use of the proceeds, which stipulate clearly that it adopts a system that a special account shall be used for depositing a designated fund and a special fund shall be used for a designated purpose, which is conducive to the management and use of the proceeds and the supervision of such use. The board of directors of the Company will regulate the management of the proceeds strictly in compliance with relevant laws and regulations and the requirements of the Company's proceeds management system, to ensure the safe use of the proceeds.

2. Optimizing organization and team structure and enhancing operating efficiency

   The Company will continue to optimize organization structure, reduce management level, make proper function positioning for and restructure of each department, refine and perfect the plan, streamline each other's responsibilities, integrate positions, stimulate organization's vitality, raise working efficiency and improve service quality. Meanwhile, the Company will also optimize team structure, cut overcapacity, strengthen competitive strengths, give priority to protecting the market expansion and business deployment, integrate teams of same nature, strictly control the total number of teams and reduce the size of teams.

3. Optimizing business structure and strongly promoting industrial upgrading

   In the direction of professionalization and specialization, the Company will define the development direction and positioning of each unit and business, coordinate relevant technical, talent, equipment and other resources in gathering towards advantageous industries, explore the development potential of specialized businesses, improve the core competitiveness of principal businesses including geophysical exploration, drilling, logging & mud logging, downhole operation service, offshore engineering and oil engineering and construction, and propel quality, efficiency improvement and upgrading.

4. Optimizing overall resources and improving integrated operation efficiency

   The Company will make full use of the advantages of Sinopec Group to highlight its integrated operation, establish a unified coordination platform for teams, personnel, equipment, funds and markets, share resources within the Company and transform the Company's advantages in diversified business segments and strong comprehensive construction and coordination capability into competitive strengths in domestic and overseas markets.

5. Continuously improving the profit distribution policy and protecting investors' interests

   In order to improve the Company's scientific, continuous and stable decision-making and supervision mechanism in relation to profit distribution, increase the transparency and operability of the profit distribution decision and guide the investors in establishing the concept of long-term investment and rational investment, the Company has formulated the Shareholder Return Plan of Sinopec Oilfield Service Corporation for the Next Three Years (2017 to 2019) (《中石化石油工程技術服務股份有限公司未來三年（2017年—2019年）股東回報規劃》) according to the Guideline No. 3 on Listed Companies Regulation — Cash Bonus of Listed Companies (《上市公司監管指引第3號—上市公司現金分紅》) and the Notice on Further Implementation of Cash Bonus-Related Matters for Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by CSRC and relevant provisions relating to the Company's bonus policy set out in the Articles of Association. This plan clearly determines the specific form and proportion of profit distribution of the Company in order to protect investors' interests.

6. Continuously optimizing corporate governance structure and improving operation and management efficiency

   In strict compliance with the requirements of laws, regulations and regulatory documents such as the Company Law, the Securities Law, the Standards of the Governance of Listed Companies (《上市公司治理準則》) and the Rules Governing the Listing of Securities on Shanghai Stock Exchange (《上海證券交易所股票上市規則》), the Company will continue to optimize the corporate governance structure, ensure shareholders can fully exercise their rights and ensure the board of directors can exercise its powers and rights according to the provisions of laws, regulations and the Articles of Association. Meanwhile, the Company will further enhance its operation and management, strengthen internal control and give full play to corporate management and control efficiency. The Company will also push forward comprehensive budget management, enhance cost management and strengthen supervision on budget execution. On the basis of placing strict control on various expenses, the Company will improve operational and management efficiency and control operational and management risk, thereby effectively protecting investors' rights.

(3) Undertakings

In order to ensure the proper implementation of the return recovery measures, China Petrochemical Corporation, the Company's controlling shareholder, has made the following undertakings according to the relevant requirements of the CSRC:

"1. Sinopec Group undertakes not to act beyond its authority to intervene in operating management activities of the listed company, nor to misappropriate interests of the listed company.

2. Since the date of this letter of undertakings and prior to completion of this non-public offering by the listed company, if the CSRC imposes other new regulatory requirements in relation to the return recovery measures and its undertakings and such undertakings cannot meet such rules of the CSRC, Sinopec Group undertakes to issue supplemental undertakings in accordance with the latest requirements of the CSRC.

3. Sinopec Group undertakes to practically implement the relevant return recovery measures formulated by the listed company and fulfil any undertakings it makes thereto in connection with the return recovery measures. If Sinopec Group breaches these undertakings and cause losses to the listed company or investors, Sinopec Group agrees to assume liability of indemnity to the Company or investors.

As one of the parties responsible for the return recovery measures, in the event that Sinopec Group breaches or refuses to fulfil the above undertakings, Sinopec Group agrees that relevant penalties or regulatory measures shall be imposed or taken in accordance with the relevant provisions and rules formulated or published by securities regulatory authorities such as the CSRC and Shanghai Stock Exchange."

In order to ensure the proper implementation of the return recovery measures, all directors and senior management of the Company have made the following undertakings according to the relevant requirements of the CSRC:

"1. I hereby undertake neither to tunnel to other units or individuals without compensation or under unfair conditions, nor to damage the Company's interests in other ways;

2. I hereby undertake to restrict my position-related consumption activities;

3. I hereby undertake not to use the Company's assets for investment and consumption activities not related to execution of my duties;

4. I undertake to proactively promote the improvement of the Company's remuneration system so that it better meets the requirements for the current return

recovery, to propose (if I have the right to do so) and support the board of directors or the remuneration committee of the Company to formulate, revise or supplement the remuneration system which is linked with the implementation of the return recovery measures, and to vote in favor of the resolutions where the remuneration system is linked with the execution of the return recovery measures at the board meetings or general meetings (if I have voting rights);

5. I undertake to propose (if I have the right to do so) and support the board or the remuneration committee of the Company to link the vesting conditions with the implementation of the return recovery measures when they are formulating share incentive scheme if the Company will implement any share incentive scheme in future, and to vote in favor of the resolutions where the share incentive scheme is linked with the implementation of the return recovery measures at the board meetings or general meetings (if I have voting rights);

6. Since the date of this undertaking up to completion of this non-public offering, if the CSRC imposes other new regulatory requirements in relation to the return recovery measures and its undertakings and such undertakings cannot meet such rules of the CSRC, I undertake to issue supplemental undertakings in accordance with the latest requirements of the CSRC;

7. As one of the parties responsible for the return recovery measures, if I breach or refuse to fulfil the above undertakings, I agree that relevant penalties or regulatory measures shall be imposed or taken in accordance with the relevant provisions and rules specified or published by securities regulatory authorities such as the CSRC and Shanghai Stock Exchange.

II. Verification Opinions of the Sponsor

The Sponsor has reviewed the relevant materials of the board and general meetings of the issuer, the issuer's announcements and the undertakings made by the controlling shareholder, all directors and senior management of the issuer.

The Sponsor, after reviewing, is of the opinion that the issuer has performed the consideration and approval procedures and information disclosure obligations as required under the Guiding Opinions on Matters relating to the Dilution on Current Returns as a result of Initial Public Offering, Refinancing and Major Asset Restructuring (CSRC Announcement [2015] No. 31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)). The return recovery measures formulated by the issuer are specific and practicable and the undertakings made by the controlling shareholder, all directors and senior management of the issuer on ensuring that the return recovery measures can be properly implemented in case of dilution on current returns as a result of the non-public offering of shares are specific and practicable.

General Issue 2

The applicant please make supplemental disclosure of the penalties or regulatory actions imposed or taken by securities regulatory authorities and stock exchanges within the latest five years as well as corresponding rectifying measures; meanwhile, the sponsor please conduct review on the relevant matters and rectifying measures and issue review opinions on the effectiveness of such rectifying measures.

Reply:

I. Applicant's Reply

Securities regulatory authorities and stock exchanges did not impose or take any penalties or regulatory actions against the Company within the latest five years.

II. Verification Opinions of the Sponsor

The Sponsor have reviewed the information available to the public on the websites of the CSRC, CSRC Beijing and Shanghai Stock Exchange as well as the issuer's announcements and written confirmation issued by the issuer.

The Sponsor, after reviewing and upon confirmation by the issuer, is of the opinion that securities regulatory authorities and stock exchanges did not impose or take any penalties or regulatory actions against the Company within the latest five years.

Appendices II

English translation is for reference only. Chinese version shall prevail in case of inconsistency.

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Sinopec Oilfield Service Corporation
(a joint stock limited company established in the People's Republic of China)
(Stock code: 1033)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The following information published by Sinopec Oilfield Service Corporation on the website of Shanghai Stock Exchange is set out below for information purpose only.

By order of the Board
Li Honghai
Secretary of the Board
4 January 2018

As at the date of this announcement, the Company's existing Directors comprises Mr. Jiao Fangzheng +, Mr. Sun Qingde#, Mr. Zhou Shiliang#, Mr. Li Lianwu+, Ms. Jiang Bo, Mr. Zhang Huaqiao* and Mr. Pan Ying*.*

\+ *Non-Executive Director*
\# *Executive Director*
* *Independent Non-Executive Director*

REPLY TO THE NOTIFICATION LETTER RECEIVED BY SINOPEC OILFIELD SERVICE CORPORATION FROM CSRC IN RESPECT OF THE NON-PUBLIC ISSUANCE OF A SHARES

Sponsor (Lead Underwriter):

CICC
中金公司

(27th-28th Floor, China World Tower 2, No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing)

January 2018

To China Securities Regulatory Commission:

The Company received a Notification Letter in Respect of Preparation for the Meeting of the Issuance Committee to Consider Relevant Matters (《關於請做好相關項目發審委會議準備工作的函》) (hereinafter referred to as the "Notification Letter") from your party. In accordance with the requirements of the Notice, Sinopec Oilfield Service Corporation (hereinafter referred to as "Sinopec Oilfield", the "Company", the "Applicant" or the "Issuer"), China International Capital Corporation Limited (hereinafter referred to as the "Sponsor") and Haiwen & Partners (hereinafter referred to as the "Company Lawyer" or the "Issuer's Lawyer") and the relevant intermediaries have conducted careful verification and confirmation regarding the listed issues. We hereby reply on the issues mentioned in the Notification Letter as follows for your review.

Notes:

1. Unless the context otherwise requires, terms used in the Reply have the same meanings as those defined in the Sponsor's Due Diligence Report on Non-public Issuance of A Shares by Sinopec Oilfield Service Corporation.

2. The fonts in the Reply represent:

Bold: the issues listed in the Feedback
Times New Roman: the reply to the issues listed in the Feedback

Contents

Issue 1

The numbers of existing directors and supervisors are lower than those required by the Articles of Association. The Company intends to convene the first EGM of 2018 on 8 February 2018 to elect director and supervisor candidates. The applicant is required to state the internal control measures taken to ensure the effective operation of the Board and the Supervisory Committee during the period. The sponsor and the lawyer are required to express the verification opinion.

Reply:

I. Applicant's Reply

Currently, the Company has 7 directors and 6 supervisors. This is inconsistent with the requirements of the Company's existing Articles of Association in effect which require that the Company's Board shall comprise 9 directors and the Company's Supervisory Committee shall comprise 7 to 9 supervisors. In order to rectify the afore-said circumstance, the Company intends to convene the first EGM of 2018 on 8 February 2018 to elect directors to the ninth session of the Board and Non-employee Representative Supervisors to the ninth session of the Supervisory Committee. In addition, the Company will elect 3 Employee Representative Supervisors to the ninth session of the Supervisory Committee through democratic employee election. In order to ensure the effective operation of the Board and the Supervisory Committee during relevant period, the Company has taken the following internal control measures:

1. strictly complying with relevant requirements such as the Company Law, the Securities Law and the Standards of the Governance of Listed Companies, further improving the governance mechanism for general meetings, the Board (including the strategy committee, the audit committee and the remuneration committee thereof), the Supervisory Committee and senior management and procuring the general meetings, the Board, Board committees, General Manager office meetings to perform decision-making and approval procedures respectively and monitoring the Supervisory Committee in performing supervision functions as required;

2. strictly complying with and performing the duties, authorities, procedures and due obligations of general meetings, the Board, the Supervisory Committee and the General Manager in respect of decision-making, execution and supervision and the identification criteria for deficiencies in internal control over non-financial reporting, further improving scientific and effective segregation of duties as well as a checks and balances mechanism and continuously strengthening and improving the internal control system in accordance with regulations and rules such as the Basic Norms of Enterprise Internal Control, Rules of Procedures for the Shareholders' Meetings, the Rules of Procedures for the Board, the Rules of Procedures for the Supervisory Committee, Working Rules of the Board Secretary and the Internal Control Manual;

3. strictly complying with relevant requirements of the Company Law to ensure the number of directors is not less than the minimum number required by the Company Law (5) or two-thirds of the number required by the Articles of Association and the number of supervisors is not less than the minimum number required by the Company Law (3); requiring existing directors and supervisors to perform their duties honestly and diligently, requiring each director and supervisor to guarantee to attend meetings of the Board and the Supervisory Committee convened by the Company and make decisions lawfully before completion of the general election and ensuring the normal convening of meetings of the Board and the Supervisory Committee of the Company.

4.strictly complying with relevant provisions of relevant laws，regulations and regulatory documents such as the Company Law，the Guidance Opinion on the Establishment of the Independent Director System in Listed Companies and Certain Provisions on Strengthening the Protection of the Rights and Certain Provisions on Strengthening the Protection of the Rights and Interests of Public Shareholders and the Articles of Association, formulating and strictly complying with the Working Rules of Independent Directors, ensuring the number of independent directors exceeds one-third of the total number of members of the Board, requiring all independent directors to perform their duties earnestly and guaranteeing the Company’s overall interests, especially focusing on the protection of legitimate rights and interests of minority shareholders.

5. giving full play to the roles of three special committees of the Board (including the audit committee, the remuneration committee and the strategy committee). When the Company makes significant decisions, each special committee shall provide reference opinions on decision-making of the Board within their terms of reference;

6. giving full play to the organization and coordination roles of the Board secretary. The Company requires the Board secretary to conduct the organization and preparation works for the Board and ensure significant matters to be decided on by the Board of the Company strictly follow prescribed procedures; the Board secretary is also legally responsible for coordinating and organizing information disclosure matters and protecting investors’ rights to know.

II. Verification Opinions of the Sponsor and the Issuer's Lawyer

The sponsor and the Issuer’s Lawyer consider that the numbers of the Issuer’s directors and supervisors were lower than the number required by the Articles of Association for a certain period for objective reasons and such circumstances did not have a material adverse impact on the normal operation of the Board and the Supervisory Committee of the Issuer. Internal control measures taken by the Issuer to ensure the efficient operation of the Board and the Supervisory Committee during the relevant period are legal and effective.

Issue 2

The applicant’s business results for the past three years declined

substantially. If its audited net profit for 2017 is still negative or the audited net assets for 2017 are negative, a delisting risk warning may be imposed on the A shares of the applicant. All proceeds from the Non-public Issuance are intended to be used to replenish liquidity, ease cash flow pressure and lower financial risks.

Having regard to factors such as the policies relating to the industry in which the Company operates, its market position, product category, costs and period expenses, the applicant is required to further state and disclose:(1)the reason for and rationality of the continued decrease in the Company's operating results and whether such reason and rationality are consistent with the changing trend of comparable companies in the same industry;(2) whether the Company's current operating results have improved, main reasons leading to the decrease in operating results have been eliminated and, if not eliminated, whether such reasons will have a material adverse impact on the Company's future continuous operation;(3)based on the judgment of international oil price and macro industry operation environment in 2018,whether the change in relevant macro environment is beneficial for the applicant to improve its operation condition; (4)measures taken by the Company to prevent the imposition of a delisting risk warning and whether relevant risks have been sufficiently disclosed; (5) whether the Issuance is beneficial for improving the continued fall in the Company's operating results and the specific measures which are intended to enhance the applicant's ability to operate continuously and improve its operation condition effectively. The sponsor is required to state the verification process and bases and express explicit verification opinions.

Reply:
I. Applicant's Reply

1. The Reason for and the Rationality of the Continuous Decline of the Operating Results of the Company, and Whether It Is Consistent with the Change Trend of Comparable Companies in the Industry

(1) The Reason for and the Rationality of the Continuous Decline of the Operating Results

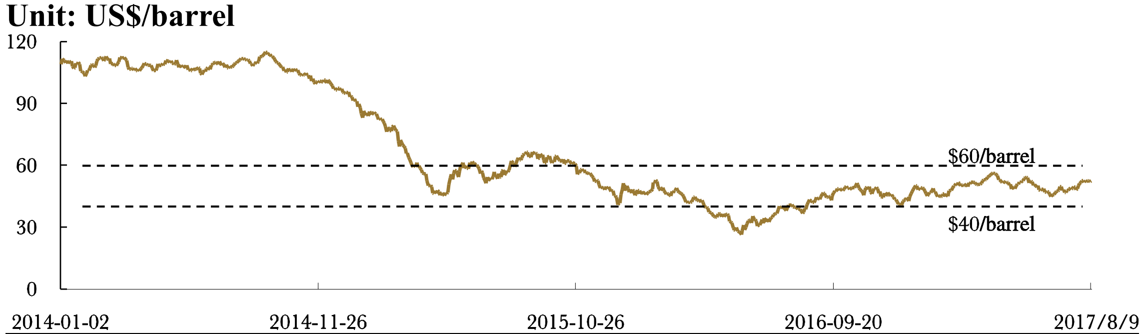
1) Significant Drop of International Oil Prices in Last Three Years

From the demand side, global economic growth is the main driver of demand and prices for crude oil and natural gas. At present, the consumption growth in countries and regions such as Europe, the United States and the former Soviet Union slows down, while the developing countries led by China and India have become the main force of the growth rate of oil consumption. According to the BP Statistical Review of World Energy (2017), global oil consumption increased by 1.555 million barrels per day in 2016, only up by 1.6%. China (with 395,000 barrels per day) and India (with 325,000 barrels per day) are the major source of demand growth. Having been through the rapid development over a decade, China's economy has been facing transformation and structural adjustment, the economic growth has shifted from high-speed to high-middle and then to medium-speed. The oil demand growth of China slowed down to 4% in the second quarter of 2017. Meanwhile, due to the high costs of oil reserves and the low probability of re-embargo by OPEC, the interests of oil importing countries in expanding their strategic reserves remains low or even reduced. In general, the global oil demand growth has slowed down in recent years. From the supply side, in response to the slowdown in global oil demand growth, OPEC countries reached a crude oil production reduction agreement on 1 December, 2016. However, the members achieved poor performance in reducing production. Libya and Nigeria, which are not subject to the production reduction agreement, increased their output. In addition, the costs of shale oil in North America declines year by year, the capital expenditure of mining recovered and the output of shale oil gradually increased. Therefore, the global contraction in supply of oil was less than expected. The price of Brent crude oil has declined significantly from the highest of US$ 116 per barrel on 19 June, 2014, and once fell below $30 per barrel in 2016 and suffered successive shakeouts, the average price of the whole year hit a new low in 12 years. Subsequently, it hovered at the range of $40-60 per barrel.

The following chart shows the trend of Brent crude oil price since 2014:

The Trend of Brent Crude Oil Price since 2014

Unit: US$/barrel



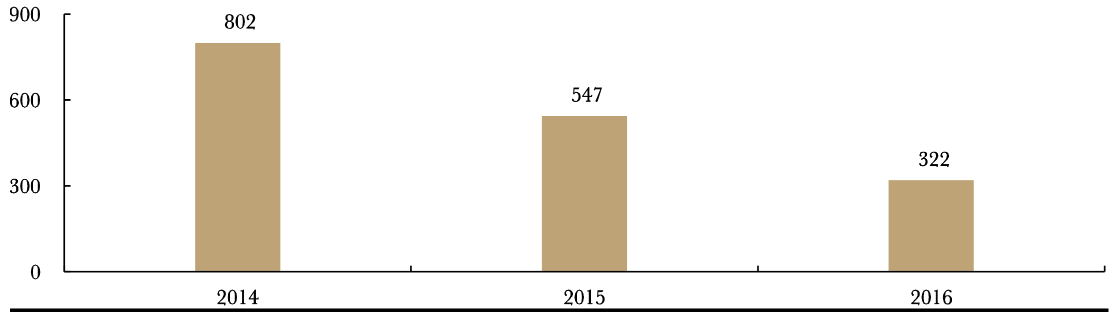
Source: Wind 1-7

2) The Overall Depression in Oil Service Industry

The domestic and foreign oil companies made continued drastic cuts in upstream exploration and development capital expenditure in 2015 and 2016 because of the oil price downturn, which caused severely damage to oil-field service industry, such as both the workload and service price of the oil service business decreased at various degrees. According to the EIA statistics, the global capital expenditure in exploration and development of oil and gas companies declined 30.9% on a year-on-year basis in 2015 and continued to decline 23.1% in 2016. As the revenue of oil service industry mainly comes from expenditure in upstream exploration and development of oil and gas companies, the industry subsided. As the largest customer of petrochemical oil service, Sinopec's upstream exploration expenditure in 2014-2016 is as follows:

Sinopec's Upstream Exploration Expenditure in 2014-2016

Unit: RMB 100 million



Source: Annual report of Sinopec

In general, the overall depression in oil service industry as a result of the drop of international oil price is one of the main reasons for the continuous decline in the operating results of the Company.

3) The Reduced Workload of Each of Major Business Segments of the Company

The operating results of the Company in 2016 decreased significantly as compared with 2015, which was mainly because of the decline of workload of major segments and service prices of main markets on a year-on-year basis, increased costs caused by the prolongation of construction period in several engineering and construction projects and the increase in the provision for bad debts of accounts receivable on a year-on-year basis. The substantial decrease in the operating results of the Company in 2015 as compared with 2014 was primarily attributable to the drop of oil price and long-term volatility at low level, serious deterioration of oil service workload, significant decline of workload of the five major segments and the decline of service prices of main markets. The substantial decrease in the operating income in 2015 as compared with 2014 was also because the operating income of the Company in 2014 included outgoing fiber business operating income. The details of each segment are as follows:

In 2016, the Company's revenue of the drilling services decreased by RMB 9.192 billion as compared to 2015, which is mainly due to the drilling footage finished in 2016 was 5.51 million meters, representing a 32% decrease than last year. Revenues from engineering and construction services decreased by RMB 2.552 billion as compared to 2015, which is mainly due to the influence of the continuous decrease in the overall market investment. In 2016, the aggregated contract value of completed construction projects reached RMB 12.12 billion, representing a 17.0% decrease as compared to RMB 14.61 billion in 2015. Revenues from geophysical service decreased by RMB 1.679 billion as compared to 2015, which is mainly due to the 2D and 3D seismic projects completed in 2016 was 14,172 kilometers and 12,641 square meters, representing a 67.6% and 13.1% decrease than last year, respectively. Revenues from logging and mud logging business decreased by RMB 0.908 billion as compared to 2015, which is mainly due to the logging projects and mud logging projects completed in 2016 was 158.70 million standard meters and 5.31 million meters, representing a 32.1% and 41.3% decrease than last year, respectively. Revenue from downhole operation service decreased by RMB 3.048 billion as compared to 2015, which is mainly due to the downhole operation completed in 2016 was 4,396 wells, representing a 18.7% decrease than last year.

In 2015, the Company's revenue of the drilling services decreased by RMB 10.442 billion as compared to 2014, which is mainly due to the drilling footage finished in 2015 was 8.10 million meters, representing a 30.5% decrease than last year. Revenues from engineering and construction services decreased by RMB 4.497 billion as compared to 2014, which is mainly due to the influence of the continuous decrease in the overall market investment. In 2015, the aggregated contract value of completed construction projects reached RMB 14.61 billion, representing a 27.9% decrease as compared to RMB 20.25 billion in 2014. Revenues from logging and mud logging business decreased by RMB 1.731billion as compared to 2014, which is mainly due to the logging projects and mud logging projects completed in 2015 was 233.60 million standard meters and 9.05 million meters, representing a 39.8% and 29.3% decrease than last year, respectively. Revenue from downhole operation service decreased by RMB 1.542 billion as compared to 2014, which is mainly due to the downhole operation completed in 2015 was 5,409 wells, representing a 26.4% decrease than last year.

As compared to the substantial decrease in revenue, the shrinkage in oil engineering projects and the idle equipment and fleet of the Company are more serious. It is difficult to make effective adjustment to the labor cost, depreciation fees and amortization, whose decrease is much lower the that of the revenue. In 2016, the labor cost, depreciation fees and amortization was RMB 19.471 billion in total, representing a12.3% decrease than last year but still in a rather high level. In 2015, the labor cost, depreciation fees and amortization was RMB 22.198 billion in total, representing a 3.2% decrease than last year.

(2) ***Whether it is consistent with the trend of comparable companies in the industry***

The operating results of the Company's major comparable companies in the industry are all suffered from great shock. In both 2016 and 2015, the turnover and net profit of the comparable companies in the industry showed a decline trend. The changing trend in major indicators of the Company's operating results are basically consistent with that of the comparable companies.

Stock short name	**Stock code**	**Operating indicators**	**2016**	**YoY**	**2015**	**YoY**	**2016**
A Share comparable companies (RMB 0'000)							
COSL	601808.SH	Turnover	1,515,219	-36%	2,365,398	-30%	3,372,019
		Net profit	-1,145,946	-1,256,816	110,871	-641,148	752,018
Jereh Stock	002353.SZ	Turnover	283,383	0%	282,657	-37%	446,060
		Net	11,990	-2,472	14,462	-107,4	121,878

		profit				16	
COOEC	600583.SH	Turnover	1,199,168	-26%	1,620,151	-26%	2,203,138
		Net profit	131,291	-209,736	341,027	-86,160	427,187
HBP	002554.SZ	Turnover	105,004	-23%	135,905	-1%	138,142
		Net profit	13,306	-3,860	17,167	-414	17,581
Oilfield Equipment	000852.SZ	Turnover	344,417	-32 %	509,553	207%	165,775
		Net profit	-80,785	-85,042	4,257	-1,955	6,212
Tong Oil	300164.SZ	Turnover	39,986	-37%	63,559	61%	39,415
		Net profit	920	4,775	-3,855	-6,821	2,966
Average of A Share comparable companies		**Turnover**	**581,196**	**-30%**	**829,537**	**-22%**	**1,060,758**
		Net profit	**-178,204**	**-258,859**	**80,655**	**-140,652**	**221,307**
International comparable companies ($ 0.1billion)							
Schlumberger	SLB.N	Turnover	278.10	-22%	354.75	-27%	485.80
		Net profit	-16.87	-37.59	20.72	-33.66	54.38
Baker Hughes	BHI.N	Turnover	98.41	-37 %	157.42	-36%	245.51
		Net profit	-27.38	-7.71	-19.67	-36.86	17.19
Halliburton	HAL.N	Turnover	158.87	-33%	236.33	-28%	328.70
		Net profit	-57.63	-50.92	-6.71	-41.71	35.00
Weatherford	WFT.N	Turnover	57.49	-39%	94.33	-37%	149.11
		Net profit	-33.92	-14.07	-19.85	-14.01	-5.84
Average of International comparable companies		**Turnover**	**148.22**	**-30%**	**210.71**	**-30 %**	**302.28**
		Net profit	**-33.95**	**-27.57**	**-6.38**	**-31.56**	**25.18**
The Company (RMB 0'000)							
SINOPEC SSC	**600871.SH**	**Turnover**	**4,292,350**	**-29%**	**6,034,933**	**-36%**	**9,448,104**
		Net profit	**-1,611,490**	**-1,613,922**	**2,432**	**-120,765**	**123,197**

Source: Wind Info, Bloomberg

2. At present, has the Company’s operating performance been improved; have the key factors causing the decline in the Company’s operating performance been eliminated; if not, will they have a material adverse effect on the Company's continuing operations in the future

From January to September 2017, the Company’s operating performance achieved a restorative growth with operating income of RMB30.027 billion, representing an increase of RMB2.245 billion or 8.1% over the same period of last year. This was mainly due to an significant increase in the workload in connection with major specialised tasks of the Company, including an increase of RMB3.645 billion in the drilling business and an increase of RMB272 million in the logging/mud logging business over the same period of last year.

From January to September 2017, the Company’s labor costs, depreciation expenses and amortization expenses totaled RMB12.511 billion, representing a year-on-year decrease of 4.5%; net profit was RMB-3.306 billion, representing a decrease of RMB5.552 billion in loss over the same period last year, down 62.7% year on year.

The Company’s operating performance has been improved. On one hand, it has benefited from the increased workload in connection with major specialised tasks and the increased operating income on a year-on-year basis; On the other hand, the Company has deepened reform, depressed management level, reduced fixed costs and improved the profitability. At present, the Company is still actively reducing production capacity and depressing professional operating units and departments and offices, and further reducing fixed costs through measures such as asset disposal and personnel diversion and resettlement.

3. Making judgement on the international oil price and the macroeconomic business environment of the industry in 2018; Will the changes in the relevant macroeconomic environment be beneficial to the improvement of the applicant’s operating conditions

In terms of the international oil market, global oil supply and demand are expected to maintain a tight balance in 2018 and the destocking process will continue to be promoted. The main factors that affect oil prices are as follows:

(1) The global economy is steadily improving and oil demand growth remains strong;

(2) Reducing excess inventory remains the main goal of the OPEC, and OPEC members met on 30 November 2017 and decided to continue to cut production,

thus the cutting production agreement further extended until the end of 2018. However, there are disagreements between OPEC members, and therefore it is difficult to maintain high implementation rate for the cutting production agreement, and some members may relax their restrictions on production and give rise to decreased implementation rate;

(3) The production expansion potential for shale oil in the United States continued to release, reaching a new high crude oil output. It is anticipated that the output of crude oil in the non-OPEC countries such as the United States will increase in 2018, and the pressure to get rid of stock in the international crude oil market still exists;

(4) The Federal Reserve is still in a rate-rise cycle. After the balance sheet wind-down is started, other central banks may be forced to withdraw from the loose monetary policy, and the decreased derivatives market liquidity will curb speculation.

As of 31 December 2017, Brent crude oil prices have risen to US$66.87 per barrel, up 146.5% compared with the lowest point of US$27.10 per barrel in 2016. It is expected international crude oil prices will continue to rebound unevenly in 2018.

The recovery of international crude oil price is expected to enable domestic and oversea oil companies to continue to increase the upstream capital expenditure for oilfield exploration and development. Sinopec Corp., the largest customer of the Company, incurred the upstream capital expenditure for oilfield exploration and development of RMB6.87 billion in the first half of 2017, representing a year-on-year increase of 32.9%. Affected by this, the oilfield service industry is expected to continue to show a steady rise and the oilfield service business is to be further active, and therefore the workload of the oilfield service market continues to increase.

As the reform of the national oil and gas system and the market-oriented reform of state-owned enterprises are accelerating, it is expected that various monopolies in the oilfield service sector will be further broken in 2018, and the basic role of market forces in allocating resources has been continuously strengthened. Also, the marketization degree of the oilfield service industry in the PRC will be further deepened, and further improvements will be made in terms of management mode, technical level and talent accumulation. The implementation of the “13th Five Year Plan for Natural Gas Development” and the natural gas development strategy of Sinopec Corp. will also bring new performance growth points to the oilfield service industry. At the same time, with the continuous promotion of China's “One Belt, One Road” strategy, it will promote the integration of resources, capital, technology and markets among the major “one belt and one road” oil and gas resource producing and consuming countries, and drive the cooperation in terms of oil and gas to develop towards the multi-field, multi-level, multi-agent and multi-dimensional cooperation in the whole industry chain, thus bringing China's oilfield service industry funds, technology and equipment to "go global" and achieving the international development of China's oilfield service enterprises.

In summary, the changes in the international oil price and the macroeconomic business environment of the industry in 2018 will be beneficial to the improvement of the Company's operating conditions.

4. Preventive measures taken by the Company responding to the delisting risk warning and whether the Company has fully disclosed relevant risks or not

In order to mitigate operation difficulties and eliminate the delisting risk, the Company has actively implemented the Notice on Special Governance of Loss-making Subsidiaries under State-owned Enterprises (《關於中央企業開展虧損企業專項治理工作的通知》) issued by the SASAC and formulated the Special Governance Plan for Deepening Reforms, Turning Losses into Profits, Getting out of Difficulties and Maintaining Listing Status of Sinopec Oilfield Service Corporation (《中石化石油工程技術服務股份有限公司深化改革扭虧脫困保市專項治理方案》) and has reported to the SASAC , under which the Company intends to adopt the following, but not limited to, measures to use its best effort to turn losses into profits: make great efforts to expand market by capitalizing on favorable opportunities including oil price recovery and increase in upstream capital of oil companies; strengthen its principal business and improve working efficiency through adjusting business structure; make active efforts to reduce costs and expenses, and explore potentials and enhance efficiency in a deep-going way; strengthen scientific innovation and enhance core competitiveness to refine its technical services and emerging business (for specific preventive measures, please refer to relevant reply of question 5). As one of the important integrated measures for turning losses into profits, getting out of difficulties and maintaining listing status, the Company intends to supplement its liquidity, lower its gearing ratio, improve its financial conditions, enhance its ability to continue on a going-concern basis and to withstand risks through this Non-public Placement of A shares and H shares.

On 21 September 2017, the Company has disclosed the relevant risk warning in relation to potential delisting of A shares in the Proposal for Non-public Placement of A Shares of Sinopec Oilfield Service Corporation (《中石化石油工程技術服務股份有限公司非公開發行 A 股股票預案》) which was published on Shanghai Stock Exchange as follows: "Affected by the significant drop of international oil prices and other factors, the Company's net profit in 2016 was RMB-16,115,000,000; meanwhile, net assets of the Company attributable to shareholders of the listed company dropped quickly, net assets of the Company attributable to shareholders of the listed company in 2016 was RMB8,443,000,000, representing a decrease of 65.73% as compared to the net assets of the Company attributable to shareholders of the listed company in 2015 amounting to RMB24,638,000,000. According to the requirements of the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (《上海證券交易所股票上市規則》), if the Company's audited net profit for the year of 2017 is still negative, or the audited net assets for the year of 2017 is negative, a warning of delisting risk will be imposed on the Company's A Shares after the 2017 annual report is published; if the Company's audited net profit or net assets for the year of 2018 is still negative after a warning of delisting risk is imposed on the Company's A Shares, the Company's A Shares will face the risk of suspension of listing."

The above risks have also been explained in the relevant sections of the Report on Application for Non-public Placement of A Shares of Sinopec Oilfield Service Corporation (《中石化石油工程技術服務股份有限公司關於非公開發行 A 股股票的申請報告》), the Sponsorship Letter for Non-public Placement of A Shares of Sinopec Oilfield Service Corporation (《關於中石化石油工程技術服務股份有限公司非公開發行 A 股股票的發行保薦書》) and the Sponsor's Due Diligence Report for Non-public Placement of A Shares of Sinopec Oilfield Service Corporation (《關於中石化石油工程技術服務股份有限公司非公開發行 A 股股票之保薦人盡職調查報告).

5. Whether the Placement helps improve the condition of continuous deterioration of the Company's operating results, and the detailed measures for enhancing applicant's going-concern ability and effectively improving operating condition to be adopted

The proceeds from the Non-public Placement will to a certain extent enhance the scale of the Company's net assets, reduce the gearing ratio, enhance the debt-servicing capacity, optimize the capital structure, ease the cash flow pressure and reduce the financial risk. As of 30 September 2017, the Company's gearing ratio was 92.16%. All proceeds from the Non-public Placement are planned to be used to supplement the liquidity. After the proceeds of RMB8 billion from the Non-public Placement of A shares and H shares are raised, the Company's gearing ratio will drop by approximately 10%, which helps to avoid the Company's dependence on borrowing and reduce finance costs, thereby enhancing the Company's profitability in the long run. At the same time, after completion of the Non-public Placement, the Company's cash flow from financing activities will increase and the Company's working capital will be supplemented, which will help to ease the tight cash flow of the Company and ensure the normal production and operation of the Company and its subordinate enterprises.

The Company has actively implemented the Notice on Special Governance of Loss-making Subsidiaries under State-owned Enterprises (《關於中央企業開展虧損企業專項治理工作的通知》) issued by the SASAC and formulated the special governance plan for deepening reforms, turning losses into profits, getting out of difficulties and maintaining listing status, the specific measures include:

(1) Spare no efforts to explore markets, continue to expand the source of benefits. Accurate market positioning, create market demands, vigorously explore markets, further expand market space. Improve three-level market development system of company level, regional (professional) company level and professional operating unit level, compact market development responsibility and index level by level; make full use of various resources, widely collect market information, accurate

docking on key customers and scale market in advance, actively track and lock key targets; strengthen the efforts on market development awards and motivation.

Deepen and refine the internal market of Sinopec Group. Establish negotiate mechanism with Sinopec Group, focus on efficient exploration and beneficial development, actively service in an efficient and comprehensive way, make great efforts to promote annual exploration and development investment release, stabilize the drilling market share. Enhance the combination of geology and engineering, grasp the cooperation opportunity of unutilized reserve of Shengli oilfield and resumption of production capacities in wells, actively promote reserve with usage difficulties and projects on resumption of production capacities in long-term closure wells to create new internal market. Steadily promote the strategic cooperation with the subsidiaries of Sinopec Group, keep holding on the opportunity of the great development of oil and gas pipeline of Sinopec Group, focus on the market development such as Wen-23 gas storage bank and pipeline, Xinjiang-Guangdong-Zhejiang Pipeline Phase I, Er-An-Cang Pipeline Project Phase I, Sichuan-Eastern China Natural Gas Transmission Line II, geothermal energy to cultivate new growth points.

Refine and optimize the external market at home. Make use of the integration advantage of wellbore and comprehensive service, grasp the operation guarantee of key drill projects such as Tarim Oilfield. Further explore emerging markets such as shale gas, coal bed methane and geothermal energy of China Geological Survey. Actively develop local municipal utility, oil and gas pipeline, refined oil store, state oil reserve depot and other market, do well on key pipeline projects activate tasks in Xinjiang and Shandong. Actively develop pipeline detection, engineering geophysical exploration, energy conservation and environmental protection and operation, maintenance and protection of pipelines.

Make overseas market stronger and larger. Follow the state "One Belt, One Road" strategy, strengthen and expand mature market, focus on the construction of key drilling projects such as Saudi Arabia, Kuwait and Algeria; well organize the operation of the geothermal power generation project in Turkey and the offshore platform in Nigeria; strive to make a breakthrough in overall development in heavy oil regions, recovering the marine oil to recover on the land and deep drilling projects; accelerate the pace of "go out" of oilfield integrated service and businesses with high added values such as mud logging, logging & mud logging, cementing and slurry.

(2) Refine and enhance major business, improve the competitive capacity and profitability of major market. Firstly, enhance the construction of technology research and development system, further integrate auxiliary special advantage technology, innovate technology and service mode, and fully upgrade business. Secondly, refine and optimize technological services and emerging services, further develop and improve integrated auxiliary technology such as shale gas, acid gas and shallow water, strive to develop drill technology service business

such as directional well and drilling fluid, actively explore environmental protection and energy saving and geographical information system engineering to strive to cultivate new growth points.

(3) Optimize and enhance company control and improve governance ability. Focus on the establishment of modern enterprise system and standardize governance of listed company, adhere to the principles of "market-oriented, contractualization and integration", based on the strategic management model of "moderately centralization, reasonably decentralization, level-to-level administration, system monitoring", further optimize and adjust functions positioning of each level of the Company, to form a mechanism with equal rights and responsibilities, coordinated operation, effective counterbalance and strong supervision. Organic integrate the departments with the same, similar and relevant functions, simplify positions and personnel; establish common mechanism, promote the shared finance, human resource, laws, materials, information, audit, discipline inspection and supervision and compress departments at all levels of the Company.

(4) Promote flattening transformation, improve production organization and market reaction ability. Further reduce the establishment of middle management levels, institutions and positions, on the basis of reducing drill and geophysical prospecting management level, constantly promote the consolidation of professional operating units and compression of logging & mud logging, downhole operation service and engineering construction and other unit management level, accomplish the consolidation of professional operating units, build the management structure of professional operating units-basic level team, realize direct management on basic level team by professional operating units, form a working mechanism with sensitive market and synergistic and effective internal. Stick to cutting overcapacity, strictly control the size of teams. According to the principles of "optimized team structure, perfect personnel allocation, high-efficient use of existing production capacity and maximizing overall income", analyze and identify normalized workload and the best binding point of team scale and economic benefits, establish a team adapted to market situation, matched with efficiency creation capability and linked up with development strategy.

(5) Strong incentive, hard constraint, innovate institutional mechanism and relieve energy. Increase performance appraisal, with effective performance appraisal, realize increase/decrease income, promotion/demotion of management, join-in and withdrawal of employees to motivate team vitality. Establish perfect and effectively implement responsibility system of project manager and single project appraisal mechanism, strengthen the accountability. Enhance the construction of benefits forcing and market forcing mechanism, queue up the projects and basic level team based on operating results, suspend operation for the principal business units that cannot achieve making a profit instead of suffering a loss to improve the results of principal business of each unit and each segment.

As one of the important integrated measures for turning losses into profits, getting out of difficulties and maintaining listing status, the Company intends to supplement its liquidity, lower its gearing ratio, improve its financial conditions, enhance its ability to continue on a going-concern basis and to withstand risks through this Non-public Placement of A shares and H shares.

II The Verification Opinion of the Sponsor

The sponsor reviewed the 2014 annual report, 2015 annual report, 2016 annual report, 2017 annual report and 2017 the third quarter report of the placer; reviewed the published information such as relevant industrial reports, periodic reports of the comparable companies in the same industry and energy statistical yearbooks; analyzed the main reasons for the decline of operation results with factors such as the market competitive position of the placer, the macro operation environment of the industry and market trends; verified the reasons for the decline of the Company's operation results and its reasonableness by interviewing the management and the relevant staff; consulted the relevant provisions of *the requirements of the Rules Governing the Listing of Securities on the Shanghai Stock Exchange* and the disclosures about the warning of delisting risk will be imposed on the placer 's A Shares in *the Proposal on Non-public Placement of A Shares of Sinopec Oilfield Service Corporation* ; reviewed the special program of turning from loss to profit prepared by the placer; and verified the definite measures proposed to be taken by the placer to improve the Company's ability to continue as a going concern and the operation condition by interviewing the management.

After the verification, the sponsor believes, the main reasons for the decline the placer's operation results during the Reporting Period tally with the actual situation, and the change of placer's operation results is basically the same with that of the comparable listing companies in the same industry; taking the macro operation environment in the industry and the 2018 trend of the international oil price as reference, the main factors that lead to the decline of the operation results have been improved, and the operation results have been improved, and previous main reasons that lead to results decline will not make a material adverse effect to the placer's ability to continue as a going concern in the future for the moment; the placer has made a full disclosure about the warning of delisting risk will be imposed on its Shares and have taken a series of specific measures to improve its operation condition, enhance the sustainable operation ability and take precautions against the warning of delisting risk.

Issue 3

The asset-liability ratio of the Applicant is up to 92.16% and is far higher than the average of the listing companies in the same industry; after the receipt of the proceeds from the Non-public Placement of A Shares and H Shares of RMB 8 billion, the asset-liability ratio will decrease to 82.45%, which will still be higher than the average. The applicant's cash flows from operating activities continues to be significant negative. Applicant please further illustrate and disclose: (1) the

reasons and reasonableness of the increasing asset-liability ratio of the Company during the Reporting Period; (2) whether there are significant risks in the Applicant's current financial structure, whether the cash flow lever is sufficient for the development of the Company, whether its sustainable operation ability are of significant uncertain ; whether the relevant risks have been disclosed fully; (3) after the receipt of the proceeds from the Non-public Placement, the main measures by the Company to further reduce the asset-liability ratio and improve the debt paying ability. Sponsor please specify the verification process and basis, and give a clear verification opinion.

Reply:

I. Applicant's Reply

1. **The reasons and reasonableness of the increasing asset-liability ratio of the Company during the Reporting Period**

In 2014, 2015, and 2016, the asset-liability ratio of the Company are 77.0%, 71.1% and 88.7%, respectively, which were mainly due to the continuing decline of the Company's operation results and the significant loss in 2016 operation results. From 2014 to 2016, as the oil service market remained weak and the price and sales both fell, the workload and service price of the major business sectors showed a downward trend, and the net profit decreased year by year. In 2015, the Company recorded a net profit of RMB 24.32 million, representing a decrease of 98% as compared to RMB 1.232 billion of 2014. In 2016, the Company recorded a net profit of RMB -16.115 billion and a net loss, representing a significant decrease as compared to 2015. As the Company' operation results declined sharply, equity attributable to parent company decreased from RMB 18.697 billon in 2014 to RMB 8.443 billion in 2016, and thus the equity interest attributable to the Company decreased significantly and the net cash flows from operating activities decreased year by year. In order to meet the normal fund needs required in production and operation, the interest-bearing debts of the Company grew fast. The interest-bearing debts increase from RMB 12.584 billion in 2014 to RMB 18.075 billion in 2016, representing a fast-growing asset-liability ratio. The relevant financial indicators are set out below:

Unit: RMB 10 thousand

Class	January to September 2017	2016	2015	2014
Net profit	-330,601	-1,611,490	2,432	123,197
Equity interest attributable to the shareholder of parent company	532,750	844,287	2,463,809	1,869,712
Net cash flows from operating activities	-237,696	-390,732	257,593	674,614
Interest-bearing debt	2,079,481	1,807,535	1,283,371	1,258,374
Asset-liability ratio	92.16%	88.67%	71.12%	77.00%

Note: Interest-bearing debt = short term borrowings + non-current liability due within one year + long term borrowings + bond payables + long-term payables

As of 30 September 2017, the asset-liability ratio of the Company is 92.16%, representing a increase of 15.16% as compared to the end of 2014

Stock short name	Stock code	30 September 2017
COSL	601808.SH	53.04%
Jereh	002353.SZ	19.37%
COOEC	600583.SH	22.37%
Stock short name	**Stock code**	**30 September 2017**
HBP	002554.SZ	51.26%
SOEC	000852.SZ	73.40%
Tong Oil Tools	300164.SZ	27.54%
The average of the comparable companies		**41.16%**
SSC	600871.SH	92.16%

Source: Wind

As of 30 September 2017, the asset-liability ratio of the Company is 92.16%, representing 51% higher than the average of the comparable companies. After the receipt of the proceeds raised from the Non-public Placement of A Shares and H Shares amounting to RMB 8 billion, the asset-liability ratio of the Company will reduced by 10%, which is still higher than the average level of listing companies in the same industry. All the proceeds raised from the Non-public Placement are proposed to be used to supplement the working capital of the Company, which, to certain extent, will help to improve the size of the net asset of the Company, lower the asset-liability ratio, improve solvency; will help optimize its capital structure and alleviate cash flow pressure, reduce the financial risk and improve the sustainable development capacity.

2.Whether there are significant risks in the Applicant's current financial structure, whether the cash flow lever is sufficient for the development of the Company, whether its sustainable operation ability are of significant uncertain; whether the relevant risks have been disclosed fully

As of 30 September 2017, the total asset of the Company is RMB 67.912 billion, among which the current asset is RMB 37.523 billion, or 55.3%; the total liability is RMB 62.586, among which the current liability is RMB 61.543 billion, or 98.3%. As of 30 September 2017, the current liability is higher than the current asset, which lead to great financial stress, and the current ratio is 0.61x and quick ratio is 0.39x, which are both lower than 1 and thus lead to some liquidity pressure.

As of 30 September 2017, the interest-bearing debt of the Company is RMB 20.795 billion, among which the RMB 20.221 billion is resulted from Sinopec Group. The risk of debt payment is under control. Given the company have a Comprehensive credit limit amounting to RMB 33 billion, the interest-bearing debts due for payment and new loans can be guaranteed. Although the liquidity is under some pressure, but this does not constitute the major risks in financial structure. The relevant financial indicators are set out below:

Unit: RMB 10 thousand

Financial indicators	**30 September 2017**	**31 December 2016**	**31 December 2015**	**31 December 2014**
Current assets	3,752,330	4,113,058	4,951,104	4,582,470
Total assets	6,791,212	7,449,317	8,530,778	8,129,571
Current liabilities	6,154,310	6,509,141	5,990,347	6,193,791
Total liabilities	6,258,590	6,605,157	6,067,082	6,259,957
Interest-bearing debts	2,079,481	1,807,535	1,283,371	1,258,374

Financial indicators	2017年9月30日	2016年12月31日	2015年12月31日	2014年12月31日
Current ratio（x）	0.61	0.63	0.83	0.74
Quick ratio(x)	0.39	0.49	0.58	0.55

The Company's net cash flow from operations was RMB-2.377 billion from January to September 2017, the gap between income and expenditure was narrowed by RMB2.251 billion year-on-year. At the same time, the Company stepped up efforts to reduce production capacity, compressed the size of its workforce, coordinated and optimized its equipment resources and optimized the investment structure. It is estimated that the investment expenditure will be substantially reduced. The investment plan in the beginning of 2017 was RMB2.5 billion and from January to September 2017, the Company completed the investment plan for an accumulative amount of RMB 540 million. Our free cash flow tends to be further improved and the gap is obviously narrowed, and our operating cash flow is expected to achieve break even throughout the year.

With the oil price recovery, various investment in the oil and gas exploration activities have increased, the Company has continually explored overseas markets and the oil price has experienced a steady rise in the domestic market. The Company has adopted a series of measures to enhance the fund classification budget management to safeguard a positive free cash flow and achieve the sustainable development. Meanwhile, the Company has made an active effort to reduce costs and expenses, explored potentials and enhanced efficiency in a deep-going way, improved its operational capability and used its best effort to turn losses into profits. Therefore, there is no significant uncertainty about the Company′s ability to continue on a going-concern basis.

The relevant risks have been disclosed in the *Proposal on Non-public Placement of A Shares of Sinopec Oilfield Service Corporation* and the 2014, 2015, 2016 annual report and 2017 interim report.

3. After receiving the proceeds from the non-public offering, the main measures the Company will take to further lower the gearing ratio and improve the solvency

The all proceeds from the non-public offering will be used to supplement working capital, which will help to alleviate the pressure on the payment of the Company’s current liabilities, maintain good cooperative relationships with suppliers and enhance the procurement bargaining power. The Company will continue to intensify the settlement of accounts receivable and inventory and accelerate the accounts receivable and inventory turnover. The Company will also strive to turn losses into profit by deepening reform and strengthening operation and management and earnestly implementing the measures and objectives to increase revenue and reduce expenditure. The main measures include:

(1) The Company will strengthen capital budget of sub-markets, further accelerate the settlement of Sinopec related projects, control not-increase of accounts receivable and inventory occupation; aim to achieve positive cash flow from domestic and external projects and improve net inflow from overseas projects;

(2) The Company will take serious measures to settle accounts receivable and inventories, further strengthen and improve mechanism for implementing responsibilities, early warning mechanism of risk, accountability system for bad and doubtful debts and public disclosure and collection mechanism for settlement of account receivable and inventory, with aims to improve significantly the accounts receivable and inventory turnover;

(3) The Company will properly arrange for the payment of accounts payable, maintain good cooperative relationships with its suppliers; further strengthen the centralized use of domestic and foreign capital funds, coordinate to reduce the gap of capital balance;

(4) The cost and scale of debt financing will be strictly controlled and debt risks will be vigorously prevented. The Company will take various measures to have a whole process management of its debt risks through strictly control of financial risks and prevention of debt risks;

(5) The Company will take initiative to cut its capacity, clean inefficient and ineffective assets and projects and control its investment within a reasonable level in view of market prospect and actual corporate conditions, thereby raising the service efficiency of funds through accelerating capital turnover and reducing inefficient occupation;

(6) The Company will adjust its financial structure at a multi-channel level through exploring and opening equipment after-sales financing and accounts payable securitization channel, and enhance the liquidity of assets to mitigate its debt servicing pressure and further lower the gearing ratio.

II. Verification Opinions of the Sponsor

The Sponsor has reviewed the periodic reports of the issuer including its 2014 annual report, 2015 annual report, 2016 annual report, 2017 interim report and 2017 third quarterly report, and the Proposal on Non-public Placement of A Shares of Sinopec Oilfield Service Corporation (《中石化石油技術服務股份有限公司關於非公開發行A股股票預案》), has interviewed the management in respect of reasons for a year-on-year growth in gearing ratio and the rationality thereof, has reviewed the development strategy, business development plan and annual budget of the issuer as well as measures to be adopted by the issuer, and interviewed the management and the relevant personnel to verify such measures.

The Sponsor, after reviewing, is of the opinion that main reasons for a year-on-year growth in the issuer's gearing ratio during the reporting period are reasonable, the issuer has made adequate disclosure about its related financial and liquidity risks, there is no significant risk relating to the issuer's existing financial structure and there is no material uncertainty about its ability to continue on a going-concern basis, the issuer has formulated specific measures to further lower its gearing ratio and increase debt servicing capabilities once the funds from this non-public placement are available.

Issue 4

In 2015, the applicant undertook the financing for major asset restructuring to raise net proceeds of RMB5.95 billion. As of 30 June 2017, an aggregate of RMB4.732 billion was utilized. Meanwhile, there is significant difference between actual benefits of projects financed by proceeds and commitments thereof. The applicant please further explain and disclosure: (1) reasons for significant difference between actual investment of projects financed by previously raised proceeds and commitments thereof and the rationality; (2) whether the said reasons have been removed and whether they will have a material and adverse impact on its sustained operations; (3) whether failure to fulfil a commitment will lead to a performance of the relevant obligations pursuant to the material asset restructuring agreement. If yes, please advise the performance of relevant obligations and make an adequate disclosure. The sponsor please check and express its opinions.

Reply:

I. Applicant's Reply

Approved by "Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No. 1370) (《關於核准中國石化儀徵化纖股份有限公司重大資產重組及向中國石油化工集團公司發行股份購買資產並募集配套資金的批復》(證監許可[2014]1370 號)), the Company issued 1,333,333,333 RMB-denominated ordinary shares through non-public placement in February 2015 at a price of RMB4.50 per share. Gross proceeds from the placement were RMB6,000 million and net proceeds after deducting the issuing expenses of RMB47.4833 million were RMB5,952.5167 million.

As of 13 February 2015, the proceeds raised of RMB5,952.5167 million have been wholly deposited to the Company's RMB-denominated account opened with the Industrial and Commercial Bank of China ("ICBC") (Account No. 0200337529200006626). The aforesaid net proceeds raised have been verified by a Verification Report (Grant Thornton Yan Zi (2015) No. 110ZC0115) (致同驗字(2015)第 110ZC0115 號《驗資報告》) issued by Grant Thornton (Special General

Partnership).

As of 30 June 2017, the Company has utilized RMB4,731.5997 million, the outstanding proceeds were RMB1,220.9170 million and the balance of proceeds deposited to the RMB-denominated account of the ICBC (0200337529200006626) amounted to RMB254.9579 million.

1. Reasons for significant difference between actual investment of projects financed by previously raised proceeds and commitments thereof and the rationality therefor

According to the Assurance Report on Utilization of Previously Raised Proceeds by Sinopec Oilfield Service Corporation (Grant Thornton Zhuan Zi (2017) No. 110ZA000) (《中石化石油工程技術服務股份有限公司前次募集資金使用情況鑒證報告》 (致同專字(2017)第110ZA000號)), the difference between actual investment of projects financed by previously raised proceeds and commitments thereof as of 30 June 2017 is set forth as below:

In RMB Ten Thousand

No.	Description	Committed investment amount after raising	Actual investment amount	Difference
1	Kuwait rig project	160,000.00	104,861.76	-55,138.24
2	Project of building 25m working platform	46,600.00	31,293.54	-15,306.46
3	Project of purchasing 8000HP multipurpose working vessel	19,500.00	17,305.82	-2,194.18
4	Project of purchasing LOGIQ Imaging Logging System	12,000.00	11,219.91	-780.09
5	Project of purchasing downhole testing equipment	13,900.00	13,900.00	-
6	Project of purchasing Top Drive equipment	11,000.00	11,000.00	-
7	Project of	8,000.00	8,000.00	-

	purchasing Coiled Tubing equipment			
8	Project of purchasing pipe construction equipment	53,000.00	4,327.27	-48,672.73
9	Supplement the liquidity	271,251.67	271,251.67	-
	Total	**595,251.67**	**473,159.97**	**-122,091.70**

Main reasons for the difference between actual investment of projects financed by previously raised proceeds and commitments thereof are set forth as below:

(1) Kuwait rig project: As workload of oil service market in Kuwait is lower than expected due to a drop in international oil price, the owner reduced some engineering contracts and thus the Company cancelled the purchase of 3 sets of 7,000 m rigs and ancillary facilities in the amount of RMB368 million. Meanwhile, through public tendering, joint negotiation and introduction of competition, actual investment is about RMB165 million lower than planned. As of 30 June 2017, the contract progress balance of such project amounted to RMB18 million. The aforesaid reasons have led to a difference between actual investment of projects financed by previously raised proceeds and commitments thereof. As of the date of issue of this Reply, the progress balance of such contract has been paid up.

(2) Project of building 25m working platform: Through preliminary market survey and consulting and evaluation, it was calculated that the committed investment of the project financed by the previously raised proceeds was RMB466 million, while the actual planned investment of the project is RMB451.63 million, representing a saving of investment by RMB14.37 million as compared with the committed investment; meanwhile, as of 30 June 2017, the contract progress balance of approximately RMB140 million was outstanding. The aforesaid reasons have led to the difference between actual investment and committed investment of the project financed by the previously raised proceeds.

(3) Project of purchasing 8000HP multipurpose working vessel: Through preliminary market survey and consulting and evaluation, it was calculated that the committed investment of the project financed by the previously raised proceeds was RMB195 million, while the actual planned investment of the project is RMB182.12 million, representing a saving of investment by RMB12.88 million as compared with the committed investment; meanwhile, as of 30 June 2017, the contract progress balance of approximately RMB9 million was outstanding. The aforesaid reasons have led to the difference between actual investment and committed investment of the project financed by the previously raised proceeds.

(4) Project of purchasing LOGIQ Imaging Logging System: Through preliminary market survey and consulting and evaluation, it was calculated that the committed investment of the project financed by the previously raised proceeds was RMB120 million. This project has been completed. As the actual planned investment of the project is less than the committed and raised proceeds, it incurred

some balance of approximately RMB7.80 million. The aforesaid reasons have led to the difference between actual investment and committed investment of the project financed by the previously raised proceeds.

(5) Project of purchasing pipe construction equipment: As the Xin Yue Zhe pipeline project, which is the corresponded project of the project of purchasing pipeline construction equipment, got approved by the government in the second half of 2015, as of 30 June 2017, Sinopec was optimizing the project's construction scheme and profit based on the approval and the construction of the project has not been commenced. Therefore, the Company has not arranged the bulk purchase of the pipeline construction equipment, which resulted in the difference between the actual investment and the committed investment of this project financed by the previously raised proceeds. Furthermore, the tendering and construction of Xin Yue Zhe project proceeded successively in the second half of 2017, of which the project construction company wholly-owned by the Company successfully won the bid for the six sections of the tender for the main contractor contract of Qianjiang-to-Shaoguan Gas Pipeline project. In the future, the Company will increase the purchase of pipeline construction equipment based on the actual needs of the project construction.

2. Have the above factors that affect the actual profits of the projects financed by the raised proceeds been eliminated? Will these factors have material adverse effect on the on-going operation of the Company?

According to the Assurance Report on Utilization of Previously Raised Proceeds by Sinopec Oilfield Service Corporation (Grant Thornton Zhuan Zi (2017) No. 110ZA000) (《中石化石油工程技術服務股份有限公司前次募集資金使用情況鑒證報告》 (致同專字(2017)第110ZA000號)), there are differences between the actual revenue and the expected revenue from the follow projects financed by the previously raised proceeds and the main reasons are as follows:

(1) Project of building 25m working platform: mainly as result of a combination of factors, including significant decline in the crude oil price which continuously stays at a low level, decrease in investments on exploration and development from oil and gas companies, slow recovery of oil service market, the aggregated production utilization rate was 43.13% after the commencement of operation of the project. Such inadequacy in operation rate leaded to substantial decrease in revenue as compared to expectation. In addition, daily charge decreased by approximately RMB8,000-10,000/day than expected daily charge in the sluggish market, while the fixed costs like depreciation did not decline. The combined effect of the above factors was a decrease of RMB19 million in total annual profits, resulting in failure to meet the revenue expectation of the project.

(2) Project of purchasing 8000HP multipurpose working vessel: mainly due to sluggish business of the seashore drilling engineering in 2016, substantial decline in service price, a decrease by 65% in daily charge as compared to expected daily charge, but no decline in fixed costs like depreciation. The combined effect of the above factors was a decrease of RMB19.2 million in total annual profits, resulting in failure to meet the revenue expectation of the project.

(3) Project of purchasing LOGIQ Imaging Logging System. This project is mainly applied to self-operated section and Ease Sea Cooperation Section. Affected by the low price in international crude oil, output volume of the project decreased from the initially estimated 6 oil wells/year to 2-3 oil wells/year, reducing the annual revenue by approximately 50%. In addition, the fixed costs like depreciation did not decline, resulting in failure to meet the revenue expectation of the project.

(4) Project of purchasing Top Drive equipment: daily rental charged for top drive equipment decreased by RMB2,000 than expected, therefore the actual income of the project decreases as compared to the income in a feasible study. In addition, the fixed costs like depreciation did not decline. The combined effect of the above factors was a decrease of RMB4.2 million in total annual profits, resulting in failure to meet the revenue expectation of the project.

(5) Project of purchasing Coiled Tubing equipment: mainly affected by low price in international crude oil, income for one single oil well decreased by approximately 10%, the affected total annual profits decreased by RMB3.15 million, resulting in failure to meet the revenue expectation of the project.

(6) Project of purchasing pipe construction equipment: as of 30 June 2017, no actual revenue was generated from the pipeline construction project as the construction had not been duly commenced.

Taking into account the above factors and considering that the present price of the international crude oil gets higher to some extent, both the operation outputs of and price charged by the Company are expected to increase on a continuous basis. Additionally, some of the engineering projects have already commenced construction one after the other, the above reasons affecting the actual proceeds from the fund-raising project will not have a material and adverse effect on the on-going operation of the Company.

3. If it is necessary to perform the relevant obligations under the circumstance that the undertakings are not fulfilled in accordance with the Major Asset Restructuring Agreement, please illustrate the performance of the relevant obligations and make adequate information disclosure

On 12 September 2014, Yizheng Chemical Fibre entered into the Share Issuance and Asset Purchase Agreement with CPC，pursuant to which Yizheng Chemical Fibre agreed to issue A shares to CPC by way of private placement for the acquisition of the 100% equity interest of Sinopec Oilfield Service Corporation. On the same date, Yizheng Chemical Fibre entered into the Share Repurchase Agreement and the Asset Disposal Agreement with Sinopec, pursuant to which Yizheng Chemical Fibre agreed to repurchase its 2,415 million A shares held by Sinopec in it for cancellation and it sold all of its legally owned assets and liabilities to Sinopec, respectively. On 13 February 2015, Yizheng Chemical Fibre entered into the Non-public Placement of A Shares Subscription Agreement with the seven placees i.e. Darry Asset Management (Hangzhou) Co., Ltd., Beixin Ruifeng Fund Management Co., Ltd., Hua An Fund Management Co.,Ltd., Beijing Harvest Yuanxing Investment Center (Limited

Partnership), Donghai Fund Management Co., Ltd., Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership) and Caitong Fund Management Co., Ltd, pursuant to which Yizheng Chemical Fibre agreed to issue 1,333,333,333 A shares to the above seven placees by way of non-public placement. The above agreements did not stipulate the specific use of the proceeds from the placement and the specific obligations of the parties for the unfulfilled guaranteed profits of the projects financed by the proceeds. Yizheng Chemical Fibre disclosed the internal rate of return after tax of the related projects financed by the proceeds in the Report on Material Assets Disposal, Share Repurchase, Share Issuance and Assets Acquisition, Subsequent Financing and Connected Transaction of Sinopec Yizheng Chemical Fibre Company Limited (Revised Edition) （《中国石化仪征化纤股份有限公司重大资产出售、定向回购股份及发行股份购买资产并募集配套资金暨关联交易报告书（修订稿》), for which the estimate on the investment profits of those projects did not constitute the undertaking of the Company.

Moreover, since the proceeds were in place in February 2015, in compliance with the relevant provisions of Guideline No. 2 on Listed Companies Regulation — Supervisory Requirements for Management and Use of Raised Proceeds of Listed Companies (《上市公司监管指引第2号— 上市公司募集资金管理和使用的监管要求》) and the Rules on Report on Use of Previously Raised Proceeds（《关于前次募集资金使用情况报告的规定》），the Company have published related announcements including the Announcement on the Entering into of the Trilateral Supervision Agreement for the Special Account of Raised Proceeds（关于签订募集资金专户存储三方监管协定的公告）， the 2015 Half-Year Specific Report on the Deposit and the Actual Use of Raised Proceeds（《关于2015 年半年度募集资金存放与实际使用情况的专项报告》）, the 2015 Specific Report on the Deposit and the Actual Use of Raised Proceeds（《关于 2015 年度募集资金存放与实际使用情况的专项报告》), the 2015 Assurance Report on the Deposit and Use of Raised Proceeds of Sinopec Oilfield Service Corporation（《关于中石化石油工程技术服务股份有限公司 2015 年度募集资金存放与使用情况鉴证报告》), the 2016 Half-Year Specific Report on the Deposit and the Actual Use of Raised Proceeds（《关于 2016 年半年度募集资金存放与实际使用情况的专项报告》），the 2016 Specific Report on the Deposit and the Actual Use of Raised Proceeds（《关于 2016 年度募集资金存放与实际使用情况的专项报告》），the 2016 Assurance Report on the Deposit and Use of Raised Proceeds of Sinopec Oilfield Service Corporation（《关于中石化石油工程技术服务股份有限公司 2016 年度募集资金存放与使用情况鉴证报告》），the 2017 Half-Year Specific Report on the Deposit and the Actual Use of Raised Proceeds（《关于 2017 年半年度募集资金存放与实际使用情况的专项报告》），the Report on Use of Previously Raised Proceeds（《前次募集资金使用情况报告》）and the Assurance Report on Use of Previously Raised Proceeds （《前次募集资金使用情况鉴证报告》） in relation to the deposit, use, amendment and the supervision of the raised proceeds.

II. Verification Opinions of the Sponsor

The Sponsor has reviewed the Assurance Report on Use of Previously Raised Proceeds of Sinopec Oilfield Service Corporation（《中石化石油工程技术服务股份

有限公司前次募集资金使用情况鉴证报告》），the Feasibility Study Report on Projects Financed by the Previously Raised Proceeds, construction contracts and pipeline work bid notices for several projects financed by the previously raised proceeds, the relevant agreements and announcements of major asset restructurings in 2014 and the relevant announcements on the use of previously raised proceeds, has interviewed the related personnel of the issuer, has compared the specific amount invested in the projects financed by the previously raised proceeds and the project revenues with the actual investment progress and the actual investment return and has searched informations about oilfield service industry.

The Sponsor is of the opinion that the reasons for the difference between the actual investment amount financed by the previously raised proceeds and the committed investment amount are reasonable, the factors that affect the actual revenue of the projects financed by the proceeds have been mitigated and have no current material adverse effect on the on-going operation of the Company, and there is no provision on the returns of the proceeds in the Major Asset Restructuring Agreement entered into by the issuer in 2014.