2014 ANNUAL REPORT

(Stock Code A Share : 600871 ; H Share : 1033)

中石化石油工程技術服務股份有限公司

Sinopec Oilfield Service Corporation

IMPORTANT NOTE

1. The Board of Directors ("the Board") and the Supervisory Committee of the Company and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this Annual Report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this Annual Report.

2. The 2014 Annual Report has been approved at the second meeting of the eighth session of the Board. All Directors attended the meeting.

3. The financial statements of the Company for 2014, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises and International Financial Reporting Standards have been audited by Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited, respectively. Both auditors have issued unqualified opinions on the financial statements.

4. Mr. Jiao Fangzheng, Chairman, Mr. Zhu Ping, Vice Chairman and General Manager, Mr. Wang Hongchen, Chief Financial Officer and Mr. Song Daoqiang, Director of the Asset and Accounting Department of the Company warranted the authenticity and completeness of the financial statements contained in the Annual Report.

5. Consideration of the proposed scheme of profit distribution or the reserve capitalization by the Board during the reporting period

   Audited by Grant Thornton (Special General Partnership) for 2014, in accordance with the PRC ASBE, the net profit of the Group for 2014 was RMB 1,231,967,000, the net profit to equity shareholders of the Company was RMB 1,229,753,000 (the net profit to equity shareholders of the Company was RMB 1,257,308,000 under IFRSs). At the end of 2014, the undistributed profit of the Group was RMB 1,116,809,000. However, because the accumulated net profit in Parent Company was RMB-1,444,725,000 at the end of 2014, the Company proposed no cash dividend payout and no reserve capitalization for 2014. The above proposed profit distribution scheme shall be submitted for approval at the 2014 AGM.

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the annual report, the company can not make a substantive commitment to investors, the company would ask investors to notice the investment risks.

7. There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purpose.

8. The Company did not provide external guarantees made in violation of required decision-making procedures.

Contents

Definitions and Important Risk Warnings

1. Definitions

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Company	Means	Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司), a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and listed H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033)
YCFC	Means	Sinopec Yizheng Chemical Fibre Company Limited (the Company's former name before its name changed)
Group	Means	The Company and its subsidiaries
Board	Means	the board of Directors of the Company
Articles of Association	Means	the articles of association of the Company, as amended, modified or supplemented from time to time
CPC	Means	China PetroChemical Corporation (中國石油化工集團公司), a wholly State-owned company established in the PRC and the holding company of Sinopec
Sinopec	Means	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai, the subsidiary of CPC. (former controlling shareholder of the Company)
A Shares	Means	shares in the share capital of the Company of par value RMB 1.00 each which are listed on the SSE
H Share(s)	Means	overseas listed foreign Share(s) in the Share capital of the Company of par value at RMB1.00 each which is(are) listed on the Main Board of the Stock Exchange
SSE	Means	Shanghai Stock Exchange
HKSE	Means	The Stock Exchange of Hong Kong Limited
Listing Rules	Means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Means	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
CSRC	Means	China Securities Regulatory Commission
HKSCC (Nominees) Limited	Means	Hong Kong Securities Clearing Company (Nominees) Limited
Material Assets Reorganisation	Means	YCFC sold its total assets and liabilities to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company offered shares to China Petrochemical Corporation and purchased its 100% equity of SSC, and offered non-public A shares for complementary private placement.
Outgoing Assets	Means	YCFC's total assets and liabilities
Incoming Assets	Means	SSC's total equity
SSC	Means	Sinopec Oilfield Service Corporation
Complementary private placement	Means	The Company offered non-public shares to no more than 10 qualified special investors for complementary private placement.
Geophysical exploration, geophysical	Means	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration.

Drilling	Means	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole.
Completion	Means	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	Means	Acquiring, analyzing and interpreting the data related to the geological characteristics and hydrocarbon potential by using special tools or equipment and technology.
Mud Logging	Means	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information.
Downhole Operation service	Means	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Two dimensional geophysical	Means	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis.
Three dimensional geophysical	Means	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells.
CSDC-Shanghai Branch	Means	China Securities Depository and Clearing Corporation Limited (CSDC)- Shanghai Branch
CNPC	Means	China National Petroleum Corporation
CNOOC	Means	China National Offshore Oil Corporation
Yanchang Petroleum Group	Means	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
EPC	Means	Engineering Procurement Construction; A project contract model, the main services include project design, procurement and construction

2. Important Risk Warnings

The Company has a detailed description of the possible exists risks in this annual report, please consult Chapter V Report of the Board of Directors for the content of the possible risks of company's future development.

Company Profile

Sinopec Oilfield Service Corporation ("Company") is the largest integrated oilfield service provider of petroleum engineering in China. With more than 50 years experiences, it has principal business including geophysical, drilling and production services for onshore and offshore oil and gas fields, and EPC service for oil and gas fields.

Adhering to its corporate missions of developing markets, optimizing services and making benefits, the Company vigorously implemented its "Five Core Strategies" i.e. specialization, marketization, differentiation, high-end oriented and internationalization. It has been strictly putting into practice of the "Four Development Plans" i.e. developing business from conventional to unconventional fields, from domestic to international markets, from onshore to offshore fields, and from single engineering service to integrated reservoir services. The Company has been making unremitting efforts to make a world-class integrated oilfield service provider.

Company Profile

1. Company information

Company's Chinese name	中石化石油工程技術服務股份有限公司
Abbreviation of the Company's Chinese name	石化油服
Company's English name	Sinopec Oilfield Service Corporation
Abbreviation of the Company's English name	SSC
Legal representative	Jiao Fangzheng

2. Contact information

	Secretary to the board	Securities Affairs Representative
Name	Li Honghai	Wu Siwei
Address	Office of the board of directors, #9 Jishikou Road, Changyang District, Beijing, China.	
Telephone	86-10-59960871	
Fax	86-10-59961033	
Email	ir.ssc@sinopec.com	

3. Company profile

Registered address	Yizheng City, Jiangsu Province, the PRC
Post Code of Registered address	211900
Office address	#9 Jishikou Road, Changyang District, Beijing, China.
Post Code of Office address	100728
Company Internet Website	http://ssc.sinopec.com
Email	ir.ssc@sinopec.com

4. Disclosing inftion and inspection place

Domestic Newspapers disclosing information
China Securities, Shanghai Securities News, Securities Times
Internet website designated by CSRC to publish the Annual Report
www.sse.com.cn
Internet website designated by HKSE to disclose information
http://www.hkexnews.hk
Place where the Annual Report available for inspection
Office of the board of director of the Company

5. Stock briefs

Share Type	A share	H share
Place of listing	SSE	HKSE
Stock name	*ST Yihua	Yizheng Chemical
Stock Code	600871	1033

*Stock name before altering

6. Registration changes during the reporting period

(1) Basic Information

The date of first registration change of the Company	15 April, 2014 (Altering of the registered capital)
The place of first registration change of the Company	Nanjing City, Jiangsu Province
The date of second registration change of the Company	20 March, 2015 (Altering of the Company name)
The place of second registration change of the Company	Nanjing City, Jiangsu Province
Enterprises Legal Business License Registration No.	320000400000997
Taxation Registration No.	321081625908297
Organization No.	62590829-7

Company Profile

(2) Related inquiries index about the Company's first registered case

Please refer to the "other related document" of Company's basic information in the 2012 annual report for more details of the company's first registered case.

(3) The information about the change of the Company's main business after listed.

On 18 December 2014, the Company received the document from CSRC *the approval reply on YCFC's Material Assets Reorganisation and YCFC's offering shares to purchase assets from CPC and complementary private placement (CSRC Permission No.[2014]1370)*,which approved the Material Assets Reorganisation. At the end of 31 December 2014, the Company completed the related restructuring procedures, including the delivery of assets, share repurchasing and cancelling stock registration related to offering A shares to purchase assets, which made the main business of the company changed from the production and sales of fiber products to oil and gas exploration and production and its related technical services.

(4) The information about the change of its previous and current controlling shareholders after listed

The Company was listed on 1994, and its controlling shareholder was Yizheng Chemical Fiber Industry Associates; on November 1997, the controlling shareholder changed to China Eastern United Petrochemical Group Co., Ltd; in July 1998, the controlling shareholder changed to China Petrochemical Corporation; in February 2000, the controlling shareholder changed to SINOPEC; on 31 December 2014, the controlling shareholder changed to China Petrochemical Corporation.

7. Other Information

Domestic Auditors	Name Address Signing accountants	Grant Thornton (Special General Partnership) 5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing Liu Zhizeng, Ma Jian
Overseas Auditors	Name Address Signing accountant	Grant Thornton Hong Kong Limited Level 12, 28 Hennessy Road, Wanchai, Hong Kong Shaw Chi Kit
Sponsor Institution performing duties of continuous supervision and guidance during the reporting period	Name Address The signing sponsor representative The continuous inspection period	Guotai Junan Securities, UBS Securities Co. Ltd. 618 Shangcheng Road, Pudong New District, Shanghai. Floor 15, North Building, Yinglan International Financial Center, 7 Jinrongdajie Street, Xicheng District, Beijing. Tang Wei, Liu Yunfeng, Zhang Jin, Shao Jie From 17 December 2014 to 31 December 2015
Domestic Legal advisor:	Name Address	Beijing Haiwen & Partners 20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing
Overseas Legal advisor:	Name Address	Herbert Smith Freehills LLP 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong
Share registrars and transfer office	"A" Share Address "H" Share Address	China Securities Registration and Clearing Corporation Limited Shanghai Branch 36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong

Financial Summary

1. The principal financial information and financial indicators of the Company in the last 3 years (Extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises ("ASBE"))

(1) Principal financial information

Unit: RMB'000

	2014	2013			2012	
		After adjustment	Before Adjustment	Year-on-year change (%)	After adjustment	Before Adjustment
Operating income	94,481,041	107,406,243	17,677,171	-12.0	104,325,051	16,987,916
Operating profit ("-" for loss)	615,387	662,110	-1,175,631	-7.1	347,398	-561,987
Profit before income tax ("-" for loss)	2,206,680	1,014,775	-1,215,667	117.5	988,538	-539,538
Net profit attributable to equity shareholders of the Company ("-" for loss)	1,229,753	61,216	-1,454,217	1,908.9	684,675	-361,367
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	-2,323,027	-1,413,850	-1,413,850	Not applicable	-382,833	-382,833
Net cash inflow from operating activities ("-" for outflow)	6,746,135	1,757,418	-1,073,285	283.9	2,338,627	-967,719
	2014E	2013E			2012E	
		After adjustment	Before Adjustment	Year-on-year change (%)	After adjustment	Before Adjustment
Total assets	81,295,708	92,736,669	10,629,304	-12.3	86,089,330	11,138,204
Total liabilities	62,599,570	61,970,437	3,532,816	1.0	55,715,150	2,588,866
Total equity attributable to equity shareholders of the Company	18,697,120	30,681,294	7,096,488	-39.1	30,296,465	8,549,338

Note: The before-adjustment data of 2012 and 2013 are the related financial data which were disclosed in the Financial Report of the Company. According to the regulation of "Enterprise Accounting Standards No. 20 - Business Combinations", for a business combination under common control, the initial figures of the consolidated balance sheet should be adjusted, while the comparative statements related items to be adjusted. Therefore, the adjusted financial data of 2012 and 2013 and the financial data of 2014 included the whole year data of outgoing assets and incoming assets.

(2) Principal financial indicators

	For the year 2014	For the year 2013			For the year 2012	
		After adjustment	Before Adjustment	Year-on-year change (%)	After adjustment	Before Adjustment
Basic earnings per share (RMB) ("-" for loss)	0.08	0.004	-0.242	1,908.9	0.04	-0.06
Diluted earnings per share (RMB) ("-" for loss)	0.08	0.004	-0.242	1,908.9	0.04	-0.06
Earnings per share calculated on the latest equity [2]	0.09	—	—	—	—	—
Basic earnings per share net of extraordinary gain and loss (RMB) ("-" for loss)	-0.15	-0.09	-0.236	Not applicable	-0.03	-0.06
Weighted average return on net assets (%)	4.98	0.2	-18.59	Increase 4.78 percentage point	2.48	-4.11
Weighted average return on net assets net of extraordinary gain and loss (%)	-32.73	-18.07	-18.07	Not applicable	-4.36	-4.36

Note:

1. On 31 December 2014, in accordance with the Material Assets Reorganisation plan, the Company repurchased and cancelled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company gave non-public offering to China Petrochemical Corporation of 9,224,327,662 shares, both of the restated per share data of 2013 and the per share data of 2014 have been, in accordance of the Accounting Standards' requirement, calculated on the base of 15,224,327,662 shares.
2. This was calculated according to the total equity of 14,142,660,995 shares after complementary private placement on 3 March 2015.

Financial Summary

2. Differences between the financial statements of the Company prepared in accordance with PRC ASBE and International Financial Reporting Standards (“IFRSs”)

	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	2014	2013	**2014E**	2013E
	RMB’000	RMB’000	**RMB’000**	RMB’000
PRC ASBE	**1,229,753**	61,216	**18,697,120**	30,681,294
Adjustments under IFRS:				
a. Government grants	**33,023**	2,831	**—**	-33,023
b. Specific reserve	**-5,468**	-49,079	**—**	—
IFRSs	**1,257,308**	14,968	**18,697,120**	30,648,271

Explanations for the related differences

(a) Government grants

Under PRC GAAP, grants from government that are credited to capital reserve according to relevant regulation cannot be included in deferred income. Under IFRS, the government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. Due to the difference above, the profit in the financial statements prepared in accordance with IFRS increased RMB 2,831,000 than that prepared in accordance with the ASBE. On the date of asset delivery, the difference of net assets for the outgoing business in RMB 30,192,000 between IFRS and ASBE, because the total assets and liabilities of the outgoing business have been delivered to Sinopec, the transfer income from the unamortized Government grants is RMB 30,192,000 in accordance with the IFRS.

(b) Specific reserve

Under PRC GAAP, accrued production safety cost as expense in profit or loss and separately recorded as a specific reserve in shareholders’ equity according to the national regulation. As using Safety Fund, if it is profit or loss related, the cost of expenditure is directly charged against the Specific reserves. While if it is capital expenditure related, the cost being used is recorded in Construction in Progress, and transferred to fixed assets when it is ready for its intended use. Meanwhile, the cost of fixed asset is offset against the specific reserves and the same amount of accumulated depreciation is recognised, then the fixed asset is no longer depreciated in its useful life.

Under IFRS, these expenses are recognised in profit or loss as and when incurred. Relevant capital expenditure on production maintenance and safety facilities are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

3. Extraordinary gain and loss items and amounts (Extracted from the financial statements prepared in accordance with ASBE

Unit: RMB’000

Extraordinary gain and loss item	**2014**	2013	2012
Disposal of non-current assets	**1,139,513**	-21,984	12,104
Government grants recognised in profit or loss during the year	**2,466**	3,770	1,857
Employee reduction expenses	**—**	—	-578
Net profit or loss from the beginning to the merger date of the Subsidiary of the business combination under common control	**2,424,556**	1,543,094	1,064,985
Investments income from disposal of financial assets	**—**	—	6,751
Gain on changes in fair value of investments held for trading	**—**	—	—
Other non-operating income and expenses excluding the aforesaid items	**-11,540**	-21,822	8,488
Tax effect	**—**	-331	-7,156
Total	**3,554,995**	1,502,727	1,086,451

4. Financial information extracted from the financial statements prepared in accordance with IFRSs

Unit: RMB'000

	For the year ended 31 December or as at 31 December				
	2014	2013	2012	2011	2010
		(has been restated)			
	Continuing operations	Continuing operations			
Revenue	**78,993,315**	89,729,072	16,987,916	20,179,768	16,348,366
Profit/(Loss) before taxation	**3,320,072**	2,179,996	(536,627)	1,042,190	1,140,343
Income tax expense/(credit)	**900,930**	687,350	(178,171)	202,958	(86,954)
Profit/(Loss) attributable to equity shareholders of the Company from continuing operations	**2,416,928**	1,464,987	(358,456)	839,232	1,227,297
	Discontinued operations: 2	Discontinued operations: 2			
Loss for the year from discontinued operations	**(1,159,620)**	(1,450,019)	—	—	—
Profit/(Loss) attributable to equity holders of the Company	**1,257,308**	14,968	(358,456)	839,232	1,227,297
Total assets	**81,295,708**	92,736,669	11,138,204	11,449,599	10,531,202
Total liabilities	**62,599,570**	62,003,460	2,624,721	2,457,660	2,258,495
Total equity attributable to equity shareholders of the Company	**18,697,120**	30,648,271	8,513,483	8,991,939	8,272,707
Basic and diluted earnings/(loss) per share 1	**RMB 0.083**	RMB 0.001	RMB(0.060)	RMB0.140	RMB0.205
Net assets per share 3	**RMB 1.46**	RMB 2.39	RMB1.419	RMB1.499	RMB1.379
Ratio of shareholders' equity	**23.00%**	33.05%	76.43%	78.53%	78.55%
Return on net assets	**6.73%**	0.05%	(4.21%)	9.33%	14.84%

Note:

1. On 31 December 2014, in accordance with the Material Assets Reorganisation plan, the Company repurchased and cancelled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company non-public offering to China Petrochemical Corporation is 9,224,327,662 shares, both of the restated per share data of 2013 and the per share data of 2014 have been, in accordance of the Accounting Standards' requirement, calculated on the base of 15,224,327,662 shares.
2. In the consolidated statement of comprehensive income, the Oilfield Business was classified as "continuing operations" and the Fibre Business was classified as "discontinued operations".
3. Restated 2013 and the per share information 2014 are calculated on the base of 12,809,327,662 shares.

Chairman's Statement

Jiao Fangzheng *Chairman*

Dear shareholders,

Thanks to your trust and care, our Company has gone through an extraordinary year in 2014 during which we smoothly implemented and successfully completed the Material Assets Reorganization. According to the Reorganization plan, the Company sold all equities and liabilities of the outgoing business of polyester chips and Polyester fiber, while purchased the incoming business and relative equities of oil and gas exploration and development engineering services. As we transformed our main business scope, we improved the equity quality fundamentally. Also our abilities of sustainable development and the company's value have been enhanced for the interests of small and medium sized shareholders.

The Company experienced precipitous fall of international oil prices and workload in 2014, but actively explored new markets, adjusted structures, optimized resource allocation, developed high-end products and strengthened management to achieve all targets with good performances. Its consolidated revenue of 2014 is RMB 94.48 billion, decreased by 12.0% compared with the previous year. That decrease was resulted from the declined workload of oilfield services, which was caused by the falling oil prices in the second half of 2014 and reduced investment by oil companies. According to the accounting standards for Chinese enterprises, the net profit attributable to shareholders of the Company was RMB 1.23 billion, increased 1,908.9% over the previous year. Since the undistributed profit of the parent company by the end of 2014 was negative, the board recommended neither distribution of profits in 2014, nor conversion of capital reserve funds to share capital. But this plan needs to be permitted by the general meeting of shareholders.

In 2014, the Company placed focus on quality and benefits, made advantage of resource allocation, deepened structural adjustments and vigorously implemented strategies of specialization, marketization, differentiation, high-end oriented and internationalization to make the production and operation business maintain a stable development. In domestic market, we have further implemented the concept of cooperation for win-win results, then had our service level significantly improved and our internal market been better consolidated. While in overseas market, we have made steady progress with significant growth of the market and new growth point contributed by integrated reservoir services. Besides, in terms of technological development, both the featured technologies with strengths and our proprietary technologies have made better development. Also integrated innovation and large scale application of unconventional technologies have provided strong support for shale gas development. And in terms of exploiting potential and creating benefits, we used our integrate advantages, allocated production resources like the equipment to achieve obvious performance of low cost and enhanced efficiency. At the same time, we have been focusing on quality and benefits of the investment. We selected investment projects strictly in accordance with their benefit level. In 2014, the capital expenditure reached RMB 4.27 billion, including RMB 300 million for outgoing equity and RMB 3.97 billion for incoming equity. The capital expenditure of conventional equipment was reduced to RMB 1.16 billion, mainly spent for high benefit fields such as the overseas market, marine equipment, etc.

Based on the actual conditions after completing the Material Assets Reorganization of assets in 2014, the Company made amendments to governing articles and rules including those to the Articles of Association, the Rules and Procedures for Shareholders' General Meeting, and the Rules and Procedures for the Board of Directors' Meetings etc. Since the seventh session of the board of directors expired at the end of 2014, the Company held the first provisional shareholders meeting on February 9, 2015, and selected a new session of the board. The eighth session of the Board currently comprises 8 professional and experienced directors, including 3 independent non-executive directors. I would like to take this opportunity to extend my heartfelt thanks to all members of the seventh session of the board for their significant contributions to the Company.

Chairman's Statement

In 2014, the Company actively fulfilled our social responsibilities, adhering to the concept of green and low carbon development, and carry out "clean water and blue sky" environmental protection activities. We have been actively enrolled in public welfare undertakings, education for migrant workers' children, and rescue work of disaster areas. In overseas operation areas, we have actively fulfilled our social responsibilities of promoting local economic and social development.

In 2015, the world economy turns into slow recovery, and China has entered a new normal, and international oil price stays at lower level with ups and downs after the precipitous fall in the second half of 2014. Thus, both the international and domestic oil companies generally cut down investment on the exploration and development sector, which brings a tough challenge to the production and operation of the Company. At the same time, we should also see that the new normal of China's economy doesn't change the overall good situation. Thanks to the significantly increased demand for clean energy like natural gas, the domestic investment on natural gas and shale gas will continue to maintain steady growth, which will provide opportunities for the oil service industry.

Attaching great importance to developing markets, optimizing services and making benefit in 2015, the Company will vigorously implement the advantages of the whole industry chain and one-stop service ability significantly, further develop the market, focus on service quality to consolidate and expand the domestic market, strengthen the overseas market in Middle East and Central Asia, and improve the competence of making benefits in the overseas market. We will vigorously adjust the structure, enlarge high-end business and shut down invalid ones. We will deepen the reform, continue to promote resource optimization, optimize management to improve the efficiency and productivity ratios. We will stimulate innovation among the employees, strengthen the integration of featured technological systems to promote the transformation and upgrade the business. We will exploit potentials and stimulate benefits, deepen reforms of financial budgets management and staff cost management to make unremitting efforts for benefits. We plan to expand RMB 4.51 billion in 2015 on overseas high-end equipment, marine engineering equipment, shale gas business equipment and pipeline construction equipment. We aims to cultivate our offshore operation levels, improve our capabilities of providing integrated services and EPC, and enhance our core competitiveness.

Dear Shareholders, the Company will take the Reorganization as a new starting point, implemented its "Five Core Strategies" i.e. specialization, marketization, differentiation, high-end oriented and internationalization to make a world class integrated oilfield service provider. We believe, in support of our shareholders and joint efforts of all staff, that we will accompany to move forward, and hand in hand, create a wonderful future for Sinopec Oilfield Service Corporation.

Jiao Fangzheng

Chairman

Beijing, China

24 March 2015

Report of the Board of Directors

Report of the Board of Directors

1. Discussion and analysis of operation during the reporting period

Financial figures, except where specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the ASBE. Both of the financial information of 2013 and 2014 include the information of Incoming Assets and Outgoing Assets.

Market Review

Over the past 2014, oil prices in the world market went downward with ups and downs, particularly exacerbated by the precipitous fall in Q4. Thus, international oil companies started to reduce CAPEX for oilfield exploration, and the overseas environment met by oilfield service providers have been complicated and challenging. At the same time, domestic oil companies enlarged their investment in developing clean energy, such as natural gas and shale gas, to meet the fast growing demand for natural gas in china. Taking Sinopec Group for example, its natural gas production has gained an increase by 8% over the previous year, and the Fuling shale gas field which is the first large-scaled shale gas field in China came into the stage of commercial operation, contributing new growth points to the development of domestic oilfield service market.

Operations Review

Facing challenges of falling oil prices and decreasing workload, the Company channeled great efforts to enlarge the market, adjust the structure, optimize the management, and develop the high-end business. Thanks to the work and efforts, the planned targets for production and operation in 2014 were attained. Its consolidated revenue was RMB 94,481,041,000, down 12.0% from the previous year, as a result of oil companies' decreased investment on upstream business; net profit attributable to shareholders of the Company was RMB 1,229,753,000, up 1,908.9% from the previous year.

1 Geophysical service

The Company's operation revenue in geophysical service was RMB 5,065,923,000 in 2014, representing a decline of 23.7% over the same period of the previous year, for which the figure was RMB 6,642,305,000. The completed 2D seismic have accumulated for 34,942 kilometers, declined 28.6% from the year earlier; while the 3D seismic for 19,545 kilometers, representing an increase of 8.9% over the previous year. In onshore markets, the Company continued the resource integration and improved the equipment efficiency by optimized management among equipment and crews; while in the offshore market, the "Discovery 6" 3D marine seismic exploration vessel overcame difficulties in rough marine conditions and weather, then completed the work of 4,642 kilometers, a year-on-year increase of 461%.

2 Drilling service

The Company's operation revenue in drilling service was RMB 39,003,458,000 in 2014, representing a decline of 5.9% over the same period of the previous year, for which the figure was RMB 41,456,560,000. Its completed drilling footage was accumulated for 11,660 kilometers, performing a decline of 11.3% over the previous year. It has fulfilled its mission of smoothing the way for E&P of Sinopec Group. Holding the leading positing in shale gas exploration industry, it delivered the production capacity of the state-level Fuling Shale Gas Pilot Project. And it continued the corporations with excellent domestic customers like Petro China, CNOOC and Yanchang Petroleum Company. At the same time, it worked to find more opportunities in unconventional oil and gas drilling business.

3 Logging/mud logging service

The Company's operation revenue in logging/mud logging service was RMB 4,176,936,000 in 2014, a decline of 18.4% over the previous year, for which the figure was RMB 5,119,581,000. Its completed logging projects have accumulated for 387,920,000 standard meters, performing a decline of 12.9 % compared with the year earlier. Its completed mud logging projects have accumulated for 12,800,000 standard meters, performing a decline of 8.6 % compared with the year earlier. Constantly driven by the customers' demands, the Company adjusted its business structure, maintaining the investment on R & D while at the same time that on the whole industry was cut down. The application of advanced technologies such as the domestic multi-stage perforation for horizontal wells, logging/mud logging for complex stages and unconventional oil and gas reservoirs, and the comprehensive geo-steering technologies, which laid a firm foundation for developing the state-level Fuling Shale Gas Pilot Project.

4 Downhole operation service

The Company's operation revenue in downhole operation was RMB 8,457,649,000 in 2014, a declined 10.2% from the previous year, for which the figure was RMB 9,423,159,000. It has completed downhole operation for 7,345 wells, a decline of 5.1% over the previous year. Thanks to the accumulated experiences from building the production capacity of the state-level Fuling Shale Gas Pilot Project, it has raised its own capabilities of engineering technologies, operating organization, quality control, safety management etc. It has formulated the mature technologies of horizontal drilling for more than 2000 meters at the segment length and fracturing more than 20 phases. And those of shale gas testing and fracturing are still at the leading position in China. Also the Company provided technical support for highly efficient production of the Yuan Ba Gas Field, from which it developed its own capabilities of acid fracturing and production for ultra deep horizontal wells, casing protection, coiled tubing and PVT sampling.

5 Engineering and construction service

The Company's operation revenue in engineering and construction service was RMB 20,143,747,000 in 2014, a decline of 17.7% over the previous year, for which the figure was RMB 24,484,293,000. Due to the constant decrease of investments in outbound markets, its completed contracts valued RMB 20,250,000,000 in 2014, performing a decline of 17.5% over the same period of the previous year, for which the figure was RMB 24,540,000,000. It has provided services for surface gathering at 1700 mm c/y of the Yuan Ba Gas Field, main transportation pipelines of No.2 block of Shandong LNG Product, oil tanks in Xuzhou Xin'an county, coal-burning high-pressure gas injection plants in Xinjiang Chun 10th Block, etc. Its capabilities of EPC services have been further improved. It provided EPC service for No. 3 Platform and the affiliate projects in the Chengdao Center, which has been completed and praised with the National Excellent Welding Engineering Award.

6 International business

The Company's operation revenue in international business service was RMB 16,984,852,000 in 2014, a decline of 12.2% over the previous year, for which the figure was RMB 19,348,481,000. The revenue contributed by the international business accounted for 21.5% of the whole revenue. It firmly implemented the strategy of internationalization and established 5 large-scale markets in the Middle East, Africa, the Americas, Central Asia, Mongolia and the Southeast Asia. Its newly signed contracts in the overseas markets valued USD 3.05 billion, and the completed contracts USD 2.48 billion, to which the geophysical service made a new record and contributed USD 0.3 billion. The Company is the largest onshore drilling contractor for both Saudi Aramco and Kuwait Oil Company, with over 100 drilling and workover rigs in the Middle East. While the effect of large scale business has been generally performed, it took strong steps to promote the emerging business, further exploring markets of integrated oilfield services. Over the past year, it signed framework agreement with Petro Ecuador for the I-L-Y Oilfields. And it will provide the integrated oilfield services including technical and management services in geophysics, wellbores and surface engineering.

7 Research and development

The Company studied prominent segments and the demands in the oil and gas E&P markets, and channeled efforts into technical innovation. Progress has been made in developing its own technologies with strong strength. It has applied for 489 patents at home or abroad, of which 389 were granted. Its hydraulic expansion rotary liner hanger won Chinese Patent Award of Excellence. New breakthroughs have been made for innovation and application of unconventional engineering technologies, such as those for shale gas and condensed oil and gas. No. 3000 fracturing fleet entered into stage of industrial application successfully. Also key technologies for developing unconventional shale gas have been developed and integrated at home. All the work above provides powerful supplies for the commercial operation of the shale gas. Meanwhile, thanks to the improved series of technologies for increasing drilling speed in ultra-deep wells, it has owned capabilities of drilling design and on-site operation for ultra-deep wells exceeding the depth of 8,000 meters, as well as the ultra-deep horizontal wells at vertical depth of 7,000 meters. It made improvements in 7 key technologies for comprehensive geophysical integration, managed pressure drilling (MPD), optimized fast penetration, memory based logging, large long coiled tubing and application of CO2 collection.

(1) Main business analysis

A. The analysis table of changes related to the income statement and cash flow statement

	2014 RMB'000	2013 RMB'000	The rate of change (%)
Operating revenue	94,481,041	107,406,243	-12.0
Operating cost	85,261,101	98,966,691	-13.8
Selling and distribution expenses	312,380	321,379	-2.8
General and administrative expenses	5,367,890	5,341,940	0.5
Financial expenses	806,565	828,277	-2.6
Net cash inflow from operating activities	6,746,135	1,757,418	283.9
Net cash outflow from investing activities	-3,979,282	-7,136,242	N/A
Net cash (outflow)/inflow from financing activities	-3,231,658	3,307,374	N/A
Research and development expenditures	524,879	484,506	8.3

B. Income

a. Factor analysis of business income changes

In 2014, the Company's consolidated revenue was RMB 94,481,041,000, down 12.0% from the previous year, as a result of oil companies' decreased investment on upstream business.

b. Information about major customer

The operating income of the top 5 customers in 2014

Name of customer	RMB'000	Percentage to operating income (%)
CPC	51,655,524	54.7
CNPC	3,613,255	3.8
Saudi Arbian Oil Company	2,186,667	2.3
CNOOC	2,018,484	2.1
Petroleos Mexicanos	1,712,637	1.8
Total	61,186,567	64.7

C. Cost

a. Statement of the costs by products

Unit: RMB'000

Product	Item of costs structure	Amount in 2014 RMB'000	Percentage of amount in 2014 in total cost (%)	Amount in 2013 RMB'000	Percentage of amount in 2013 in total costs (%)	Year-on-year change (%)
Geophysical Service	Raw materials	381,610	8.6	535,338	8.8	-28.7
	Fuel and power	219,522	5.0	242,726	4.0	-9.6
	Employees costs	1,557,650	35.3	1,650,553	27.1	-5.6
	Depreciation and amortization	690,659	15.7	821,491	13.5	-15.9
	Subcontracting costs and outsourcing services expenditures	83,368	1.9	90,063	1.5	-7.4
	Others	1,478,715	33.5	2,749,579	45.1	-46.2
	Total	4,411,524	100.0	6,089,750	100.0	-27.6
Drilling Service	Raw materials	8,681,509	25.6	10,031,072	26.6	-13.5
	Fuel and power	2,269,006	6.7	3,152,819	8.3	-28.0
	Employees costs	8,032,720	23.6	7,791,446	20.6	3.1
	Depreciation and amortization	4,156,007	12.2	4,424,353	11.7	-6.1
	Subcontracting costs and outsourcing services expenditures	1,561,806	4.6	1,610,727	4.3	-3.0
	Others	9,263,733	27.3	10,743,724	28.5	-13.8
	Total	33,964,781	100.0	37,754,141	100.0	-10.0
Logging/Mud logging Service	Raw materials	709,016	21.5	963,172	23.0	-26.4
	Fuel and power	50,080	1.5	56,248	1.3	-11.0
	Employees costs	1,458,511	44.3	1,451,127	34.6	0.5
	Depreciation and amortization	452,594	13.8	473,121	11.3	-4.3
	Subcontracting costs and outsourcing services expenditures	203,877	6.2	351,112	8.4	-41.9
	Others	416,278	12.7	896,066	21.4	-53.5
	Total	3,290,356	100.0	4,190,846	100.0	-21.5
Downhole operation Service	Raw materials	2,034,240	26.9	2,774,292	32.8	-26.7
	Fuel and power	384,854	5.1	475,757	5.6	-19.1
	Employees costs	1,436,785	19.0	1,447,935	17.1	-0.8
	Depreciation and amortization	494,662	6.6	426,766	5.1	15.9
	Subcontracting costs and outsourcing services expenditures	1,314,149	17.4	1,141,172	13.5	15.2
	Others	1,885,114	25.0	2,186,641	25.9	-13.8
	Total	7,549,804	100.0	8,452,563	100.0	-10.7

Product	Item of costs structure	Amount in 2014 RMB'000	Percentage of amount in 2014 in total cost (%)	Amount in 2013 RMB'000	Percentage of amount in 2013 in total costs (%)	Year-on-year change (%)
Engineering and Construction Service	Raw materials	3,987,579	21.3	4,291,807	19.0	-7.1
	Fuel and power	179,171	1.0	206,031	0.9	-13.0
	Employees costs	3,000,303	16.1	3,110,925	13.8	-3.6
	Depreciation and amortization	335,390	1.8	299,902	1.3	11.8
	Subcontracting costs and outsourcing services expenditures	7,159,792	38.3	9,765,033	43.2	-26.7
	Others	4,024,267	21.5	4,938,275	21.8	-18.5
	Total	18,686,502	100.0	22,611,973	100.0	-17.4
Chemical fiber business	Raw materials	12,762,993	86.0	15,351,437	89.5	-16.9
	Fuel and power	725,154	4.9	624,541	3.6	16.1
	Employees costs	677,334	4.5	666,699	3.9	1.6
	Depreciation and amortization	576,993	3.9	377,559	2.2	52.8
	Others	106,494	0.7	128,898	0.8	-17.4
	Total	14,848,968	100.0	17,149,134	100.0	-13.4

b. Major suppliers

During the reporting period, the aggregate purchase amounts from the top five largest suppliers was RMB 27,329,485,000, accounting for 53.9% of the Company's total purchase amounts, including the largest supplier accounted for 52.4% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

During the reporting period, except the disclosure information about the connected transactions with controlling shareholders and its subsidiaries in the part of "Information on connected transactions" in "Significant Events", the company's directors, supervisors and its close contacts or any other shareholders holding over 5% of the company's shares are not found having any equity of the above main customers and suppliers.

D. Expense

Item	2014 RMB'000	2013 RMB'000	Year-on-year change (%)	Reason for change
General and administrative expenses	5,367,890	5,341,940	0.5	Roughly equal to that of last year
Selling and distribution expenses	312,380	321,379	-2.8	Caused by the strengthening of cost control
Financial cost	806,565	828,277	-2.6	Improving in the loan structure; increasing of the proportion of low interest rates of US Dollar borrowings, which led to decrease of the interest expense.
Impairment losses	1,135,411	143,048	693.7	Provision on fixed assets and intangible assets of the fiber business.
Income tax expenses	974,713	925,900	5.3	The increase of annual profit before tax.

E. Statement of research and development expenditure

Unit: RMB'000

Expenditure research and development expenditure for 2014	524,879
Capitalized research and development expenditure for 2014	—
Total research and development expenditure for 2014	524,879
Percentage of total research and development expenditure in net assets (%)	2.8
Percentage of total research and development expenditure in operating income (%)	0.6

In 2014, the Company's research and development expenditure was RMB 524,879,000, representing an increase of 8.3 per cent as compared with RMB 484,506,000 in last year. The main reason was the Company's increase in research investment.

F. Changes in cash flow statement items

Item	2014 RMB'000	2013 RMB'000	Change (%)	Reason for change
Refunds of taxes and fees received	422,270	298,142	41.6	The increase of the consumption tax refund that received this year
Cash received from disposal of investment	1,020,000	135,000	655.6	Repayment of borrowing.
Cash received from investment income	11,917	4,307	176.7	Interest income arising from the incoming assets' external borrowings
Net cash from disposing fixed assets, intangible assets and other long-term assets	64,345	14,660	338.9	The increase of the disposal of assets this year
Cash paid for buying fixed assets, oil and gas assets, intangible assets and other long-term assets	4,183,375	7,285,025	-42.6	The decrease of Capital expenditures this year
Cash paid for investment	851,349	—	N/A	Investment for setting up joint venture this year
Cash paid for other relating investment activities	71,933	40,000	79.8	Due to the selling of outgoing assets.
Cash received from borrowings	78,120,590	53,451,827	46.2	A substantial increase in borrowing this year
Cash received from other relating financing activities	1,303,683	6,546,816	-80.1	In incoming Assets, the decrease of incoming funds from China Petrochemical Corporation
Cash paid for debt repayment	81,851,284	56,370,140	45.2	A substantial increase in repayments of borrowings this year.
Cash paid for dividends, profits or interest	692,143	1,470,469	-52.9	Decrease in Payment of cash dividends this year

G. Other

a. The specific information about the change of Company's profit structure or its profit resource

During the reporting period, the Company implemented Material Assets Reorganisation. On 18 December 2014, the Company received the documents from CSRC *the approval reply on YCFC's Material Assets Reorganisation and YCFC's offering shares to purchase assets from CPC and complementary private placement (CSRC Permission No.[2014]1370)*, which approved the Material Assets Reorganisation. As at 31 December 2014, the Company completed the related restructuring procedures, including the delivery of assets, share repurchasing and cancellation, stock registration related to offering A shares to purchase assets, which made the main business of the Company changed from the production and sales of fiber products to oil and gas exploration and production and its related technical services.

b. The analysis and information about the implementation progress of the Company's financing and Material Assets Reorganisation activities during the earlier time.

On 22 December 2014, this Material Assets Reorganisation entered into the period of assets delivery; as at 31 December 2014, the Company completed the delivery of assets, share repurchasing and share registration procedures of the cancelling and purchasing assets related to this Material Assets Reorganisation; on 3 March 2015, the Company complete the related procedure of complementary private placement, the details are as following:

① YCFC signed the *Delivery Confirmation of Outgoing Assets* with Sinopec on 22 December 2014, confirming this date is as the outgoing assets delivery date; on 23 December 2014, the outgoing assets delivery was completed.

② YCFC signed the *Delivery Confirmation of Incoming Assets* with Sinopec on 22 December 2014, confirming this date is as the incoming assets delivery date; on 23 December 2014, the incoming assets delivery was completed.

③ On 23 December 2014, the company opened a trading dedicated account for shares intending repurchasing and its cancelling in CSDC-Shanghai (Account number: B888410009); on 25 December 2014, Sinopec applied for transferring the intending repurchasing shares into this trading dedicated account; on 30 December 2014, CSDC-Shanghai issued the *Registrar Confirmation* to confirm that the transfer procedures of the proposed repurchasing shares had been completed; on 31 December 2014, application by the Company, the Company canceled the intending repurchasing shares in CSDC-Shanghai, and promptly canceled the Special Securities Account of repurchasing.

④ On 31 December 2014, the Company got the *Proof of Registration of Securities Change* issued by CSDC-Shanghai, the procedures of the securities registration related to the non-public offering of 9,224,327,662 A shares to CPC was completed.

⑤ On 3 March 2015, the Company completed the registration matters related to the complementary private placement issuing shares in CSDC-Shanghai. The complementary private placement issued 1,333,333,333 A shares by RMB 4.5/share. The total raised fund was RMB 5,999,999,998.5, by deducting the issue cost of RMB 47,483,333.0, the net raised fund was RMB 5,952,516,665.5.

(2) Statement of the operations by products, industry and regions operating

1. Statement of operation by industry and products

Industry	Operating income for 2014 RMB'000	Operating cost for 2014 RMB'000	Gross profit margin (%)	Increase or decrease in operating income as compared with last year (%)	Increase or decrease in Operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	5,065,923	4,411,524	12.9	-23.7	-27.6	Increased by 4.6%
Drilling	39,003,458	33,964,781	12.9	-5.9	-10.0	Increased by 4.0%
Logging/Mud logging	4,176,936	3,290,356	21.2	-18.4	-21.5	Increased by 3.1%
Downhole Operation	8,457,649	7,549,804	10.7	-10.2	-10.7	Increased by 0.4%
Engineering and construction	20,143,747	18,686,502	7.2	-17.7	-17.4	Decreased by 0.5%
Chemical Fiber	14,902,022	14,848,968	0.4	-12.5	-13.4	Increased by 1.1%
Other	1,592,829	1,300,233	18.4	-13.1	-10.3	Decreased by 2.6%
Total	93,342,564	84,052,168	10.0	-11.9	-14.0	Increased by 2.2%

2. Operating income by regions

Region	Operating income for 2014 RMB'000	Operating income for 2013 RMB'000	Increase/Decrease from last year (%)
Mainland China	76,089,832	86,635,073	-12.2
Hong Kong, Macau, Taiwan, and overseas	16,984,852	19,348,481	-12.2

(3) Statement of assets and liabilities analysis

Item	Amount at December 31, 2014 RMB'000	Percentage of amount at December 31, 2014 in total assets (%)	Amount at December 31,2013 RMB'000	Percentage of amount at December 31, 2013 in total assets (%)	Changes from the end of the preceding year to the end of this year
Notes receivables	219,506	0.3	2,744,179	3.0	-92.0
Accounts receivable	28,064,935	34.5	25,681,568	27.7	9.3
Inventories	11,932,142	14.7	13,869,328	15.0	-14.0
Other current assets	168,076	0.2	339,793	0.4	-50.5
Long-term equity investments	107,999	0.1	599,464	0.6	-82.0
Fixed assets	29,693,146	36.5	34,903,818	37.6	-14.9
Construction in progress	1,387,284	1.7	3,683,066	4.0	-62.3
Disposal of fixed assets	3,175	—	1,520	—	108.9
Intangible assets	92,351	0.1	378,074	0.4	-75.6
Deferred income tax assets	156,679	0.2	220,375	0.2	-28.9
Short-term borrowings	11,889,709	14.6	16,017,666	17.3	-25.8
Employee benefits payable	288,285	0.4	487,456	0.5	-40.9
Interest payables	20,028	—	33,907	—	-40.9
Other payables	7,327,469	9.0	3,001,164	3.2	144.2
Non-current liabilities due within one year	125,870	0.2	200,000	0.2	-37.1
Special payables	2,647	—	7,380	—	-64.1
Deferred income	43,951	0.1	69,588	0.1	-36.8
Deferred income tax liabilities	46,895	0.1	4,852	—	866.5

Note:

1. Notes receivables decreased RMB 2,524,673,000 from the previous year, which was mainly caused by the Company's selling outgoing assets. If without this factor, the notes receivables was essentially flat with that of the previous year.
2. Accounts receivable increased RMB 2,383,367,000 over the previous year, which was mainly because the failure to pay out caused by the client's financial constraints, affecting by the macroeconomic circumstance.
3. Inventories decreased RMB 1,937,186,000, from the previous year, which was mainly caused by the Company's selling of outgoing assets and by the declining of the workload.
4. Other current assets decreased RMB 171,717,000 from the previous year, which was mainly caused by the company's selling of outgoing assets. Without this factor, other current assets actually increased compared with the beginning of the year, which was caused by the increase of the VAT remaining tax.
5. Long-term equity investment decreased RMB 491,465,000 from the previous year, which was mainly caused by the Company's selling of outgoing assets, and by the combined effect of the new investment to two Joint Ventures this year.
6. Fixed assets decreased RMB 5,210,672,000 from the previous year, which was mainly caused by the Company's selling of outgoing assets.
7. The project under construction decreased RMB 2,295,782,000 from the previous year, which was mainly caused by the transferring to fixed assets and intangible assets.
8. Fixed assets cleanup increased RMB 1,655,000 over the previous year, which was mainly caused by the incompletion of the scrapped assets Cleanup.
9. Intangible assets decreased RMB 285,723,000 from the previous year, which was mainly caused by the Company's selling of outgoing assets.
10. Deferred tax assets decreased RMB 63,696,000 from the previous year, which was mainly caused by the reduction of the deferred tax assets confirmed by the previous year of the Company's transfer.
11. Short-term borrowings decreased RMB 4,127,957,000 from the previous year, which was mainly caused by the repayment of borrowings.
12. The employee benefits payables decreased RMB 199,171,000 from the previous year, which was mainly caused by the Payment of social insurance and housing fund.
13. The interest payables decreased RMB 13,879,000 from the previous year, which was mainly caused by the declining of the loan scale at the end of the year.
14. Other payables increased RMB 4,326,305,000 over the previous year, which was mainly because that the recovered net incoming assets of CPC has not been paid yet.
15. The non-current liabilities due within one year decreased RMB 74,130,000 from the previous year, which was mainly caused by the repayments of borrowings.
16. Special payables decreased RMB 4,733,000 from the previous year, which was mainly caused by the payment of relocation compensation.
17. The deferred income decreased RMB 25,637,000 from the previous year, which was mainly because that the deferred incomes of previous years was considered as the government grants this year.
18. Deferred tax liabilities increased RMB 42,043,000 over the previous year, which was mainly because that this year, some its subsidiaries changed its systems from state-owned enterprises to limited company, the revaluation part was considered as deferred tax liabilities.

(4) Core competitiveness

A. The Company has the service ability to cover all the oilfield service chains. It can provide the whole services from exploration to development and production for the oilfield, resulting in bringing the value to the oil company.

B. The Company has over 50 years experiences for oilfield service, and is the biggest provider of petroleum engineering services and oilfield technical integrated services in China, with strong execution capabilities. It has some representative projects, such as Puguang gas field, Fulin shale gas, Yuanba gas field, and Tahe oilfield.

C. The Company has advanced technology of exploration and development and strong abilities of research & development. It has a number of advanced technologies with independent intellectual property rights, which can continually bring higher value-added services.

D. The Company has the experienced management and high efficient and well organized operation team.

E. The Company has a stable growing customer base. It has the solid customer base such as CPC in the domestic China, and the growing number of client overseas.

(5) Analysis of investments

1. Securities investment

During the reporting period, no security investment items of the Company occurred.

2. Holding equity shares of other listed companies

During the reporting period, the Company held no equity shares of other listed companies being.

3. Holding equity shares of unlisted financial enterprises

During the reporting period, the Company held no equity shares of unlisted financial enterprises.

4. During the reporting period, no entrusted financing, entrusted loans, other investments and financing and derivatives investment items of the Company occurred.

5. Fund raising and the usage

During the reporting period, no fund-raising activities happened and the condition of the funds raised in earlier years being used up does not exist.

6. Information on the Company's subsidiaries and shareholding companies

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Net profit	Main Business
			RMB'000	RMB'000	RMB'000	RMB'000	
Sinopec Oilfield Service Corporation	RMB 4,000,000,000	100	81,295,708	61,081,363	20,214,345	2,424,556	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited	RMB 700,000,000	100	15,604,611	10,811,243	4,793,368	1,054,330	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited	RMB 450,000,000	100	14,039,683	9,564,452	4,475,231	486,111	Petroleum engineering technical service
Sinopec Henan Oil Engineering Company Limited	RMB 250,000,000	100	2,754,289	1,924,221	830,068	101,785	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited	RMB 250,000,000	100	6,002,953	4,858,705	1,144,247	89,963	Petroleum engineering technical service
Sinopec Jiangsu Oil Engineering Company Limited	RMB 250,000,000	100	2,377,641	1,493,107	884,533	124,886	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited	RMB 200,000,000	100	1,425,273	706,600	718,672	60,006	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited	RMB 200,000,000	100	4,615,789	2,579,902	2,035,887	104,347	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited	RMB 300,000,000	100	8,394,056	4,652,765	3,741,291	345,193	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited	RMB 300,000,000	100	5,428,981	3,885,599	1,543,381	193,117	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation	RMB 500,000,000	100	21,505,200	21,637,271	-132,071	-473,538	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited	RMB 2,000,000,000	100	4,615,854	616,526	3,999,328	248,497	Offshore Oil Engineering Technology Service
Sinopec International Oil Engineering Company Limited	RMB 700,000,000	100	2,660,742	1,722,471	938,271	101,563	Petroleum engineering technical service
SinoFTS Petroleum Services Limited	USD 55,000,000	55	42,895	1,293	41,602	-4,219	EOR service
Zhong Wei Energy Services Co., Limited	RMB 305,000,000	50	132,126	163	131,963	-3,262	Oilfield technical service

Name of company	Revenue	Profit
	RMB'000	RMB'000
Sinopec Oilfield Service Corporation	78,993,315	3,325,485
Sinopec Shengli Oil Engineering Company Limited	18,387,743	1,160,633
Sinopec Zhongyuan Oil Engineering Company Limited	10,556,912	535,788
Sinopec Jiangsu Oil Engineering Company Limited	2,604,401	147,308
Sinopec Southwest Oil Engineering Company Limited	5,433,801	430,328
Sinopec Oil Engineering Geophysical Company Limited	4,708,986	192,686
Sinopec Shanghai Offshore Oil Engineering Company Limited	1,748,039	297,239

7. Progress of projects financed by non-public raised proceeds

Unit: RMB'000

Name of the main project	Amount of the project	Project Progress	Investment Amount of this year	The cumulative amount of actual investment	Project Earnings
Shengli New No.1 Drilling Platform	537,530	65.0%	101,848	373,189	Under construction
Shengli No.6 Operation Platform	312,370	99.0%	143,992	314,906	Completed
Shengli 90 Drilling Platform	700,000	28.0%	196,285	196,285	Under construction
Saudi Workover Rig construction Project	108,310	73.3%	79,430	79,430	Under construction
Saudi Rig construction Project	246,330	89.0%	219,254	219,254	Under construction
Modification of Well Control System of Shanghai No.3 Exploration	241,460	97.5%	164,106	235,019	Completed
Shanghai 7000hp Multipurpose Supply Vessels	187,500	74.2%	72,716	139,064	Under construction
Total	2,333,500	/	977,631	1,557,147	/

2. Discussion and analysis of the board of directors on the Company's business in the future

(1) Analysis to the market

The world's economy turns into a slow recovery in 2015, while China's economy has entered a new normal. The global production of crude oil will surplus its demand for a long while as a result of slow growth of the international markets' demand, constant increase of shale oil production and steady production of main oil producing countries, etc. Thus, the international oil prices lay at lower points from the beginning of 2015. At the same time, the investment on oil and gas E&P will be cut down by both international and domestic oil companies, which brings more pressure for the development of oilfield service companies. Nevertheless, the new normal of China's economy does not change its upward tendency. Also thanks to the fast growth of demands for clean energy and of investment on natural gas as well as shale gas in China, the oilfield service industry will find new opportunities.

(2) Business Strategy in 2015

The Company will actively adapt to market changes and improve the service quality and efficiency. With a firm foundation of safe and stable operation, it will further deepen reforms, enlarge markets and improve efficiency to make benefits. At the same time, it will optimize resource collaborations and adjust structures for higher levels. To works for a better performance in 2015, the Company puts emphasis on the following aspects:

1. Geophysical service

The Company will continue the high-quality and efficient service for Sinopec Group. In a major push to enlarge the overseas markets, it will keep the advantages in low-cost development and featured technologies to improve its integrated service capabilities of acquisition, processing and interpretation. It plans to complete 2D seismic acquisition for 35,335 kilometers, while 3D for 13,605 square kilometers in 2015.

2. Drilling Service

The Company will continue the high-quality and efficient service for Sinopec Group's growing market shares. In traditional markets, it aims to maintain sound co-operations with Petro China, CNOOC, and Yanchang Petroleum Company, etc. It will leverage its mature drilling technologies acquired from establishing the state-level Fuling Shale Gas Pilot Project, to further develop markets in China's unconventional shale gas, geothermals and coal-bed gas industry. At the same time, progress will be made to adjust drilling structures and improve service quality as well as efficiency. In overseas markets, it aims to enlarge the market shares in the Middle East and maintain good performance in the Americas, Central Asia and Southeast Asia to contribute new growth points. It plans to complete drilling footage accumulated for 8,600 kilometers in 2015.

3. Logging/Mud logging service

The Company will continue the investment on technology R&D, leverage hi-tech equipments and excellent operation teams to provide customers with complete logging/mud logging service and the value-added services including data transmission, processing and interpretation, etc. In China, it will promote technologies for multi-stage perforation and develop unconventional markets. In overseas markets, it will leverage strengths in providing integrated oilfield services to enlarge the international markets. It plans to complete logging footage accumulated for 241,000 kilometers in 2015, while the mud logging footage accumulated for 7,850 kilometers in 2015.

4. Downhole operation service

The Company has accumulated engineering experiences from the state-level Fuling Shale Gas Pilot Project. Its technologies include staged fracturing in long horizontal wells, coiled tubing snubbing operation and acid gas fields operation, all of which make the Company to continue the leading role in the shale gas testing and fracturing. In China, it aims to leverage the leading technologies above to explore conventional and unconventional oil and gas markets. In overseas markets, it aims to create new growth points through constant development in the Middle East market, headed by the workover business in Kuwait, and renew workload in Turkmenistan. In 2015, it plans to complete downhole operation service for 4,980 wells.

5. Engineering and construction service

In China, the Company aims to raise its market shares through strengthened operation of signed projects, catch available opportunities for developing and producing natural gas, and secure the oil and gas production and production capabilities built for offshore oilfields. In the overseas markets, it aims to adjust the market distribution, improve the marketing development quality and strengthen the risk controls. In 2015, it plans to sign new contracts valued RMB 15.3 billion and complete contracts valued RMB 16.9 billion.

6. International business

The Company will continue the firm implementation of internationalization strategy in 2015. To achieve that, firstly it aims at traditional markets with high workload, and fully leverages its built-up brands and sound cooperation with customers to establish prominent strategic regions who have integrated demands for drilling, geophysics, engineering and construction services. Secondly, it will strengthen efforts to develop integrated oilfield service projects, and promote the high value-added business. It will give prior concerns to EBANO oilfields in Mexico, and those integrated service projects in Kuwait, Nigeria, etc. Also it will focus on the drilling lump sum projects in Kazakhstan and the shallow sea drilling projects in Nigeria. Thirdly, it works to deepen the co-operations with Sinopec International Exploration and Production Corporation (SIPC) and increase the market shares in SIPC's invested projects overseas. In 2015, it plans to sign new contracts valued USD 2.4 billion and complete contracts valued USD 2.3 billion.

7. Research and development

The Company will collect strengths for technical innovation and provide support for E&P. It also aims to upgrade and promote transformation. To achieve those targets above, firstly it will develop a series of leading and sustainable core technologies. Also it will continue the work on technologies of high precision seismic data acquisition, processing and interpretation under complicated geophysical conditions. And plans have been made for developing global leading technologies of drilling and completion. Secondly, it will make efforts to develop a series of technologies with featured strengths, including those for developing low grade reservoirs with low cost and high efficiency, for unconventional shale gas engineering and for integrated oilfield service projects, to provide large scale integrated services. by Thirdly, a series of applicable technologies are to be promoted, such as the geophysical I-tech, exploration and development technologies for acid gas fields, and well factory drilling model. Fourthly, it plans to prepare a series of advanced and sustainable technologies for future development.

8. Capital Expenditures

The Company's capital expenditures budget for 2015 is RMB 4.51 billion. That will be spent on high-end business development, offshore engineering equipment manufacturing, key labs establishment, safe production governance and environmental protection projects. It plans to continue the efficiency - oriented operation for upgraded quality as well as efficiency. Also it will place focuses on environmental protection, non-productive projects, and sustainable development. It will continue the investment and push forward the resource allocation, development transformation, marketing structure adjustment to increase high-end market shares and strengthen its competitiveness.

(3) Risk factors

In the course of its production and operation, the Company actively took various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

1. Risks with regard to cyclical effects of the industry

The majority of the business income of the Company comes from oil and gas technical services. Affected by the factors of the slowdown demand of global oil & gas market and weak economic recovery, the international oil price continued to decline in the second half of 2014, leading to the reduction in oil exploration and development investment, thereby reducing the demand for oilfield services. Simultaneously, the signed project faced the risk of termination or postponement due to the reducing investment.

2. Market competition risk

At present, the competition increased in the domestic and international oilfield services market. The Company's main competitors include various domestic companies and large multinational companies. Among them, many competitors have strong ability in research & development capabilities, customer base, brand awareness and other aspects. With the downturn in international oil prices and an increase in the number of competitors, the Company will face intense competition in all aspects of the market, price, talent, technology and management.

3. Risks with regard to change of environmental legislation requirements

The Company is governed by a number of environmental protection laws and regulations in China. Wastes (waste water, waste gas and waste residue) are generated during the Company's production operations. Currently the Company's operations are in full compliance with the requirements of all applicable Chinese environmental protection laws and regulations. But the relevant government authorities may promulgate and implement more strict environmental protection laws and regulations, adopt more strict environment protection standards. Under the above-mentioned situation, the Company may incur more expenses in relation to the environment protection accordingly.

4. Hidden hazards and force majeure risk

The production of petrochemical products involves certain risks, which may cause unexpected or dangerous event such as personal injuries or death, property damage, environmental damage and disruption to operations, etc. With the expansion in the scale of operations, the hazard risks faced by the Company also increase accordingly. Further, new regulation promulgated by the State in recent years set out higher standard for production safety. The Company has implemented a strict HSE management system and used its best endeavors to avoid the occurrence of accidents. However, the Company cannot completely avoid potential financial losses caused by such contingent incidents. In addition, natural disasters such as earthquake, typhoon and emergency public health events may cause losses to properties and personnel of the Company, and may affect the normal operations of the Company. The Company has implemented a strict HSE management system and strived to avoid all types of accidents, but still can not completely avoid economic loss caused by such incidents.

5. Exchange rate risk

At present, the implementation of the RMB exchange was based on market supply & demand, regulated and managed by floating exchange rate system with the reference to basket of currency. As the company uses foreign currency to pay international business, signed the contract mainly in US dollar, the exchange floating of US dollar or other currency affected the revenue of the Company.

3. Explanation of the Board on non-standard opinion given by the auditors

(1) Explanation of the Board and the Supervisory Committee in relation to any non-standard audit report given by the auditors

√ Not applicable

(2) Analysis and explanation of the Board on the reasons and impact of the change in accounting policy, accounting estimation and verification method

√ Not applicable

(3) Analysis and explanation of the Board on the reasons and impact of the correction to material errors for last period

√ Not applicable

4. Profit Distribution Plan or Plan to Convert Surplus Reserves into Share Capital

(1) Formulation, implementation or adjustment of dividend policy

In accordance with the requirements of Notice on Further Implementing Issues Concerning Cash Dividends of Listed Companies issued by the China Securities Regulatory Commission ("CSRC"), the Company had amended and perfected certain provisions concerning profit distribution policies in its articles of association, which have been considered and passed at the seventeenth meeting of the Seventh Board of Directors and the first extraordinary general meeting in 2014 held on 11 November 2014. The Company's current dividend policy is as follows: during the reporting period, under the situation of: 1) Company's profit gaining, 2) the Company's positive accumulated undistributed profit and 3) the Company's cash flow meets the requirement of its normal operation and sustainable development, then the Company shall have the dividends and the annual dividends shall not less than 40% of the current net profit attributed to the Company shareholder's. The specific condition for the Company issuing stock dividends plan is as following, the stock dividend distribution plan could be proposed under the situation of: 1) the Company's good operation, 2) the board's considering of that the Company's stock price does not match its equity scale and its issuing of stock dividends is in favor of the interests of all Company's shareholders, and 3) the qualification of meeting the above cash dividends. Cash dividends shall achieve at least 20% at this profits distribution.

Due to the negative of the Company's undistributed profits at the end of 2014, there were no cash dividends. But the Company would strictly implements its "Articles', soon as the achievement of capability for cash dividends, the Company will perform decision-making process in accordance with relevant provisions and play the role of independent directors in order to safeguard the legitimate rights and interests of the middle and minority shareholder.

(2) If the Company records profits and the parent company records a positive undistributed profit during the Reporting Period but there is no proposal for cash dividend, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

√ Not applicable

(3) Profit distribution plan or pre-arranged plan or plan or pre-arranged plan to convert surplus reserves into share capital in the previous three years (inclusive of the reporting period) (in accordance with "ASBE")

Years of distribution	Amount of dividend for every 10 shares	Amount of cash dividends	Numbers of shares converted for every 10 shares	Net profit attributable to equity shareholders of the listed company in the consolidated financial statement during the year of distribution ("-" for losses)	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement
	(RMB)	(RMB)	(share)	RMB'000	(%)
	(Tax included)				
2014	—	—	—	1,229,753	—
2013	—	—	5	-1,454,217	—
2012	—	—	—	-361,367	—

Note: the data of 2012 and 2013 was the related financial data in the Company's disclosed financial report.

5. Information on social responsibility

(1) Information on social responsibility

For information on social responsibility, please refer to "Report on Social Responsibility for 2014" of the Company.

(2) The Company is not categorized as an "enterprises with serious pollutions" as announced by the relevant environmental protections authorities and it had no material environmental or other social security issues in 2014.

6. Assets, liabilities, shareholders' equity and cash flow (Extracted from the financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"))

The Company's primary sources of funds, coming from operating activities and short-term borrowings etc., are primarily used in operating activities, capital expenditures and repayment of short-term and long-term borrowings.

(1) Assets, liabilities and shareholders' equity analysis

	As to 31 December 2014	As to 31 December 2013	The rate of change
	RMB'000	RMB'000	%
Total assets	81,295,708	92,736,669	-12.3
Current assets	44,532,552	47,852,628	-6.9
Non-current assets	36,763,156	44,884,041	-18.1
Total liabilities	62,599,570	62,003,460	1.0
Current liabilities	61,937,914	61,308,616	1.0
Non-current liabilities	661,656	694,844	-4.8
Total equity attributable to equity shareholders of the Company	18,697,120	30,648,271	-39.0

Total assets were RMB 81,295,708,000, representing a decrease of RMB 11,440,961,000 from that at the end of 2013, of which: Current assets were RMB 44,532,552,000, representing a decrease of RMB 3,320,076,000 from that at the end of 2013. The decrease was mainly due to the Company's setting out to sell assets to Sinopec at the end of 2014. Non-current assets were RMB 36,763,156,000, representing a decrease of RMB 8,120,885,000 from that at the end of 2013, which was mainly due to the Company's setting out to sell assets to Sinopec at the end of 2014.

Total liabilities were RMB 62,599,570,000, representing an increase of RMB 596,110,000 from that at the end of 2013, of which: Current liabilities were RMB 61,937,914,000, an increase of RMB 629,298,000 as compared with the end of 2013, which was mainly due to the combined effects of both the increase of the payables and decrease of Short-term borrowings. Non-current liabilities were RMB 661,656,000, an decrease of RMB 33,188,000 compared with the end of 2013, which was mainly due to an decrease of RMB 11,837,000 in long-term borrowings.

Total equity attributable to equity shareholders of the Company was RMB 18,697,120,000, a decrease of RMB 11,951,151,000 as compared with the end of 2013, mainly due to that China Petrochemical Corporation recovered part of net assets of the incoming assets and selling the outgoing assets in 2014.

As at 31 December 2014, the ratio of total liabilities to total assets was 77.0%, and 66.9% as at 31 December 2013.

(2) Cash flow analysis

The main items of cash flow of the Company in 2013 and 2014 showed in the following table.

Main items of cash flow	2014	2013
	RMB'000	RMB'000
Net cash inflow from operating activities	4,501,360	1,171,754
Net cash outflow from investing activities	(2,528,821)	(7,116,508)
Net cash (outflow)/inflow from financing activities	(2,464,879)	3,718,480
Decrease in cash and cash equivalents	492,340	2,226,274
Cash and cash equivalents at the beginning of the year	1,694,094	3,920,368
Cash and cash equivalents at the end of the year	1,201,754	1,694,094

In 2014, the Company's net cash inflow from operating activities was RMB 4,501,360,000, representing an increase of cash inflow by RMB 3,329,606,000 as compared with last year. This was mainly due to an increase of the Company's pre-tax profit in 2014 and the more declining of the receivables' increasing as compared with last year.

In 2014, the Company's net cash outflow from investing activities was RMB 2,528,821,000, a decrease of cash outflow by RMB 4,587,687,000 as compared with last year. It was mainly due to the decrease in capital expenditure as compared with last year.

In 2014, the Company's net cash outflow from financing activities was RMB 2,464,879,000, an increase of cash outflow by RMB 6,183,359,000 compared with last year. It was mainly due to the substantial increase in repayments of borrowings in 2014.

(3) Bank borrowings

As at 31 December 2014, the Company's bank borrowings were RMB 12,498,432,000 (31 December 2013: RMB 12,197,666,000). These borrowings include the short-term borrowings in RMB 11,889,709,000, the long-term borrowings due with one year in RMB 110,000,000 and the long-term borrowings more than one year expirations in RMB 498,723,000; the fixed-rate loans were RMB 4,400,000,000 and the floating rate loans were RMB 8,098,432,000. As at 31 December 2014, approximately 36.2% were denominated in Renminbi and approximately 63.8% were denominated in US Dollars.

(4) Gearing ratio

As at 31 December 2014, the gearing ratio of the Company was 37.8% (31 December 2013: 32.9%). The ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

7. Financial Information

(1) Assets pledge

For the year ended 31 December 2014, there was no pledge on the Company's assets.

(2) Foreign Exchange Risk Management

It is set forth in note 43 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(3) Financial Summary

A summary of the results and of the assets and liabilities of the Company for the last five financial years (extracted from the financial statements prepared in accordance with the IFRSs) is set forth in the section on "Financial Summary" of the Annual Report.

A summary of the results and of the assets and liabilities of the Company for the last three financial years (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises) is set forth in the section on "Financial Summary" of the Annual Report.

(4) Reserves

Changes in reserves of the Company during the reporting period are set forth in note 30 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(5) Fixed assets

Movements in fixed assets of the Company, during the reporting period, are set forth in note 18 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(6) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company as at 31 December 2014 are set out in note 36 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(7) Retirement plan

Particulars of the retirement plan operated by the Company are set forth in note 17 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(8) Income tax

During the twelve months at the end of 31 December 2014, the Company's incoming tax is RMB 974,713,000 (2013: RMB 925,900,000), the actual paid tax rate is 44.2% (2013: 91.2%). The main reason for the change of the actual paid tax rate is as following: 1) the existence of losses of the company and parts of its subsidiaries, 2) the expansion of the Company's overseas business, and the different calculation method of tax rate in different countries of the Company's overseas subsidiaries, and 3) the fluctuations of the contribution of some its subsidiaries which enjoy preferential income tax. In addition, the Company paid tax in the countries and regions where it has businesses.

(9) Capitalized Interest

Details of Capitalized Interest of the Company are set out in note 6 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

Report of the Supervisory Committee

Report of the Supervisory Committee

Dear shareholders,

In 2014, all supervisors of the Company follow the relevant provisions of "Company Law of the People's Republic of China" and "Articles of Association", complied with principles of honest and obey, actively participate in supervising the Company's management process, seriously consider major decisions and earnestly fulfill the duties of supervision, in order to safeguard the interests of shareholders and the Company. They all serve their duties of supervision, security and service. Now the 2014 work report of supervisory committee is as follows:

1. Meetings of the supervisory committee

The supervisory committee convened four meetings in 2014.

1.1 The Company's sixth meeting of the seventh session of the supervisory committee was held on March 27, 2014. This meeting deliberated and passed 2013 Annual Report, 2013 Self evaluation report of internal control, Resolution of expertise on disposal of some parts of assets, 2013 Resolution of Daily related transactions and 2013 work report of supervisory committee.

1.2 The Company's seventh meeting of the seventh session of the supervisory committee was held on August 22, 2014. This meeting deliberated and passed following Resolutions like Resolution on disposal of some parts of assets, Resolution on provisional capital for depreciation and accelerated amortization of long-term prepaid expenses, Resolution on No interim dividend and 2014 Semi-annual report.

1.3 The Company's eighth meeting of the seventh session of the supervisory committee was held on September 12, 2014. This meeting deliberated and passed following Resolutions like Resolution that the Company meets the basic conditions of major assets reorganization, Resolution that the Material Assets Reorganization fits the fourth rule of "The provisions of several issues on Regulating listing Corporation Material Assets reorganization", Resolution that he Material Assets Reorganization constitutes Transaction, Resolution on specific scheme of the Material Assets Reorganization, Resolution on "report on Sinopec Yizheng chemical Limited company's major assets selling, Repurchase, issue shares and purchase Assets and raise matching funds which is related transactions (Draft)" and Abstract, Resolution on Opinions of assets assessment related matters of this major assets reorganization, Resolution on Approval of related financial report, Profit forecast report and Assets evaluation report of this major assets reorganization, Resolution subject to a condition on "Agreement to sell assets between Sinopec Yizheng Chemical Limited Company and China Petroleum Chemical Limited Company", Resolution subject to a condition on "Agreement on Stock repurchase between Sinopec Yizheng Chemical Limited Company and Sinopec Chemical Limited Company", Resolution subject to a condition on "Agreement on issue shares and purchase Assets between Sinopec Yizheng Chemical Limited Company and Sinopec Chemical Limited Company", and Resolution on newly added daily transactions after the completion of this Material Assets reorganization.

1.4 The Company's ninth meeting of the seventh session of the supervisory committee was held on December 22, 2014. This meeting deliberated and passed Resolution to revise rules of procedure of the supervisory committee, change 2014 domestic and overseas auditors and internal control auditors. In 2014,the supervisory committee separately examined the first and third season reports of the Company. Since the seventh session of the supervisory committee expired, we held the first meeting of the eighth session of the supervisory committee and selected Mr. Wang Chunjiang as chairman of the eighth session of the supervisory committee.

2. Fulfillment of duties

After supervising the process of major decisions and operation situations, the supervisory committee has following conclusions: in 2014, facing the severe challenge of sharply falling International oil prices and workload, the Company took the benefit as center, expanded market, adjusted structure, emphasized optimization, built high-end product and strict management to realize production and operation goals and achieved good operating performance. At the same time, the Company smoothly implemented and successfully completed the Material Assets Reorganization, realized the transformation of main business and protected the interests of small and medium shareholders. The supervisory committee has no violation on supervision affairs during this reporting period.

2.1 The board of directors earnestly fulfilled Rights and Obligations given by "Company Law of the People's Republic of China" and "Articles of Association", and make scientific decisions on major issues of the company's operation and development; Management group conscientiously implemented the resolutions of the board of directors, continued to deepen the reform, accelerated the structural adjustment, strengthened the strict management, reduced costs and increased efficiency to make a remarkable performance; we didn't find any violation of laws, rules and regulations, the articles of association or behaviors that would damage the interests of the Company or shareholders.

2.2 The report the Company prepared in 2014 conforms to relevant regulations of domestic and foreign securities regulatory authorities, and the financial report reflects the company's operating performance and financial situation truly and just. We didn't find any violation of secret protection requirements in report preparation and review personnel.

2.3 The transactions between the Company and Sinopec Group and its subsidiaries met the relevant provisions of The Stock Exchange of HongKong Limited and the Shanghai Stock Exchange. With fair terms of the transaction, these transactions fit the need of production and operation, and are consistent with the overall interests of shareholders and the Company.

2.4 During the reporting period, the Company did not provide guarantee for shareholders, actual controllers and their affiliates, or the guaranteed objects with the ratio of liabilities exceeding 70%, or any other associated parties holding less than 50% of the company's shares, any non-legal-person entities and individuals.

In 2015, the board of directors will continue to uphold the principle of good faith and diligence, conscientiously perform supervisory duties, enhance the supervision and inspection to protect interests of shareholders and the company.

Chairman of the supervisory committee

Wang Chunjiang

Chairman

Beijing, China

24 March 2015

Significant Events

1. Material litigation, arbitration and events commonly disputable by the media

During the reporting period, there is no material litigation, arbitration and events commonly disputable by the media.

2. Capital occupancy and progress on settlement of arrears

During the reporting period, there were no non-operating funds supplied by the Company to the controlling shareholders and its connected partners.

3. Insolvency and restructuring

During the reporting period, the Company was not involved in any insolvency or restructuring matters.

4. Acquisitions, disposals and mergers

(1) The disclosed information of company's acquisition or disposals of assets, any merger and acquisitions activities that has no any further change in the subsequent implementation

Description of the matter	Query Index
In 2014, the Company sold all assets and liabilities to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 A shares of the Company, and at the same time issued shares to China Petrochemical Corporation to buy its 100% equity of Sinopec Oilfield Service Corporation.	For more details, please refer to the related announcement of December 24, 2014, December 31, 2014 and January 4, 2015 at China Securities, Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange (http://www.sse.com.cn), and the announcement of December 23, 2014 and December 31, 2014 at the website of Hong Kong Stock Exchange (http://www.hkex.com.hk).

5. Stock option incentive plan and its effect

During the reporting period, the Company did not implement stock option incentive plan.

6. Information on connected transactions

(1) The significant connected transactions relating to daily operation

A. The significant connected transactions relating to ordinary operation of outgoing assets

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials	Sinopec and its subsidiaries	12,942,422	92.6
Purchase of materials	China Petrochemical Corporation and its subsidiaries	5,608	—
Sales of products	China Petrochemical Corporation and its subsidiaries	437,356	2.8
Borrowing obtained	China Petrochemical Corporation and its subsidiaries	3,700,000	61.6
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	4,400,000	74.1
Safety and insurance fund expenses	China Petrochemical Corporation and its subsidiaries	43,740	100.0
Safety and insurance fund refund	China Petrochemical Corporation and its subsidiaries	86,826	100.0

B. The significant connected transactions relating to ordinary operation of incoming assets

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials	China Petrochemical Corporation and its subsidiaries	13,547,400	79.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	50,878,618	61.3
Receiving of community services	China Petrochemical Corporation and its subsidiaries	1,663,942	100.0
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	163,643	100.0
Rendering of technology development services	China Petrochemical Corporation	276,520	100.0
Rental expenses	China Petrochemical Corporation and its subsidiaries	111,469	12.6
Loan interest expenses	China Petrochemical Corporation and its subsidiaries	558,865	91.4
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	72,102,555	99.4
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	75,264,319	100.0
Safety and insurance fund expenses	China Petrochemical Corporation and its subsidiaries	97,481	100.0
Safety and insurance fund refund	China Petrochemical Corporation and its subsidiaries	96,590	100.0

According to the Material Assets Reorganisation plan, the outgoing assets have already been sold to Sinopec on December 22, 2014. There will be no connected transactions relating to ordinary operation on outgoing assets in 2015.

The Company considers that it is important for the above connected transactions related to the incoming assets and selection of related party transactions, which would continue occur. The agreement of connected transaction is based on the need of Company's operations and actual market situation. Purchasing materials and equipment from China Petrochemical Corporation and its subsidiaries will ensure the stable and safe supply of the Company's materials. The fact of providing engineering service to China Petrochemical Corporation and its subsidiaries is decided by the history of the operating system of China's petroleum development and by the history of China Petrochemical Corporation's development, the China Petrochemical Corporation and its subsidiaries constitute the Company's main business income source, and the borrowed funds from China Petrochemical Corporation can satisfy the obtaining of financial resource under the situation of the fund shortage, so it is beneficial to the Company. The above transactions were mainly based on the market price which was decided by open bidding or negotiation, reflecting the fairness, justice and openness, beneficial to the development of Company's main business, and beneficial to ensure the maximization of the shareholder interests. The above connected transactions have no adverse effects on the profits of the Company or the independence of the Company.

The Company's independent non-executive directors have reviewed the Company's all continued connected transactions, and concluded that (1) the transactions between the Company and related parties were concluded in the routine business; (2) the transactions were concluded based on the General Commercial Terms, if there were no comparable items, an independent third party should provide the item or should rectify the item; (3) the transactions were in accordance with the relevant agreements, all the clauses of the agreements were fair and reasonable, and met the overall interests of the Company's shareholders; (4) the annual gross of transactions do not exceed the related annual limit of each kind of connected transactions agreed by the independent shareholders.

In accordance with Article 14A.56 of Hong Kong "Listing Rules", the Company's auditor issued its unqualified opinion letter to the board of directors of the Company regarding to the Company's disclosure of continuing connected transactions during the reporting period.

Details of related connected transaction of the Company are set out in Note 10 of the financial statements prepared in accordance with the PRC Accounting Standards of the Annual Report.

(2) Connected transactions related to acquisition or disposal of assets

A. The disclosed information that has no any further change in the subsequent implementation

Description of the matter	Query Index
In 2014, the Company sold all assets and liabilities to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 A shares of the Company, and at the same time issued shares to China Petrochemical Corporation to buy its 100% equity of Sinopec Oilfield Service Company Ltd..	For more details, please refer to the related announcement of December 24, 2014, December 31, 2014 and January 4, 2015 at China Securities, Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange (http://www.sse.com.cn), and the announcement of December 23, 2014 and December 31, 2014 at the website of Hong Kong Stock Exchange (http://www.hkex.com.hk).

(3) The connected obligatory rights and debts

Unit: RMB'000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	17,232,116	2,480,880	19,712,996	9,231,596	-1,396,170	7,835,426
Sinopec Finance Company Limited	—	—	—	4,869,900	-339,900	4,530,000
Sinopec Century Bright Capital Investment Limited	—	—	—	6,424,859	1,078,136	7,502,995
Total	17,232,116	2,480,880	19,712,996	20,526,355	-657,934	19,868,421

7. Significant contracts and performance

(1) Trusteeship, sub-contracting and leasing

During the reporting period, there were no trusteeship, sub-contracting and leasing of properties of other companies by the Company which would contribute profit to the Company of 10 per cent or more of its total profits for the current period.

(2) Guarantee

The Company did not make any guarantee or pledge during the reporting period.

(3) Other significant contract

During the reporting period, except the contract related to the Material Assets Reorganisation, the Company did not enter into any other material contract which requires disclosure.

8. Performance of undertaking

(1) The commitments made by the Company or its shareholders with holdings of more than 5 per cent, the controlling shareholders and the ultimate controllers during or until the reporting period.

Commitment Background	Acceptance	Commitment	Completion date of commitment	Performance of commitment
Commitments regarding share reform	Sinopec, CITIC Limited	Within 12 months from the date their non-tradable A shares in the Company have obtained the right to be tradable on the stock market, they will propose that, subject to compliance with the relevant systems of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance and CSRC, the board of directors of the Company makes a proposal for a share option incentive scheme, with the exercise price of the first grant of share options being not less than RMB 6.64 per A share, being the closing price of the A Shares on 30 May 2013 (such minimum exercise price will be subject to adjustment due to matters for exclusion of rights and dividends prior to the announcement of the proposal for the share option incentive scheme)	August 19, 2014	As at August 19, 2014, the Company does not have the conditions of the implementation of equity incentive plan due to the consecutive losses of operating results. China Petrochemical Corporation Board of Directors of the Company made the commitment to draw equity incentive plan after the completion of Material Assets Reorganisation under the related regulation.
Commitments regarding share reform	Sinopec	Sinopec will continue to support the Company's future development after completion of the Company's share reform to accelerate its transformation and development, and will take it as the development platform for related businesses henceforth.	Long Term	During the reporting period, the Company implemented the Material Assets Reorganisation plan, among which, the Company sold all the outgoing asset to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 shares of the Company. After the implementation of the Material Assets Reorganisation, the Company's business scope will be changed, and its profitability will be improved. At the same time, the controlling shareholder of the Company changed to China Petrochemical Corporation. Sinopec has fulfilled the promise.

Significant Events

Commitment Background	Acceptance	Commitment	Completion date of commitment	Performance of commitment
Commitments regarding the Material Assets Reorganisation	China Petrochemical Corporation	The Non-Competition Undertaking 1. China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights. 2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. Within 5 years of the Material Assets Reorganisation, China Petrochemical Corporation will find the appropriate opportunity to sell the Petroleum Service Business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the Material Assets Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

Commitment Background	Acceptance	Commitment	Completion date of commitment	Performance of commitment
Commitments regarding the Material Assets Reorganisation	China Petrochemical Corporation	The Commitment of Regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation an its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Commitments regarding the Material Assets Reorganisation	China Petrochemical Corporation	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company.	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

(2) The existence of earnings forecast about the Company's assets and projects, and the reporting period is still in the earnings forecast period, the information about whether the Company's assets or projects achieved the original earning forecast and its reasons.

During the reporting period, the Company implemented the Material Assets Reorganisation. During the process of restructuring, the Company predicted the earning situation about the post-restructuring (for more details, please refer to the related announcement of 13 September 2014 at the website of www.sse.com.cn and http://www.hkex.com). The predicted net profit of incoming assets 2014 is RMB 2,421,975,700, the actual net profit is RMB 2,424,555,900. The Grant Thornton (special general partnership) issued the special audit report about the actual situation of the predicted earnings of the incoming assets in the Material Assets Reorganisation of the SSC (for more details, please refer to the related announcement of 25 March 2015 at the website of www.sse.com.cn and http://www.hkex.com).

9. The situation of appointment and dismissal of the accounting firm

Whether or not change the accounting firm	Yes	
	The primary employment	The present employment
The name of the domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)	Grant Thornton (special general partnership)
The audit period for the domestic accounting firm	1 year	—
The name of the overseas accounting firm	Pricewaterhouse Coopers	Grant Thornton Hong Kong Limited
The audit period for the overseas accounting firm	1 year	—
The remuneration of the domestic and overseas accounting firm	RMB 4,670,000	RMB 9,600,000

Significant Events

The description for the appointment and dismissal of the auditor:

Due to that Grant Thornton (Special General Partnership) was responsible for the preparation of financial report of Sinopec Oilfield Service Corporation during the period of this Material Assets Reorganisation, the Board tended to cooperate with Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2014, for its more conductive role to the promotion of the Company's future audit work. By the proposal of the Company's audit committee, Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2015. The Proposal has been approved by the Shareholders at the first extraordinary general meeting of 2015.

The Board of Directors of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor of the Company for the year 2015. The proposal will be be effective after its approval at the Company's 2014 AGM.

10. The punishment or rectification situation suffered by the company or its directors, supervisors, senior management, shareholders who hold more than five percent of the company's shares and ultimate controller.

During the reporting period, none of the Company or its Directors, Supervisors, senior management, shareholders who hold more than five per cent of the Company's shares or ultimate controller was subject to any investigation by relevant authorities or enforcement by judicial or disciplinary departments or subject to criminal liability, or subject to investigation or administrative penalty by the CSRC, nor any denial of participation in the securities market or deemed unsuitability to act as directors thereby by other administrative authorities or any public criticisms made by a stock exchange.

11. The effect on the consolidated financial statements by implementing the new accounting standards

From January 2014 to July 2014, the Finance Ministry issued the "Enterprise Accounting Standards No. 39 - fair value" (the 'Enterprise Accounting Standards No. 39"), "Accounting Standards for Enterprises No. 40 - the Joint Venture Arrangement" (the "Enterprise accounting Standards No. 40") and "Enterprise Accounting Standards No. 41 - Disclosure of Interests in Other Entities" (the "Enterprise Accounting Standards No. 41"), revised the "Accounting Standards for Enterprises No. 2 - Long-Term Equity Investment" (the "Enterprise Accounting Standards No. 2"), "Enterprise Accounting Standards No. 9 - Employee Benefits" (the "enterprise Accounting Standards No. 9"), "Enterprise Accounting Standards No. 30 - presentation of Financial Statements" (the "Enterprise Accounting Standards No. 30"), "Accounting Standards for Enterprises No. 33 - Consolidated Financial Statements" (the "Enterprise Accounting Standards No. 33") and the "Enterprise Accounting Standards No. 37 - Financial Instruments" (the "Enterprise Accounting Standards No. 37"), in addition to the Enterprise Accounting Standards No. 37 used in the 2014 annual financial report and in subsequent periods, the above other criteria came into force from July 1, 2014.

The Group approved the resolutions on the execution of the related 7 clauses of "Accounting Standards for Enterprises No. 2 - Long-Term Equity Investment" on the sixteenth meeting of seventh session of the board on 22 August 2014. By analysis and judgment, the Group considers that the implementation of the new accounting standards has no material impact on the Group's financial statements for the current year and the comparative period.

The Group has adopted the above standards to make financial statements about the period from 1 January 2014 to 31 December 2014, the impacts on the Group's financial statements are as following:

	31 December 2013			1 January 2013		
The impacted items	Before Adjusting	The adjusted amount	After Adjusting	Before Adjusting	The adjusted amount	After Adjusting
The total assets	**92,736,669**	**—**	**92,736,669**	86,089,330	—	86,089,330
Among : the financial assets available for sale	**—**	**41,494**	**41,494**	—	44,494	44,494
Long -term equity investment	**640,958**	**-41,494**	**599,464**	643,924	-44,494	599,430

12. Management contract

During the reporting period, the Company has not entered into or exists any contracts about the management and administration of the whole or any part of the important businesses.

13. Preemption

Neither the Company's "Articles" nor Chinese law stipulates the clause about preemption.

14. Purchase, sale or redemption of the Company's listed securities

Due to the Material Assets Reorganisation of the Company during the reporting period, the Company sold the outgoing asset to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 shares of the Company at the end of December 31, 2014. Unless otherwise mentioned above, during the year under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Changes In Share Capital And Information On Shareholders

1. Changes in share capital

(1) Details of the share structure are as follows:

A. Details of the share structure are as follows:

Unit: Share

	Before change		Increase/(decrease) (+/-)					After change	
	Numbers of shares	Per cent (%)	New issue	Stock dividends	Conversion from Reserve	Others	Sub-total	Numbers of shares	Per cent (%)
I. Shares with selling restrictions:	3,450,000,000	57.5	+9,224,327,662	—	—	-2,415,000,000	+6,809,327,662	10,259,327,662	80.1
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned companies	3,450,000,000	57.5	+9,224,327,662	—	—	-2,415,000,000	+6,809,327,662	10,259,327,662	80.1
3. Shares held by other domestic investors	—	—	—	—	--	—	—	—	—
4. Shares held by foreign investors	—	—	—	—	—	—	—	—	—
II. Shares without selling restrictions	2,550,000,000	42.5	—	—	—	—	—	2,550,000,000	19.9
1. RMB-denominated ordinary shares	450,000,000	7.5	—	—	—	—	—	450,000,000	3.5
2. Shares traded in non-RMB currencies and listed domestically	—	—	—	—	—	—	—	—	—
3. Shares listed overseas	2,100,000,000	35.0	—	—	—	—	—	2,100,000,000	16.4
4. Others	—	—	—	—	—	—	—	—	—
III. Total shares	6,000,000,000	100.0	+9,224,327,662	—	—	-2,415,000,000	+6,809,327,662	12,809,327,662	100.0

B. Note for the changes in share capital

In accordance with the Material Assets Reorganisation plan, on December 31, 2014, the Company repurchased and canceled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company non-public offering to China Petrochemical Corporation is 9,224,327,662 A shares, resulting in the changes of the Company's total equity and its structure.

After complementary private placement on March 3, 2015, the total equity of the Company is 14,142,660,995 shares, among which, the shares without selling restrictions of 2,550,000,000 shares represent approximately 18.0% of the total equity of the Company, the shares with selling restrictions of 11,592,660,995 shares represent approximately 82.0% of the total equity of the Company, including that China Petrochemical Corporation holding 9,224,327,662 shares represents approximately 65.2% of the total equity of the Company, China CITIC Limited holding 1,035,000,000 shares represents approximately 7.3% of the total equity of the Company and other domestic legal person holding 1,333,333,333 shares represent approximately 9.5% of the total equity of the Company.

The above-mentioned change of share capital has diluted the financial indicators of the Company such as earnings per share, net assets per share, in the previous year and the latest period.

(2) Changes in Shares with Selling Restrictions

Unit: Share

Name of shareholders	Number of shares with selling restrictions at the beginning of the year	Number of shares with selling restrictions expired in the year	Change in number of shares with selling restrictions in the year	Number of shares with selling restrictions at the end of the year	Reasons for selling restrictions	Date when selling restrictions expired
Sinopec	2,415,000,000	—	—	—	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	In accordance with the Material Assets Reorganisation plan, on December 31, 2014, the Company repurchased and canceled Sinopec's 2,415,000,000 shares of the Company.
CITIC Limited	1,035,000,000	—	—	1,035,000,000	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	—
China Petrochemical Corporation	—	—	9,224,327,662	9,224,327,662	In accordance with the Material Assets Reorganisation plan, within 36 months from December 31, 2014, the company's non-public offering stocks to CPC can not be transferred.	—
Total	3,450,000,000	—	9,224,327,662	10,259,327,662	—	—

Changes In Share Capital And Information On Shareholders

2. Share issue and listings

(1) At the end of the reporting period, the situation of shares issuing in the past three years is as following.

Types of shares and derivative securities	Issue date	Issue price	Issue amount (shares)	Issue date	Number of transactions approved for listing	Termination date of the transaction
Ordinary shares type						
A Share	31 December 2014	RMB 2.16/share	9,224,327,662	Estimated 31 December 2017	—	—

(2) Changes in the structure of assets and liabilities caused by the changes in total shares and share structure

As at 31 December 2014, the total shares of the Company increased from 6,000,000,000 to 12,809,327,662, the Company's total assets and shareholders' equity have increased correspondingly.

(3) Internal employee shares

The Company has not issued any internal employee shares.

3. Information on Shareholders and the Ultimate Controller

(1) Number of shareholders

As at 31 December 2014, the number of shareholders of the Company was 31,424, including 30,992 holders of A shares and 432 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules on the HKSE.

As at 18 March 2015, the number of shareholders of the Company was 31,274, including 30,846 holders of A shares and 428 registered holders of H shares.

(2) The shareholdings of the top ten shareholders of the Company

Shareholdings of the top ten shareholders					
Names of shareholders	Nature of shareholders	Number of shares held (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation	State-owned legal person	9,224,327,662	72.01	9,224,327,662	—
Hong Kong Securities Clearing Company (Nominees) Limited("HKSCC (Nominees) Limited")	Overseas legal person	2,083,024,595	16.26	—	—
CITIC Limited	State-owned legal person	1,035,000,000	8.08	1,035,000,000	—
Lin You-ming	Domestic natural person	4,795,275	0.037	—	Unknown
Jiang Guoliang	Domestic natural person	3,215,198	0.025	—	Unknown
IP KOW	Overseas legal person	2,850,000	0.022	—	Unknown
Wang Xin	Domestic natural person	2,461,300	0.019	—	Unknown
Lou Jianming	Domestic natural person	2,327,121	0.018	—	Unknown
Wang Yuying	Domestic natural person	2,124,911	0.017	—	Unknown
Lin You-ming	Domestic natural person	2,055,458	0.016	—	Unknown

Changes In Share Capital And Information On Shareholders

Shareholdings of top ten shareholders of shares without selling restrictions Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
HKSCC (Nominees) Limited	2,083,024,595	H Shares
Lin Youming	4,795,275	A Shares
Jiang Guoliang	3,215,198	A Shares
IP KOW	2,850,000	H Shares
Wang Xin	2,461,300	A Shares
Lou Jianming	2,327,121	A Shares
Wang Yuying	2,124,911	A Shares
Kong Hongbing	2,055,458	A Shares
Tao Huilian	2,030,985	A Shares
Liang Deshao	2,028,853	A Shares
Statement on the connected relationship or activities in concert among the above-mentioned shareholders.	The Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

Note:

1. Shares held by HKSCC (Nominees) Limited are proxy client holdings. As at December 31, 2014, the Company has not received any case that any of its H shareholder holding more than 10% of the total equity of the Company.
2. The above information in the table are updated to December 31, 2014, not including the 1,333,333,333 A shares with selling restrictions by complementary private placement issue on March 3, 2015.

(3) Number of shares held by the top ten holders of shares with selling restrictions and conditions for sale

Unit: Share

Names of shareholders with selling restrictions	Number of shares with selling restrictions	Date when the shares could be traded through listing	Number of additional shares could be traded through listing	Selling restriction
Sinopec	9,224,327,662	December 31, 2017	9,224,327,662	3 Years
CITIC Limited	1,035,000,000	August 20, 2014	300,000,000[1]	1 Year[2]
		August 20, 2015	300,000,000[1]	2 Years
		August 22, 2016	435,000,000	3 Years
Statement on the connected relationship or activities in concert among the above-mentioned shareholders.		There is no connected relationship or activities in concert among the above-mentioned shareholders.		

Note:

1. According to the requirement of the "MOU of equity division reform for listed companies, No. 14 – the related matters about listing of outstanding shares with sale restrictions under share forming", it should be accounted under the Company's total equity of 6,000,000,000 shares of pre-Material Assets Reorganisation.
2. CITIC Limited does not start the application procedure for SSE to circulate the lock-up shares through the company's board.

Changes In Share Capital And Information On Shareholders

4. Information on controlling shareholder and the ultimate controller

(1) The controlling shareholder

A. Legal Representative

Name of the holding shareholder	China Petrochemical Corporation
Legal representative	Fu Cheng-yu
Date of establishment	14 September 1983
Organization number	10169286-X
Registered capital	RMB 274.866 billion
Principal activities	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in–well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

CPC's subsidiaries and associates listed in domestic and overseas during the reporting period	Name of company	Number of share held (shares)	Shareholding (%)
	Sinopec	85,720,671,101	72.47%
	SINOPEC Engineering (Group) Co., Ltd.	2,907,856,000	65.67%
	Kingdream Public Limited Company	270,270,000	67.50%
	China Merchants Energy Shipping Co., LTD	911,886,426	19.32%

B. The change of controlling shareholders

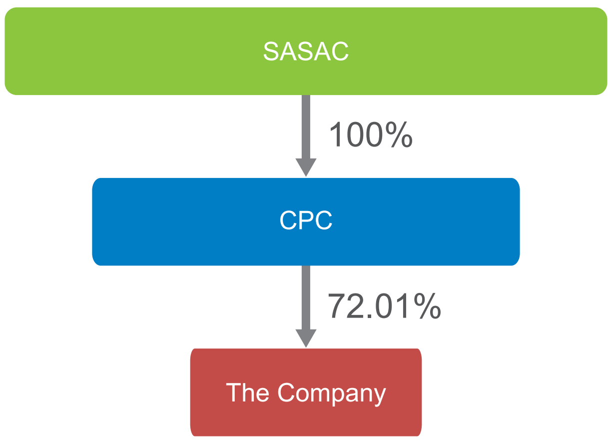
On December 31, 2014, the Company repurchased and canceled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company non-public offering to China Petrochemical Corporation is 9,224,327,662 shares. As at December 31, 2014, the total equity of the Company was 12,809,327,662, including 9,224,327,662 shares belonged to China Petrochemical Corporation, the controlling shareholder, representing 72.01% of the total equity of the Company. Therefore, as to the end of the reporting period, the controlling shareholder changed from Sinopec to China Petrochemical Corporation.

(2) The ultimate controller

A. Legal Representative

The ultimate controller is also China Petrochemical Corporation.

B. The block diagram of the property and control relationship between the Company and the ultimate controller



5. Other Legal person shareholders that holding over 10% of the total shares of the Company

At the end of the reporting period, the Company has no other legal person shareholders that holding over 10% of the total shares of the Company.

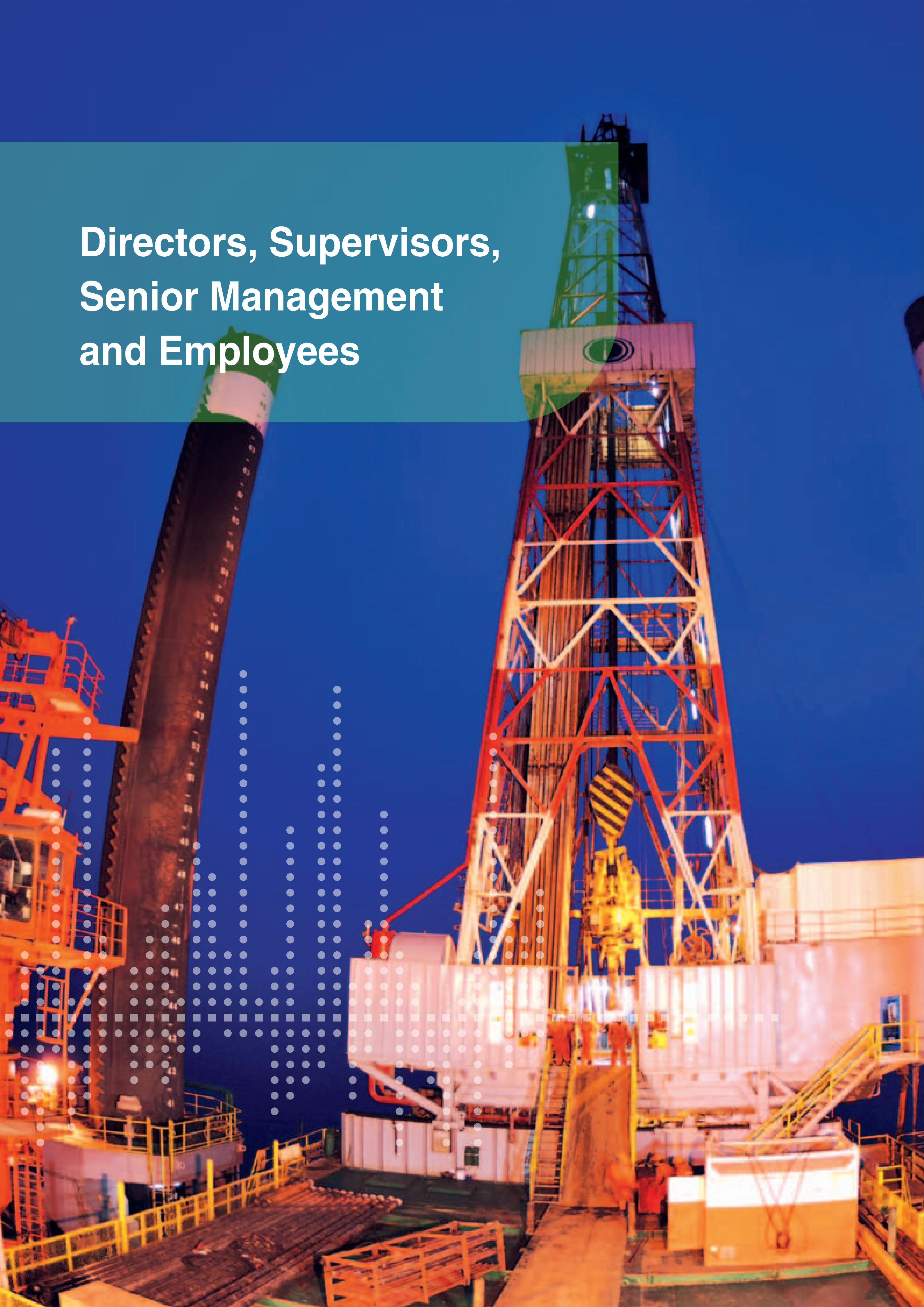
6. The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares

As at 31 December 2014, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

Name of shareholder	Number of share held	Per cent of shareholding in the Company's total issued share capital	Per cent of shareholding in the Company's total issued domestic shares	Per cent of shareholding in the Company's total issued H shares	Short position
	(shares)	(%)	(%)	(%)	
China Petrochemical Corporation	9,224,327,662	72.01	86.13	Not applicable	—
CITIC Limited	1,035,000,000	8.08	9.66	Not applicable	—
Schroders Plc	126,354,000	0.99	Not applicable	6.02	—

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2014, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company.

Directors, Supervisors, Senior Management and Employees



1. Information on interests in share and remuneration of current directors, supervisors and senior management, and former directors, supervisors and senior management during the reporting period.

Name	Position	Sex	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company before taxation (RMB)	Salaries from the unit of shareholders before taxation (RMB)
Jiao Fangzheng	Chairman	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Yuan Zhengwen	Vice Chairman	M	59	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhu Ping	Vice Chairman and General Manager	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhou Shiliang	Director, Deputy General Manager	M	57	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Li Lianwu	Director	M	57	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Jiang Bo	Independent Non-Executive Director	F	59	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhang Huaqiao	Independent Non-Executive Director	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Wong, Kennedy Ying Ho	Independent Non-Executive Director	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Wang Chunjiang	Chairman of Supervisory Committee	M	58	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhang Jixing	Supervisor	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zou Huiping	Supervisor	M	54	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Wen Dongfen	Supervisor	F	50	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhang Qin	Supervisor	F	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Cong Peixin	Supervisor	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Xu Weihua	Supervisor	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Du Guangyi	Supervisor	M	49	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Geng Xianliang	Deputy General Manager	M	50	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Yong Ziqiang	Deputy General Manager	M	53	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhang Yongjie	Deputy General Manager	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Liu Rushan	Deputy General Manager	M	53	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zuo Yaojiu	Deputy General Manager	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zong Tie	Deputy General Manager	M	56	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Zhao Diandong	Deputy General Manager	M	52	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Wang Hongchen	Chief Financial Officer	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Li Honghai	Secretary to the Board	M	51	9 Feb. 2015	8 Feb. 2018	—	—	No Change	—	—
Lu Liyong	Former Chairman and General Manager	M	53	16 Dec. 2011	9 Feb. 2015	—	—	No Change	318,260	—
Sun Zhihong	Former Vice Chairman	F	65	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—
Xiao Weizhen	Former Vice Chairman and General Manager	M	61	16 Dec. 2011	3 Apr. 2014	—	—	No Change	152,627	—
Shen Xijun	Former Vice Chairman and Deputy General Manager	M	54	16 Dec. 2011	9 Feb. 2015	—	—	No Change	305,860	—
Long Xingping	Former Director	F	63	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—
Zhang Hong	Former Director	M	56	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—

Directors, Supervisors, Senior Management And Employees

Name	Position	Sex	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company before taxation (RMB)	Salaries from the unit of shareholders before taxation (RMB)
Guan Diaosheng	Former Director	M	52	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—
Sun Yuguo	Former Director	M	51	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—
Li Jianping	Former Director and Chief Financial Officer	M	52	3 Apr. 2014	9 Feb. 2015	—	—	No Change	272,520	—
Shi Zhenhua	Former Independent Director	M	68	16 Dec. 2011	9 Feb. 2015	—	—	No Change	50,000	—
Qiao Xu	Former Independent Director	M	53	16 Dec. 2011	9 Feb. 2015	—	—	No Change	50,000	—
Yang Xiongsheng	Former Independent Director	M	55	16 Dec. 2011	9 Feb. 2015	—	—	No Change	50,000	—
Chen Fangzheng	Former Independent Director	M	68	16 Dec. 2011	9 Feb. 2015	—	—	No Change	50,000	—
Cao Yong	Former Chairman of Supervisory Committee	M	56	16 Dec. 2011	9 Feb. 2015	—	—	No Change	272,520	—
Sun Shaobo	Former Supervisor	M	54	16 Dec. 2011	9 Feb. 2015	—	—	No Change	187,710	—
Chen Jian	Former Supervisor	M	52	16 Dec. 2011	9 Feb. 2015	—	—	No Change	—	—
Shao Bin	Former Independent Supervisor	M	49	16 Dec. 2011	9 Feb. 2015	—	—	No Change	40,000	—
Chu Bing	Former Independent Supervisor	M	42	16 Dec. 2011	9 Feb. 2015	—	—	No Change	40,000	—
Li Jianxin	Former Deputy General Manager	M	57	16 Dec. 2011	9 Feb. 2015	—	—	No Change	272,520	—
Zhang Zhongan	Former Deputy General Manager	M	54	16 Dec. 2011	9 Feb. 2015	—	—	No Change	272,520	—
Wu Chaoyang	Former Secretary to the Board	M	53	16 Dec. 2011	9 Feb. 2015	—	—	No Change	190,792	—

Information about current directors, supervisors and senior management

(1) Director

Mr. JIAO Fangzheng*, aged 52, Chairman. Mr. Jiao is a professor-level senior engineer with a Ph.D. degree. In January 1999, he was appointed as Chief Geologist in Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in February 2000, he was appointed as Vice President and Chief Geologist of Sinopec Zhongyuan Oilfield Company; in July 2000, he was appointed as Deputy Director General of Sinopec Petroleum Exploration & Development Research Institute; in March 2001, he was appointed as Deputy Director General of Sinopec Exploration & Production Department; in June 2004, he was appointed as Director of Northwest Petroleum Administration of China Petrochemical Corporation and as President of Sinopec Northwest Oilfield Company; in October 2006, he was appointed as Vice President of Sinopec Corp; in July 2010, he was appointed as the Director General of Sinopec Exploration & Production Department; in July 2014, he was appointed as Deputy General Manager of China Petrochemical Corporation. Mr. Jiao was appointed as Director of SOSC in August 2012; in September 2014, he was appointed as Chairman of SOSC; and in February 2015, he was appointed as Chairman of the company.

Mr. YUAN Zhengwen#, aged 59, Vice Chairman. Mr. Yuan is a professor-level senior engineer with a Ph.D. degree. In January 1999, he was appointed as Deputy Director of Yunnan-Guizhou-Guangxi Petroleum Prospecting Administration of China Petrochemical Corporation; in February 2000, he was appointed as Director of Yunnan-Guizhou-Guangxi Petroleum Exploration Administration of China Petrochemical Corporation and Manager of Sinopec Yunnan-Guizhou-Guangxi Oilfield Company; in November 2001, he was appointed as Director of Henan Petroleum Prospecting Administration of China Petrochemical Corporation and representative of Sinopec Henan Oilfield Company; in November 2005, he was appointed as director of Oilfield Operations Department of China Petrochemical Corporation; in March 2010, he was appointed as director of Petroleum Engineering Management Department of China Petrochemical Corporation; in June 2012, Mr. Yuan has served as Vice Chairman of SOSC; and in February 2015, he was appointed as Vice Chairman of the company.

Mr. ZHU Ping#, aged 51, Vice Chairman and General Manager. Mr. Zhu is a professor-level senior engineer with a doctorate degree. From September 2000 to December 2001, Mr. Zhu served as the deputy chief of Jiangsu Petroleum Exploration Bureau of Sinopec Group, and the assistant manager of Jiangsu Oilfield Company of Sinopec. From December 2001, Mr. Zhu served as the manager of Jiangsu Oilfield Company of Sinopec (His title was changed into general manager since December 2008). Since August 2005, Mr. Zhu has served as the chief and deputy party secretary of Sinopec Jiangsu Petroleum Exploration Bureau. Since December 2014, he has served as Vice Chairman, General Manager and Deputy Secretary of CPC Committee of SOSC; and in February 2015, he was appointed as Vice Chairman, General Manager and Deputy Secretary of CPC Committee of the company.

Directors, Supervisors, Senior Management And Employees

Mr. ZHOU Shiliang#, aged 57, Director and Deputy General Manager. Mr. Zhou is a professor-level senior engineer with a master degree. In February 2000, he was appointed as Deputy Director of Yunnan-Guizhou-Guangxi Petroleum Exploration Administration of China Petrochemical Corporation; in September 2000, he was appointed as Manager of Sinopec Yunnan-Guizhou-Guangxi Oilfield Company; in April 2002, he was appointed as Party Secretary and Deputy Manager of Sinopec South Prospecting and Exploiting Company; in April 2006, he was appointed as Party Secretary and Deputy Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in November 2007, he was appointed as HR Department Head of China Petrochemical Corporation; and in May 2009, he was elected as Employee Representative Supervisor of Sinopec Corp. Since June 2012, he has acted as Chairman of Supervisory Board, the Secretary of CPC Committee and Discipline Inspection Committee, and Chairman of the Labour Union of SOSC. Since September 2014, he has served as the Secretary of CPC Committee, Director and Deputy General Manager of SOSC; and in February 2015, he was appointed as the Secretary of CPC Committee, Director and Deputy General Manager of the company.

Mr. LI Lianwu*, aged 57, Director. Mr. Li is a professor-level senior engineer with a M.A. degree. In January 2000, he was appointed as Deputy Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in April 2006, he was appointed as Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in August 2000, he was appointed as Manager of Sinopec Henan Oilfield Company; and in December 2008, he was appointed as General Manger of Sinopec Henan Oilfield Company. Since September 2014, he has served as Party Secretary of Sinopec Oil and Gas Exploration and Development Company and Deputy Director of Oil Field Exploration and Development Department of Sinopec Corp. Since September 2014, he has served as Director of SOSC; and in February 2015, he was appointed as Director of the company.

Ms. JIANG Bo+, aged 59, independent non-executive Director. Ms. Jiang is a senior economist with PH.D. degree. Since August 1983, she has been working in the General Office, Accounting & Auditing Department, and the International Division of Head Office of the Agricultural Bank of China. In October 1993, she was appointed as General Manager of the International Division of China Everbright Bank; in May 1996, she was appointed as Managing Director and Vice President of China Everbright Bank; in April 2007, she was appointed as Managing Director, Vice President and Chief Auditing Officer of China Everbright Bank; in November 2007, she was appointed as Vice President and Chief Auditing Officer of China Everbright Bank; and in August 2009, she was appointed as Chief Financial Officer and Chairman of the Labour Union of China Everbright Group. In December 2010, Ms. Jiang was appointed as Director of Shenyin & Wanguo Securities; since January 2011, she has served as Director of China Everbright Financial Holding Asset Management Co., Ltd.; she became Director of China Everbright Group Company Limited (Hong Kong) in January 2014; in June 2014, she has served as Director of China Sun Life Everbright Life. Since February 2015, she was appointed as independent non-executive Director of the company.

Mr. ZHANG Huaqiao+, aged 51, independent non-executive Director. Mr. Zhang obtained a master degree in Economics from the Financial Research Institute of the People's Bank of China and a master degree in Economics from the Australian National University. He worked in the Planning Division of the People's Bank of China. After this, he worked with foreign investment banks for 15 years (including 11 years of experience in UBS) in Hong Kong. He currently serves as the Chairman of Manniu Investment Company, a Director of Nanjing Central Emporium Co., Ltd. (SH600280), which is a Shanghai Stock Exchange listed company, an Independent Non-executive Director of Yancoal Australia Limited which is an Australian Securities Exchange listed company, an Independent Nonexecutive Director of Fosun International Limited (HK656), Luye Pharma Group Ltd. (HK2186), Zhong An Real Estate Limited, China Huirong Financial Holdings Limited (HK1290), Logan Property Holdings Company Limited (HK3380), Wanda Commercial Properties (Group) Co., Limited, Oriental City Group, and a Non-executive Director of China Smartpay Group Holdings Limited and Boer Power Holdings Limited, all of which are Hong Kong Stock Exchange listed companies. Since February 2015, he was appointed as independent non-executive Director of the company.

Dr. Wong, Kennedy Ying Ho+, aged 52, independent non-executive Director. Dr. Wong is a Bronze Bauhinia Star (BBS) awarded with LL.D degree and title of Justice of Peace. He is currently a National Committee Member, member of the Election Committee of HKSAR, a solicitor admitted to the High Court of Hong Kong, China Appointed Attesting Officer and a director of the China Law Society, and managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., Solicitors & Notaries. He is Chairman of Hong Kong Resources Holdings Company Limited (HK2882), which is a Hong Kong Stock Exchange listed company, and also Director of Bohai Industrial Investment Fund Management Company Limited, Hong Kong Airlines, and Hong Kong Stock Exchange listed companies China Overseas Land & Investment Limited (HK688), Goldlion Holdings Limited (HK533), Shanghai Industrial Urban Development Group Limited (HK563); he is also Independent Non-executive Director of Hong Kong Stock Exchange listed companies Asia Cement (China) Holdings Corporation (HK743) and Times Property Holdings Limited (HK1233), and Bank of Beijing Co. Ltd. (SH601169), a Shanghai Stock Exchange listed company. Since February 2015, he was appointed as independent non-executive Director of the company.

Executive Director
* Non-executive Director
\+ Independent non-executive Director

(2) Supervisor

Mr. WANG Chunjiang, aged 58, Chairman of Supervisory Committee and Employee Representative Supervisor, Mr. Wang is a professor-level senior administration engineer with a M.A. degree. In December 1996, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration; in February 2000, he was appointed as Deputy Manager of Sinopec Zhongyuan Oilfield Company; in June 2004, he was appointed as Deputy Party Secretary and Chairman of the Labour Union of Jiangsu Petroleum Exploration Administration of China Petrochemical Corporation; in August 2005, he was appointed as Deputy Director of Jiangsu Petroleum Exploration Administration; in September 2006, he was appointed as Deputy Commander and Deputy Managing Commander of Party and Working Committees (HQ) of Sichuan-East China Gas Transmission Construction Project; in November 2010, he was appointed as the Party Secretary, Discipline Inspection Committee, and Deputy Director of the Operating Office of Sinopec's gas engineering projects; in December 2012, he was appointed as the Secretary of CPC Committee and Deputy Director of Jianghan Petroleum Administration of China Petrochemical Corporation, Deputy General Manager of Sinopec Jianghan Oilfield Company. Since September 2014, he has been serving as chairman of Supervisory Committee, the Deputy Secretary of CPC Committee and Secretary of Discipline Inspection Committee of SOSC. Since February 2015, he was appointed as chairman of Supervisory Committee, the Deputy Secretary of CPC Committee and Secretary of Discipline Inspection Committee of the company.

Directors, Supervisors, Senior Management And Employees

Mr. ZHANG Jixing, aged 52, Supervisor. Mr. Zhang is a professor-level senior economist with a bachelor degree. In February 2000, he was appointed as Deputy Director of the Foreign Affairs Administration of China Petrochemical Corporation; from September 2009 to April 2010, he was appointed as Deputy Director of Office of Hong Kong, Macau and Taiwan Affairs at Sinopec Group; in April 2010, he was appointed as Head of the Legal Affairs Division of China Petrochemical Corporation; and in September 2013, he was appointed as Head of the Legal Affairs Division of China Petrochemical Corporation. He has been serving as a supervisor of SOSC since August 2012. Since February 2015, he was appointed as supervisor of the company.

Mr. ZOU Huiping, aged 54, Supervisor. Mr. Zou is a professor-level senior accountant with a college diploma. In November 1998, he was appointed as Chief Accountant of Guangzhou Petrochemical General Plant of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director of the Finance & Assets Department of China Petrochemical Corporation; in December 2001, he was appointed as Deputy Director of the Finance & Planning Department of China Petrochemical Corporation; in March 2006, he was appointed as Director of the Finance & Assets Division of Sinopec Asset and Management Corporation, Director of the Auditing Department of both China Petrochemical Corporation; and in May 2006, he was appointed as Supervisor of Sinopec Corp. Since August 2012, he has been serving as a supervisor of SOSC. Since February 2015, he was appointed as supervisor of the company.

Ms. WEN Dongfen, aged 50, Supervisor. Ms. Wen is a professor-level senior accountant with a bachelor degree. In December 2001, she was appointed as Deputy Director of the Finance & Planning Department of China Petrochemical Corporation; in May 2008, she was appointed as Deputy Director of the Finance Department of China Petrochemical Corporation; in March 2009, she was promoted to Director of the Finance Department of China Petrochemical Corporation; and in May 2012, she was also appointed as Chairman of Sinopec Century Bright Capital Investment Limited. From August 2012, Ms. Wen was elected as Director of SOSC. Since September 2014, she has been serving as a supervisor of SOSC. Since February 2015, she was appointed as supervisor of the company.

Ms. ZHANG Qin, aged 52, Supervisor. Ms. Zhang is a professor-level senior administration engineer with a master degree. In December 1998, she was appointed as Head of the Political Work Department, Propaganda Office of China Petrochemical Corporation; in December 2008, she was appointed as Deputy Director of the Political Work Department of China Petrochemical Corporation; and in January 2009, she was appointed as the Direct Deputy Secretary of CPC Committee, and the Direct Secretary of Discipline Inspection Committee of China Petrochemical Corporation. Since September 2014, she has been serving as a supervisor of SOSC. Since February 2015, she was appointed as supervisor of the company.

Mr. CONG Peixin, aged 52, Supervisor. Mr. Cong is a professor-level senior administration engineer with a bachelor degree. In June 2002, he was appointed as Deputy Director of Party Work Department of Sinopec Star Petroleum Co., Ltd.; in August 2003, he was appointed as Manager of Corporate Culture Department (Party Work Division) of Sinopec International Petroleum Exploration and Production Corporation; in December 2011, he was appointed as Deputy Secretary of the Discipline Inspection Committee of Sinopec International Petroleum Exploration and Production Corporation; and in April 2013, he was appointed as Deputy Director of the Supervisory Administration of China Petrochemical Corporation. Since September 2014, he has been serving as a supervisor of SOSC. Since February 2015, he was appointed as supervisor of the company.

Mr. XU Weihua, aged 51, Employee Representative Supervisor, Mr. Xu is a professor-level senior economist with a M.A. degree. In April 2005, he was appointed as Deputy Chief Economist of the Shengli Petroleum Administration of China Petrochemical Corporation; in October 2007, he was appointed as Deputy Director of the Shengli Petroleum Administration of China Petrochemical Corporation; in January 2013, he was appointed as the Secretary of CPC Committee and Discipline Inspection Committee, and Chairman of the Labour Union of Sinopec Shengli Oil Development Co., Ltd., and served as Deputy Secretary of CPC Committee of Shengli Petroleum Administration of China Petrochemical Corporation from July 2013. Since February 2015, he was appointed as employee representative supervisor of the company.

Mr Du Guangyi, aged 49, Employee Representative Supervisor, Mr. Du is a professor-level senior engineer with a Ph.D degree. In December 2001, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration; during the period of March 2002 to July 2004, he served as the Chairman of Shanghai Sangao Petroleum Equipment Co., Ltd., concurrently; during the period of March 2003 to February 2007, he served as the Chairman of Henan Zhongyuan Green Energy Hi-Tech Co., Ltd., concurrently; in January 2013, he was appointed as the Secretary of CPC Committee and Discipline Inspection Committee, and Chairman of the Labour Union of Sinopec Zhongyuan Oil Development Co. Since February 2015, he was appointed as employee representative supervisor of the company.

(3) Senior management

Mr. GENG Xianliang, aged 50, Deputy General Manager. Mr. Geng is a professor-level senior engineer with a Ph.D. degree. In January 1999, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in January 2001, he was appointed as Deputy General Manager of Sinopec International Petroleum Exploration and Production Corporation, and from August 2009 to July 2010, he was designated as General Manager of Sinopec Addax Project; in July 2010, he was appointed as Chairman of Addax Petroleum Corporation; and in March 2011, he was appointed as Director, General Manager and Deputy Secretary of CPC Committee of Sinopec International Petroleum Exploration and Production Corporation. Since September 2014, he has been serving as Deputy General Manager of SOSC. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. YONG Ziqiang, aged 53, Deputy General Manager. Mr. Yong is a professor-level senior engineer with a M.A. degree. In February 1998, he was appointed as Deputy Director of Jiangsu Petroleum Exploration Administration; in February 2000, he was appointed as Deputy Manager of Sinopec Jiangsu Oilfield Company; in December 2001, he was appointed as Director and Deputy Secretary of CPC Committee of Jiangsu Petroleum Exploration Administration of China Petrochemical Corporation; in August 2005, he was appointed as Deputy Director of the Oilfield Operations Department of China Petrochemical Corporation; and in March 2010, he was appointed as Deputy Director of the Petroleum Engineering Management Department of China Petrochemical Corporation. Mr. Yong has acted as Deputy General Manager of SOSC since June 2012 and also Head of the Logging Division of SOSC since January 2013. Since February 2015, he was appointed as Deputy General Manager of the company.

Directors, Supervisors, Senior Management And Employees

Mr. ZHANG Yongjie, aged 51, Deputy General Manager. Mr. Zhang is a senior engineer with a Master degree. In April 2002, he was appointed as Deputy General Manger and General Manger of the Foreign Trade and Economic Corporation under Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in December 2003, he was appointed as Deputy General Manager of Sinopec International Petroleum Service Corporation; and in November 2010, he was appointed as Director and General Manager of Sinopec International Petroleum Service Corporation. Since June 2012, Mr. Zhang has acted as Deputy General Manager of SOSC and also Director and General Manager of Sinopec International Petroleum Service Corporation. Since June 2012, he has been serving as Deputy General Manager of SOSC. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. LIU Rushan, aged 53, Deputy General Manager. Mr. Liu is a professor-level senior engineer with a Ph.D. degree. In July 2000, he was appointed as Chief Engineer of Sinopec Petroleum Exploration & Development Research Institute; since December 2001, he served as Deputy Director of the Oilfield Operations Department of China Petrochemical Corporation; from October 2005 to January 2007, he was also appointed as Deputy Head of Sinopec Western Petroleum Engineering Technical Services Management Centre; and in April 2009, he was appointed as Secretary of CPC Committee and Vice President of Sinopec Petroleum Engineering Technology Research Institute. Since January 2013, Mr. Liu has acted as Deputy General Manager of SOSC and Director of Special Operations Division. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. ZUO Yaojiu, aged 52, Deputy General Manager. Mr. Zuo is a professor-level senior engineer with a Bachelor degree. In December 2001, he was appointed as Manager of the Project and Trade Department of Sinopec International Petroleum Exploration and Production Corporation; in December 2003, he was appointed as Deputy General Manager of Sinopec International Petroleum Service Corporation; in November 2010, he was appointed as General Manager of Sinopec (Brazil) Co., Ltd. and the Group's chief representative in South America; in August 2012, he was appointed as Secretary of CPC Committee and Deputy General Manager of Sinopec Ground Engineering Construction Co., Ltd.; since September 2014, he served as Executive Director, General Manager and Secretary of CPC Committee of Sinopec Petroleum Engineering & Construction Corporation. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. ZONG Tie, aged 56, Deputy General Manager. Mr. Zong is a professor-level senior engineer with a M.A. degree. In May 2001, he was appointed as Deputy Director of the Northwest Petroleum Division of Sinopec Star Petroleum Co., Ltd.; in June 2003, he was appointed as Deputy Manager of Sinopec Northwest Branch; in March 2007, he was appointed as Deputy Manager of Sinopec Exploration Branch; in May 2008, he was appointed as Deputy Director of Sinopec Petroleum Exploration & Development Division; in December 2009, he was appointed as Deputy Director of the Oilfield Operations Department of China Petrochemical Corporation; and in March 2010, he was appointed as Deputy Director of the Petroleum Engineering Management Department of China Petrochemical Corporation. Mr. Zong has acted as Deputy General Manager of SOSC since June 2012 and also Head of the Drilling Engineering Division of SOSC since January 2013. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. ZHAO Diandong, aged 52, Deputy General Manager. Mr. Zhao is a professor-level senior engineer with a Ph.D. degree. In January 2001, he was appointed as Deputy Chief Engineer of Shengli Petroleum Administration of China Petrochemical Corporation; Since December 2001, he worked as Chief Engineer with the Head Office of Western New Area Exploration and the Exploration Branch of Sinopec Corp.; in May 2008, he was appointed as Deputy Director of Sinopec Petroleum Exploration & Development Division; in August 2011, he was appointed as Deputy Director of Xinjiang Akesu District Administrate Office; and in August 2012, he was appointed as General Manager of Sinopec Geophysical Corporation. Since January 2013, Mr. Zhao has acted as Deputy General Manager of SOSC and also Director and General Manager of Sinopec Petroleum Engineering Geophysics Co., Ltd. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. WANG Hongchen, aged 51, Chief Accountant. Mr. Wang is a professor-level senior accountant with a M.A. degree. In April 1997, he was appointed as Head of the Enterprise Reform Office of State-owned Assets Administration Bureau under the State Council; in September 1998, he was appointed as Head of the Oilfield Operations Finance Office under the Group's Finance Department; in February 2000, he was appointed as Head of the Finance Office of Sinopec Oilfield Division; in September 2006, he was appointed as Director of the Planning and Finance Department under the board of Sichnan – East China Gas Transmission Construction Project of Sinopec; and in January 2008, he was appointed as Chief Accountant of Sinopec Zhongyuan Oilfield Company. Since January 2013, Mr. Wang has acted as Chief Accountant of SOSC. Since February 2015, he was appointed as Chief Accountant of the company.

Mr. LI Honghai, aged 51, Secretary to the Board. Mr. Li is a professor-level senior economist with a Ph.D. degree. Since June 2000, he had held the position of Deputy Manager, Secretary to the Board, and Assistant to the Chairman of Zhongyuan Petroleum Company Limited; in December 2004, he was appointed as Manager of Zhongyuan Petroleum Company Limited; in December 2006, he was appointed as Deputy Chief Economist of Sinopec Zhongyuan Oilfield Company; in May 2007, he was appointed as Head of the General Administration under the Enterprise Reform Department of China Petrochemical Corporation, and also as Head of the Assets Operation Division in August the same year; in June 2008, he was appointed as Head of the Assets Operation Division under the Enterprise Reform Department of China Petrochemical Corporation; and in July 2010, he was appointed as Head of the Assets Operation Division under the Capital Operations Department of China Petrochemical Corporation. Since September 2014, he has been serving as Secretary to the Board of SOSC. Since February 2015, he was appointed as Secretary to the Board of the company.

2. Information on directors, supervisors and senior management holding positions

(1) Information on holding positions

Name	Name of corporate shareholders	Position held in corporate shareholders	The starting date of term in office	The termination date of term in office
Jiao Fangzheng	China Petrochemical Corporation	Vice President of Sinopec Corp.	July 2014	—
Zhang Jixing	China Petrochemical Corporation	Head of the Legal Affairs Division	September 2013	—
Zou Huiping	China Petrochemical Corporation	Director of the Auditing Department	March 2006	—
Wen Dongfen	China Petrochemical Corporation	Director of the Finance Department	March 2009	—
Zhang Qin	China Petrochemical Corporation	Deputy Director of the Political Work Department	December 2008	—
Cong Peixin	China Petrochemical Corporation	Deputy Director of the Supervisory Administration	April 2013	—

(2) Information on holding positions in other enterprises

Name	Name of other enterprises	Position held in other enterprises	Beginning date of term	End date of term
Jiao Fangzheng	Sinopec	Vice President/Director of Exploration & Production Department	October 2006/July 2010	—
Zhou Shiliang	Sinopec	Employee Representative Supervisor	May 2009	—
Li Lianwu	Sinopec	Party Secretary of Sinopec Oil and Gas Exploration and Development Company/Deputy Director of Oil Field Exploration and Development Department of Sinopec Corp.	September 2014	—
Zou Huiping	Sinopec	Supervisor	May 2006	—

3. Information on the remuneration of the Company's directors, supervisors and senior management

Decision procedure of the remuneration of directors, supervisors and senior management.	The remuneration of directors and supervisors are approved by the General Meeting of shareholders, the remuneration of senior management are approved by the board of directors.
The basis of remuneration determination of directors, supervisors and senior management.	Decided by the duties and responsibilities of directors, supervisors and senior management, and by the performance of the company.
The information of payable remuneration of directors, supervisors and senior management.	RMB 2,525,000
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB 2,525,000

4. Information on the change of company's directors, supervisors and senior management

Name	Position	Change	Reason for change
Lu Liyong	Chairman, General Manager	Resigned	Expiry of term
Sun Zhihong	Vice Chairman	Resigned	Expiry of term
Xiao Weizhen	Vice Chairman, General Manager	Resigned	Retired
Shen Xijun	Vice Chairman, Deputy General Manager	Resigned	Expiry of term
Long Xingping	Director	Resigned	Expiry of term
Zhang Hong	Director	Resigned	Expiry of term
Guan Diaosheng	Director	Resigned	Expiry of term
Sun Yuguo	Director	Resigned	Expiry of term
Li Jianping	Director, Chief Accountant	Resigned	Expiry of term
Shi Zhenhua	Independent Director	Resigned	Expiry of term
Qiao Xu	Independent Director	Resigned	Expiry of term
Yang Xiongsheng	Independent Director	Resigned	Expiry of term
Chen Fangzheng	Independent Director	Resigned	Expiry of term
Cao Yong	Chairman of Supervisory Committee	Resigned	Expiry of term
Sun Shaobo	Supervisor	Resigned	Expiry of term
Chen Jian	Supervisor	Resigned	Expiry of term
Shao Bin	Independent Supervisor	Resigned	Expiry of term
Chu Bing	Independent Supervisor	Resigned	Expiry of term
Li Jianxin	Deputy General Manager	Resigned	Expiry of term
Zhang Zhongan	Deputy General Manager	Resigned	Expiry of term
Wu Chaoyang	Secretary to the Board	Resigned	Expiry of term
Jiao Fangzheng	Chairman	Elected	Elected as Chairman of the board
Yuan Zhengwen	Vice Chairman	Elected	Elected as Vice Chairman of the board
Zhu Ping	Vice Chairman, General Manager	Elected	Elected as Vice Chairman of the board and appointed as General Manager
Zhou Shiliang	Director, Deputy General Manager	Elected	Elected as Director and appointed as Deputy General Manager
Li Lianwu	Director	Elected	Election at general meeting
Jiang Bo	Independent non-executive Director	Elected	Election at general meeting
Zhang Huaqiao	Independent non-executive Director	Elected	Election at general meeting
Wong, Kennedy Ying Ho	Independent non-executive Director	Elected	Election at general meeting
Wang Chunjiang	Chairman of the Board	Elected	Elected as Chairman of Supervisory Committee
Zhang Jixing	Supervisor	Elected	Election at general meeting
Zou Huiping	Supervisor	Elected	Election at general meeting
Wen Dongfen	Supervisor	Elected	Election at general meeting
Zhang Qin	Supervisor	Elected	Election at general meeting
Cong Peixin	Supervisor	Elected	Election at general meeting

Name	Position	Change	Reason for change
Xu Weihua	Supervisor	Elected	Election at staff representatives' meeting
Du Guangyi	Supervisor	Elected	Election at staff representatives' meeting
Geng Xianliang	Deputy General Manager	Appointed	Appointed by the Board of Directors
Yong Ziqiang	Deputy General Manager	Appointed	Appointed by the Board of Directors
Zhang Yongjie	Deputy General Manager	Appointed	Appointed by the Board of Directors
Liu Rushan	Deputy General Manager	Appointed	Appointed by the Board of Directors
Zuo Yaojiu	Deputy General Manager	Appointed	Appointed by the Board of Directors
Zong Tie	Deputy General Manager	Appointed	Appointed by the Board of Directors
Zhao Diandong	Deputy General Manager	Appointed	Appointed by the Board of Directors
Wang Hongchen	Chief Accountant	Appointed	Appointed by the Board of Directors
Li Honghai	Secretary to the Board	Appointed	Appointed by the Board of Directors

5. Changes in the core technology team and the key technical personnel

The Company's core technology depends on years of experience and integrity of system, instead of some key technical personnel. There is no any key technical personnel who can make the significant impact on the company's core competitiveness. During the reporting period, there was no change in the core technology team or the key technical personnel.

6. Information on the personnel of the company and its subsidiaries

(1) Personnel information

The number of the company' serving staff	121
The number of the company's subsidiaries' serving staff	80,430
The total number of the serving staff	80,551
The number of retired staff whose expense should be born by the company and its subsidiaries	1,783
Professional composition	
Type of Professional	**Number of the staff**
Production Staff	48,923
Technical Staff	13,195
Researcher	3,122
Financial Staff	2,307
Marketing and Administrative Staff	7,286
Others	5,718
Total	80,551
Education	
Type	**Number of the staff**
Master or above	1,997
Bachelor	23,440
Junior college	14,951
Others	40,163
Total	80,551

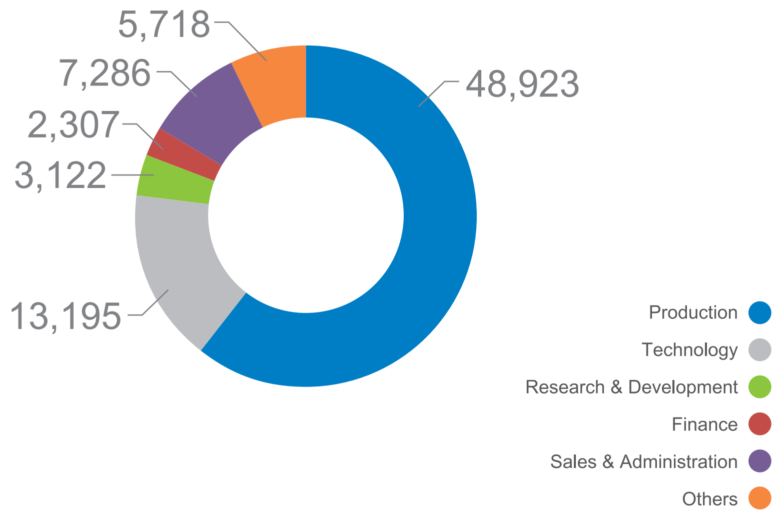
(2) Remuneration Policies

The Company's Remuneration system consists of basic salary, performance bonuses, allowance, subsidies and mid/long-term incentives. The Company has established differentiation incentive system based on different positions and different kinds of professionals to create a fair competition environment to keep the remuneration in reasonable income difference.

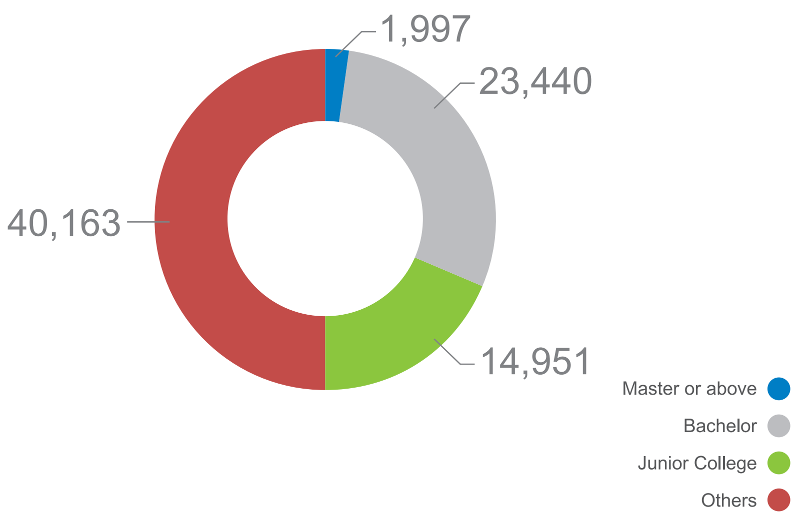
(3) Training program

The Company attaches great importance to staff training, has established different training management system that take promoting staff fulfillment of responsibilities and talent building as the core, carrying out the management, technical skills, operating and international training program in the form of job training, off- the-job training, online training to make the staff keep in same pace with the development of the company.

(4) Staff Chart



(5) Education Chart



Directors, Supervisors, Senior Management And Employees

7. Directors' and Supervisors' rights to acquire shares and debentures and short position

As at 31 December 2014, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

8. Directors' and Supervisors' service contracts

Each Directors and supervisors entered into a service contract with the Company. Main contents are set out below:

1. The Directors and supervisors of Eighth terms is for a term of three years commencing 9 February 2015;
2. The remuneration for executive Directors and Employee Representative Supervisor of the Eighth terms for their service offered under the Service Contract will be determined in accordance with relevant laws and regulations and the Measures for Implementation of Remuneration Packages for Senior Management. It is provided in the Measures for Implementation of Remuneration Packages for Senior Management of the Company that the remuneration consists of a basic salary, performance bonus and mid- and long term incentives, with specific functions and responsibilities of the management members and performance of the Company as a whole being taken into account. An independent non-executive Director is entitled to a director's fee of RMB200,000 per annum (pre-tax). Non-executive directors and non-employee representative Supervisors shall not receive any remuneration from the company.

In addition, the Company will purchase liability insurance for the Directors and Supervisors in order to safeguard the interests of the Directors and Supervisors.

No Director or Supervisor has entered into a service contract with the Company which is not terminated by the Company within one year without payment other than statutory compensation.

9. Directors' and Supervisors' interests in contracts

No contract of significance to which the Company, its parent companies or any of their subsidiaries was a party, in which a Director or Supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

10. Special treatment to Directors, Supervisors and Senior Management

There has been no special treatment granted to the Directors, Supervisors or Senior Management during the reporting period.

Corporate Governance

1. Information on Corporate Governance and Insiders registration management

During the reporting period, the Company has continued to improve corporate governance and international regulations in accordance with the relevant laws, rules and regulations.

During the reporting period, the Company's Material Assets Reorganisation was approved by the CSRC. The Company revised the document of "Articles of Association", "rules of procedure of shareholder's meeting", "rules of procedure of board of directors", "rules of procedure of supervisory committee" and "Rules for the Implementation of the Committees of the Board", the documents above were separated submitted and passed on the nineteenth meeting of the seventh session of Board and the ninth meeting of the seventh session of supervisory committee, and were finally separately approved at the first Extraordinary General Meeting of 2015.

During the reporting period, the company strictly followed the requirements of "the registration and management system of insiders" on the Material Assets Reorganisation process, and recording all the persons related to the Material Assets Reorganisation, including intermediary institutions, controlling shareholder, directors, supervisors and senior management, in order to ensure that the insider information could only be in a minimum range.

After this Material Assets Reorganisation, the company re-enacted "the registration and management system of insiders", this was approved at the first meeting of eighth session of the board of directors on 9 February, 2015, and disclosed at the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

During the reporting period, Corporate Governance of the Company in practice was of no material difference with the Corporate Law and requirements of relevant provisions of CSRC. Furthermore, in strict light of "Company Law of the People's Republic of China", "Securities Law of the People's Republic of China", "Disclosure of Information by Public Listing Companies", Administrative Measures on Information Disclosure by Listed Companies and "Listing Rules of SSE and HKSE", the Company will improve internal management system, enhance the level of standard operation and corporate governance, defend the interests of the shareholders and the Company, and promote healthy development of the Company.

2. Summary of Shareholders' Meetings

During the reporting period, the Company held its 2013 AGM at its registered place in Yizheng City, Jiangsu Province on 18 June 2014; the Company also held its first extraordinary general meeting, the first A Shares Class Meeting and the first H Shares Class Meeting for the year 2014 respectively on 11 November 2014; the Company also held its first extraordinary general meeting for the year 2015 on 9 February 2015. Details are as follows:

Name of meeting	Date of meeting	Name of resolutions	Resolutions	Disclosure date of resolutions
2013 AGM	18 June, 2014	The Ordinary resolutions: 1, approved the report of the board of directors of 2013 of the company; 2,approved the report of the supervisory committee of 2013 of the company; 3, approved the audited financial report and the report of auditor of 2013; 4, approved the profit distribution plan of 2013; 5, To re-appoint Pricewaterhouse Coopers Zhong Tian LLP (Special General Partnership) as the Company's 2014 annual domestic auditors and internal control auditors, to re-appoint Pricewaterhouse Coopers as the company's 2014 annual overseas auditors and to authorize the Board of Directors to determine their remuneration; 6, to elect Mr. Li Jianping as the director of seventh Board of Directors of the Company.	All resolutions were passed	19 June, 2014
First extraordinary general meeting for the year 2014	11 November, 2014	The special resolutions: 1, approved the proposal of the company in line with the basic conditions of a Material Assets Reorganisation; 2, approved the proposal of the Material Assets Reorganisation in line with the clause 4 of regulations on some issues of Material Assets Reorganisation of listed companies; 3, approved the proposal of the connected transaction related to this Material Assets Reorganisation; 4, approved the proposal of the specific plan of this Material Assets Reorganisation; 5, approved the proposal of the "selling of the major asset, repurchasing shares and issuing shares for purchasing assets and private complementary placement and report of the connected transation of Sinopec Yizheng Chemical Fibre Company Limited (draft)"and its abstract; 6, approved the proposal of the financial report, profit forecast report and the asset evaluation report about this Material Assets Reorganisation; 7, approved the signed documents of the agreement of assets selling of YCFC and SSC; 8, approved the signed documents of the agreement of share repurchasing of YCFC and SSC; 9, approved the signed document of the agreement of share issuing and assets purchasing of YCFC and SSC; 10, approved the proposal of authorizing the board of directors by the shareholders meeting to handle the related matters of the Material Assets Reorganisation; 11, approved the proposal of the amendments to the Articles of Association, and authorize the secretary to the board to handle the related applications, approvals, registrations and recordings caused by the amendments to the articles of association(including some editorial modifications in accordance with the requirements of the relevant department for approval); 12, approved the proposal of agreement to the CPC as purchaser for exemption from making an offer in accordance with the domestic and foreign regulatory requirements. The ordinary resolutions: 1, approved, ratified and confirmed the new resolution on matters related to routine related transactions after the completion of this Material Assets Reorganisation; 2, approved the proposal of preparation of impairment of assets and accelerating amortization of long-term prepaid expenses.	All resolutions were passed	12 November, 2014

Name of meeting	Date of meeting	Name of resolutions	Resolutions	Disclosure date of resolutions
First A Shares Class Meeting for the year 2014	11 November, 2014	The special resolutions: 1, approved the proposal of the plan for the company's Material Assets Reorganisation; 2, approved the proposal of the "selling of the major asset, repurchasing shares and issuing shares for purchasing assets and private complementary placement and report of the connected transaction of Sinopec Yizheng Chemical Fibre Company Limited (draft)"and its abstract; 3, approved the signed documents of the agreement of assets selling of YCFC and SSC; 4, approved the signed documents of the agreement of share repurchasing of YCFC and SSC; 5, approved the signed document of the agreement of share issuing and assets purchasing of YCFC and SSC; 6, approved the proposal of agreement to the CPC as purchaser for exemption from making an offer in accordance with the domestic and foreign regulatory requirements.	All resolutions were passed	12 November, 2014
First H Shares Class Meeting for the year 2014	11 November, 2014	The special resolutions: 1, approved the proposal of the plan for the company's Material Assets Reorganisation; 2, approved the proposal of the "selling of the major asset, repurchasing shares and issuing shares for purchasing assets and private complementary placement and report of the connected transaction of Sinopec Yizheng Chemical Fibre Company Limited (draft)"and its abstract; 3, approved the signed documents of the agreement of assets selling of YCFC and SSC; 4, approved the signed documents of the agreement of share repurchasing of YCFC and SSC; 5, approved the signed document of the agreement of share issuing and assets purchasing of YCFC and SSC; 6, approved the proposal of agreement to the CPC as purchaser for exemption from making an offer in accordance with the domestic and foreign regulatory requirements.	All resolutions were passed	12 November, 2014
First extraordinary general meeting for the year 2015	9 February, 2015	The special resolutions: 1, approved the proposal of amendments of the company's articles of associations; 2, approved the proposal of the amendments of the procedure rules of the company's shareholder's meeting; 3, approved the proposal of the amendments of the procedure rules of the company's board of directors; 4, approved the proposal of the amendments of the procedure rules of the company's supervisory committee; 5, approved the proposal of the general mandate to the board of directors on the additional insurance of the company's domestic shares and/or overseas listing foreign shares. The ordinary resolutions: 1, approved the proposal of the change of the company name; 2, approved the proposal of the change of the company's business scope; 3, approved the proposal of the change of the company's address; 4, approved the proposal that the election of company's eighth session of the supervisory committee is not by the supervisor of employee representative; 5, approved the proposal of the change of the company's domestic and overseas auditors and inner control auditor, and the proposal of suggestions to the shareholders meeting about the authorizing the board of directors to determine the auditor's remuneration; 6, approved the proposal of the remuneration plan of the directors and supervisors of the eighth session of board of directors and eighth session of supervisory committee, respectively; 7, approved the proposal of election of the directors of the eighth session of the board of directors.	All resolutions were passed	10 February, 2015

3. Performance of the Directors

(1) The Directors' attendance at the Board Meetings and Shareholders' Meetings

Name of Director		Attendance at shareholders' meetings						Attendance at the Board meetings
	Whether as Independent Director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Whether not attending in person for two consecutive times	Number of attending at shareholders' meetings
Lu Li-yong		7	7	—	—	—	No	5
Sun Zhi-hong		7	7	—	—	—	No	3
Shen Xi-jun		7	7	—	—	—	No	4
Xiao Wei-zhen		1	1	—	—	—	No	—
Long Xing-ping		7	7	—	—	—	No	3
Zhang Hong		7	7	—	—	—	No	3
Guan Diao-sheng		7	6	—	1	—	No	—
Sun Yu-guo		7	7	—	—	—	No	—
Li Jianping		4	4	—	—	—	No	4
Shi Zhenhua	Yes	7	7	—	—	—	No	1
Qiao Xu	Yes	7	6	—	1	—	No	—
Yang Xiong-sheng	Yes	7	6	—	1	—	No	4
Chen Fang-zheng	yes	7	7	—	—	—	No	4
The Board meetings held during the year (No. of times)								7
Including: meetings held on site (No. of times)								4
Meetings held by correspondence (No. of times)								—
Meetings held by correspondence on site and by correspondence (No. of times)								—

(2) The information of the objections proposed by the independent directors

During the reporting period, the Company's independent directors did not raise objections about the proposals of the year's meetings of board of directors and meetings of non board of directors. The detail information related to the performance of the independent directors is published in the debriefing report of the Company's independent directors 2014 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

(3) Summarized report on the performance of the professional committees of the board of directors

In 2014, the audit committee and remuneration committee of the seventh session of the board of directors worked actively according to its duties and responsibilities given by the board of directors.

A. During the reporting period, by communicating the auditors, on 14 January 2014, the audit committee of the seventh session of the board of directors convened its ninth conference, with the main schema as follows: by consulting with Pricewaterhouse Coopers Zhong Tian LLP (Special General Partnership) and Pricewaterhouse Coopers, company, ensured the audit plan of 2013 financial report and communicated with auditors on the subjects as follows: the scope of the annual audit, the composition of the audit team, the audit work schedule, risk judgments, test and evaluation methods on risk and fraud and the audit focus of this year, and reviewed the financial statements of 2013 (unaudited) prepared by the Department of Financial Assets and agreed to submit to Pricewaterhouse Coopers Zhong Tian LLP (Special General Partnership) for auditing. On 11 March 2014, the audit committee convened the tenth meeting and reviewed the financial statements under the preliminary audit opinion of the auditor. On 27 March 2014, the audit committee convened the eleventh meeting and passed the proposals as following: 2013 annual financial report of the Company, auditor audit summary report in 2013, remuneration of domestic and foreign auditors and internal control auditors of 2013, the suggestions of appointing the domestic and overseas auditors and internal control auditors of 2014 and the debriefing report of the audit committee of 2013, and all of the proposals finally presented to the board of directors for deliberation. The audit committee considered that the company's financial report of 2013 met the requirements of the regulations of China Accounting Standards, in all material respects, fairly and comprehensively reflected the Company's financial position at the end of 31 December 2013 and the operation achievement and cash flows of 2013. On 22 August 2014, the audit committee convened the twelfth meeting, approved the proposals as followings: resolutions on no interim dividends, resolutions on impairment of long-term assets and accelerated amortization of deferred expenses and resolutions on the company's semi-annual financial report and its audit opinion. On 12 September 2014, the audit committee convened the thirteenth meeting, approved the proposals as following: the resolutions on the specific plan of the Company's Material Assets Reorganisation, resolution on the selling of the major asset, repurchasing shares and issuing shares for purchasing assets and private complementary placement and report of the connected transaction of Sinopec Yizheng Chemical Fibre Company Limited (draft)" and its abstract, the resolution on matters related to the added related connected transactions after this Material Assets Reorganisation. On 22 December 2014, the audit committee convened fourteenth meeting, approved the resolution on the change of the Company's domestic and overseas auditors and internal control auditors for 2014.

During the reporting period, the Company's audit committee proposed the hope that the annual auditor should pay more attention on the Company's inner control and risk management in the 2013 audit report.

B. During the reporting period, on 27 March 2014, the remuneration committee of the seventh session of the board convened the third meeting. The meeting passed the proposal of the remuneration of the directors, supervisors and senior management and submit the proposal to the thirteenth meeting of the seventh session of the board for approval, according to the following matters: 1) the resolution on the remuneration of directors and supervisors of the seventh session, and the resolution on the remuneration of the seventh session which had been approved respectively in the EGM and the first board meeting of seventh session convened on 16 December 2011, 2) the service contract signed between the Company and director and between the Company and supervisor, 3) the Company's annual operation objective, management objective and the actual accomplishment, 4) the duty and responsibility taken by each directors, supervisors and senior management. At the same time, the meeting passed the debriefing report of 2013 from the remuneration committee.

4. The information on the existence of risk found by the supervisory committee

The supervisory committee has no objection on the supervised matters during the reporting period.

5. The note to the information of that it can not be guaranteed the independence with respect to Business, Personnel, Assets, Organisation and Finance between the Company and the Controlling Shareholders and can not be guaranteed the independent operation ability between the Company and the Controlling Shareholders

There is no existence of non independence between the Company and the Controlling Shareholders with respect to Business, Personnel, Assets, Organisation and Finance.

6. Regarding the performance evaluation, stimulating and binding mechanism

Under the guidance of the annual operation and management target set by the Board, Remuneration and Assessment Committee of the Company effectively appraised the performance of senior management. The Company has been working hard to establish and optimize evaluation criteria and a stimulating and binding mechanism for senior management.

During the reporting period, the Company did not adopt stock incentive plan.

7. Compliance with Code of Corporate Governance Practices of HKSE

During the reporting period, the Company has been in strict compliance with the Code of Corporate Governance of HKSE. The details are as follows:

A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The seventh term of the Board held seven meetings in 2014, including four regular meetings. The Directors' attendance of the Board meetings is set forth in item 3 "Performance of duties by the Directors" of this section.

(2) All Directors can raise matters in the agenda for the Board meetings.

(3) The notice has been given 14 days before regular meetings and the notice of the other Board meetings has usually been given 10 days before.

(4) The Board Secretary records and keeps the minutes of the Board meetings and meetings of Board Committees. The Articles of Association regulates the contents of the minutes, and the procedure which minutes should be sent to all Directors for their comment and signature after the Board meetings.

(5) The Board Secretary provides sustainable service for and reminds of all Directors with a view to ensuring them to follow all applicable rules and regulations.

A.2 Chairman and Chief Executive Officer

(1) Mr. Jiao Fangzheng was elected as Chairman of the Company by the Board. Nominated by Chairman of the Company, Mr. Zhu Ping was appointed as General Manager of the Company by the Board. The responsibilities between Chairman and General Manager are set out clearly in the Articles of Association.

(2) Approaches to acquire necessary information for decision were listed in the "the Rules and Procedures for the Board" of the Company. Directors can require General Manger or relevant departments through General Manger to provide information and explanation. If necessary, Independent Directors can consult independent professionals and the Company should pay such expenses.

A.3 The Board composition

(1) The Board of Directors of the Company consists of 8 members with extensive professional and management experiences, one of which is female (Please refer to the Section headed "Directors, Supervisors, Other Senior Management and Employees" in this annual report for detailed information. Among the 8 members, there are 3 executive directors, 2 non-executive directors and 3 independent non-executive directors. The independent non-executive directors represent one third of the Board. The company's executive directors and non-executive directors have extensive management experiences in petrochemical and large-sized enterprises; Independent non-executive directors have working background as well-known financier and finance experts, rich experience in international capital management and law policy. The composition of the Board of Directors is reasonable and diversified. On the first meeting of the eighth term of the Board dated on February 9, 2015, the Company has approved the boards' diversified policy of SSC.

(2) The Company has received from each independent non-executive director a letter of confirmation regarding its compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that each of the independent non-executive directors is independent.

(3) The Independent Directors are identified in all corporate communications that disclose the names of Directors. The list of the current Directors of the Company had been maintained on its website and the HKSE's website.

A.4 Appointment, re-election and removal

(1) All Directors are elected by shareholders' general meetings for a term of not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.

(2) The term of office of Independent Directors shall not be more than 6 years.

A.5 Nomination Committee

The Board has not established Nomination Committee. The responsibility of Nomination Committee regulated in the Code of Corporate Governance will be taken by the board of the company. Pursuant to the Articles of Association of the Company, the candidates for independent directors may be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than one per cent of the issued shares of the Company. The candidates for the remaining directors shall be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than three per cent of the issued shares of the Company. All candidates should be elected by the shareholders' general meeting of the Company. The independent non-executive directors should express their independent opinions before the board of directors nominated the candidate for directors. The eight directors of the eighth session were elected at the first EGM 2015.

A.6 Responsibilities of Directors

(1) All the non-executive directors have the same duties and authorities as the executive directors. In addition, the nonexecutive directors, especially the independent non-executive directors are entitled to certain specific authorities. The Articles of Association and the Rules and Procedures of Board of Directors' Meetings clearly specify for the authorities of directors including independent non-executive directors, which are published on the website http://ssc.sinopec.com.

(2) Each of the directors was able to devote sufficient time and efforts to handling the matters of the Company. Directors shall abstain from voting at the Board meeting due to conflicts of interests.

(3) Each of the directors confirmed that he or she has complied with the "Model Code for Securities And Transactions by Directors of Listed Company" during the reporting period. In addition, the company formulated the "Rules Governing Shares Held by Company Directors, Supervisors and Senior Manager and changes in shares" and the "Model Code of Securities Transactions by Company Employees" to regulate the activities of Sinopec Corp.'s personnel in purchase and sale of the securities of the company.

(4) The company has arranged trainings for directors and provided relevant training fees. The directors actively participated in the sustainable professional development program. During the reporting period, all directors and supervisors of the Company have attended professional trainings no less than 8 training courses on listing rules, Corporate Governance, prevention of insider trading in securities transactions, Disclosure of Information, and responsibilities of directors.

A.7 Supply of and access to information

(1) The Company provides information relating to business operation of the Company regularly, to help Directors to understand the Company's operation. Where any director requires information, the Company will supply the related materials in a timely manner.

(2) All Directors usually acquire adequate information 3 working days before the Board meetings which can help them to make accurate decisions.

(3) The Board Secretary provides sustainable services for all Directors who can consult the Board documents and relevant information when necessary.

B. Remuneration of Directors and Senior Management

(1) The company has set up the Remuneration Committee. The Remuneration Committee under the eighth term of the Board consists of independent non- executive Director Dr. Wong, Kennedy Ying Ho as the Head, the executive director Mr. Zhou Shiliang and the dependent non-executive director Ms. Jiang Bo as the member. The Remuneration Committee has its working rules which can be found in the website of the company or the Hong Kong Stock Exchange.

(2) Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period are set forth in the section "Directors, Supervisors, Senior Management and Employees" of this Annual Report.

(3) The members of Remuneration Committee can consult Chairman or General Manager, and can consult independent professionals and the Company shall pay such expenses.

Information on the fulfillment of responsibilities by the Remuneration Committee is set forth in the sub-section "Information on the fulfillment of responsibilities by special committee under the Board" under the section "Corporate Governance" in the Annual Report during the reporting period.

C. Accountability and audit

C.1 Financial reporting

(1) The Company assures that the Senior Management has provided adequate financial information to the Board and the Audit Committee.

(2) The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Company as at 31 December 2014 and of the Company's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis. The Board of directors and all directors warranted that there were no material omissions, or misrepresentations or misleading statements contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

(3) Required under the Listing Rules by HKSE, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

(4) The external auditors of the company made a statement about their reporting responsibilities in the auditor's report contained in the financial statements.

C.2 Internal control

(1) The Company has set up internal control system to guard on the operational, financial and rule-abiding risks.

(2) The management of the company implemented the responsibilities of internal control. With sufficient resources in the accounting and financial reporting, the Company has adequately qualified and experienced employees in this regard and sufficient budget for the trainings of relevant employees.

(3) The internal audit department has been set up and been adequately resourced to carry out internal audit function.

Corporate Governance

C.3 The Audit Committee

(1) The Audit Committee consists of independent non-executive director Ms. Jiang Bo who acts as the committee chairman, and non-executive director Mr.Li Lianwu, independent non-executive director Mr. Wong Kennedy YinHo who act as committee members. As verified, none of them had served as a partner or former partner in our current auditing firm.

(2) The Company has published the terms of reference of the Audit Committee. The terms of reference are available for inspection at the website of the Company and the Hong Kong Stock Exchange for reference.

(3) The Audit Committee may consult independent professionals. Reasonable costs arising from or in connection with such consultation are borne by the Company. The working expenses of the committee are included in the budget of the Company. Meanwhile, according to the Company policies, the senior management and relevant departments of the company shall actively cooperate with the Audit Committee.

(4) During the reporting period, the Audit Committee held 6 meetings (please refer to the Section headed “Corporate Governance” on reports on fulfillment of responsibilities by special committees under the Board in the annual report for details). The review opinions were given at the meetings and submitted to the Board of Directors after signed by members. During the reporting period, the Board and the Audit Committee did not have any different opinion.

As the recommend of the third auditing meeting of the eighth term of the Board, the second meeting of the eighth term Board of Directors of the Company has resolved to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the Company’s domestic and international auditors for 2015, appoint Grant Thornton (Special General Partnership) as the Company’s auditor regarding internal control for 2015, and proposed to authorize the Board to fix their remuneration. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2014 AGM.

An analysis of remuneration in respect of audit services is set forth in item 9 of the “Significant Events” section in this Annual Report.

D. Delegation by the Board

(1) The Strategy and Investment Committee, the Audit Committee and the Remuneration Committee under the Board have the specific authority and duties delegated by the Board, and should report to the Board.

(2) The Board, the Senior Management and each committees under the Board have specific authority and duties, which are set forth in the Articles of Association, the Rules and Procedures for shareholders’ general meeting, the Rules and Procedures for the Board.

(3) The attendance record of the seventh term of the Board‘s Committee meeting is as follows.

The Audit Committee

Name	Times in Person	Times by Proxies	Absence
Yang Xiong-sheng	6	—	—
Shi Zhen-hua	6	—	—
Qiao Xu	6	—	—
Chen Fang-zheng	6	—	—
Zhang hong	6	—	—

The Remuneration Committee

Name	Times in Person	Times by Proxies	Absence
Sun Zhi-hong	1	—	—
Qiao Xu	1	—	—
Chen Fang-zheng	1	—	—
Sun Shao-bo	1	—	—

E. Communication with shareholders

(1) During the reporting period, the Chairman should propose a separate resolution in respect of each substantially separate issue at a shareholders' general meeting. All resolutions are voted by ballots, so that the interests of all shareholders could be guaranteed. When the Company is to hold a shareholders' general meeting, it shall issue a written notice 45 days prior to the meeting (the day of meeting not included) informing all the registered shareholders.

(2) The circulars to the shareholders of the Company set forth in detail the rights of the shareholders who are entitled to attend the shareholders' general meetings, the agenda and the voting procedures.

(3) Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The auditors of the Company also attend the annual general meetings.

(4) During the reporting period, the Articles of the Company was amended twice the amendment primarily on the relevant provisions of the Company's cash dividend, scope of work, share capital structure of the Company and registered capital.

F. The secretary to the board

(1) Relevant qualifications of the secretary to the board are recognized by the HKSE as the company secretary, and the secretary nominated by the Board Chairman and appointed by the Board of Directors. He is the senior management officer who reports to SSC and the Board of Directors. The secretary makes recommendation to the Board in respect of corporate governance and arranges orientation training and professional development for directors.

(2) The secretary to the board will actively participate in career development trainings.

Internal Control

1. The responsibility statement of internal control and the information about the internal control system construction

It is responsibility for the Board to establish, improve and effectively implement internal control system, assess its effectiveness, and faithfully disclose the evaluation report of the system. The supervisory committee supervises over the setup and implementation of internal control system by the board of the Company, while managers of the Company take responsibility to organize and instruct the daily operation of the internal control system.

In 2014, the Company implemented Material Assets Reorganisation. After the accomplishment of the Material Assets Reorganisation, the Company organized the leading team for internal control according to the new organization structure in order to be responsible for guidance, supervision, organization and implementation of internal control construction work and appointed the specific person who are responsible for the implementation of the internal control construction work.

According to the requirements of the board of directors, the new strategy objectives and the change of the internal and external environment, the Company has revised its inner control booklet, improved its inner control measures and optimized its business processes for the inner control construction. At the same time, the company carried out the comprehensive assessment on the existing and newly defined risks and updated comprehensively the risk list. On 24 March 2015, the Company convened the second meeting of eighth session of the board of directors, passed the 2015 version of inner control booklet, and traced back the implementation date as 1 January 2015.

Because the Material Assets Reorganisation is completed at the end of December 2014, according to the related regulations of “Notice that main board listed companies in 2012 implement enterprise internal control system in different categories and batches (No. [2012] 30)” issued by Chinese Minister of Finance and CSRC, the Company submitted the application document on exemption from the disclosure of internal control evaluation report and audit report of 2014 to the SSE, and got the approval from SSE. Therefore, the Company would not disclose its inner control evaluation report and the related audit report for year 2014.

2. Investigation System of Responsibility for Significant Errors in the Annual Report and its Implementation

On 26 March 2012, the proposal of “Investigation System of Responsibility for Significant Errors in the Annual Report” was approved at the third meeting of the seventh session of the board of directors of the company and began to be carried out. After the Material Assets Reorganisation, according to the actual situation, the Company revised comprehensively the “Investigation System of Responsibility for Significant Errors in the Annual Report”, and passed at the first meeting of the eighth session of the board of directors of the company on 9 February 2015. During the reporting period, the Company did not have the following situations, such as the corrections to the significant accounting error, the supplementary of the material omission of the information or the corrections of performance forecast, etc.

Grant Thornton
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Auditors' Report

To the Board of Sinopec Oilfield Service Corporation

GTCNSZ (2015) No. 110ZA2211-T

We have audited the accompanying Financial Statements of Sinopec Oilfield Service Corporation ("SSC"), which comprises the company and consolidated balance sheets at 31 December 2014, the company and consolidated income statement, the company and consolidated cash flow statement, the company and consolidated statement of changes in owners' equity and notes to the financial statements for the years ended 31 December 2014.

Management's Responsibility for the Financial Statements

Management of SSC is responsible for the preparation of these financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of SSC are prepared in accordance with Accounting Standards for Business Enterprises .The financial position of SSC for the year ended 31 December 2014, and the results of its operations and cash flows for the year ended 31 December 2014 are fairly presented in all material respects,.

Grant Thornton
China

Certified Public Accountants: **Liu Zhizeng**
Certified Public Accountants: **Ma Jian**

Beijing, China

March 24, 2015

CONSOLIDATED BALANCE SHEET

Expressed in RMB thousand

Items	Notes	At 31 December 2014	At 31 December 2013
Current assets:			
Cash at bank and on hand	V.1	1,213,897	1,727,786
Financial assets at fair value through profit or loss		—	—
Notes receivable	V.2	219,506	2,744,179
Accounts receivable	V.3	28,064,935	25,681,568
Prepayments	V.4	660,271	776,419
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	V.5	2,215,132	2,686,338
Inventories	V.6	11,932,142	13,869,328
Non-current assets due within one year	V.7	1,350,742	1,317,592
Other current assets	V.8	168,076	339,793
Total current assets		45,824,701	49,143,003
Non-current assets:			
Available-for-sale financial assets	V.9	40,494	41,494
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	V.10	107,999	599,464
Investment property		—	—
Fixed assets	V.11	29,693,146	34,903,818
Construction in progress	V.12	1,387,284	3,683,066
Construction materials		—	—
Disposal of fixed assets		3,175	1,520
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	V.13	92,351	378,074
Research and development expenditure		—	1,085
Goodwill		—	—
Long-term deferred expenses	V.14	3,989,879	3,764,770
Deferred income tax assets	V.15	156,679	220,375
Other non-current assets		—	—
Total non-current assets		35,471,007	43,593,666
Total assets		81,295,708	92,736,669

CONSOLIDATED BALANCE SHEET (Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2014	At 31 December 2013
Current liabilities:			
Short-term loans	V.16	**11,889,709**	16,017,666
Financial liabilities at fair value through profit or loss		**—**	—
Notes payable	V.17	**856,442**	1,141,591
Accounts payable	V.18	**30,057,165**	30,604,771
Advances from customers	V.19	**8,417,168**	7,257,997
Employee benefits payable	V.20	**288,285**	487,456
Tax payables	V.21	**2,955,778**	2,564,065
Interest payables	V.22	**20,028**	33,907
Dividend payables		**—**	—
Other payables	V.23	**7,327,469**	3,001,164
Non-current liabilities due within one year	V.24	**125,870**	200,000
Other current liabilities		**—**	—
Total current liabilities		**61,937,914**	61,308,617
Non-current liabilities:			
Long-term loans	V.25	**498,723**	580,000
Bonds payables		**—**	—
Long-term payables	V.26	**69,440**	—
Long-term employee benefits payable		**—**	—
Special payables	V.27	**2,647**	7,380
Estimated liabilities		**—**	—
Deferred income	V.28	**43,951**	69,588
Deferred income tax liabilities	V.15	**46,895**	4,852
Other non-current liabilities		**—**	—
Total non-current liabilities		**661,656**	661,820
Total liabilities		**62,599,570**	61,970,437
Share capital	V.29	**12,809,328**	6,000,000
Capital reserve	V.30	**4,275,032**	23,318,202
Less: treasury stock		**—**	—
Other comprehensive income		**—**	—
Special reserve	V.31	**295,568**	302,429
Surplus reserve	V.32	**200,383**	200,383
Retained earnings	V.33	**1,116,809**	860,280
Equity attributable to shareholders of the company		**18,697,120**	30,681,294
Minority interests		**-982**	84,938
Total equity		**18,696,138**	30,766,232
Total liabilities and equity		**81,295,708**	92,736,669

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

BALANCE SHEET

Expressed in RMB thousand

Items	Notes	At 31 December 2014	At 31 December 2013
Current assets:			
Cash at bank and on hand	XIV.1	—	105,797
Financial assets at fair value through profit or loss		—	—
Notes receivable	XIV.2	—	2,558,598
Accounts receivable	XIV.3	—	140,540
Prepayments	XIV.4	—	28,358
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	XIV.5	—	7,813
Inventories	XIV.6	—	1,320,644
Non-current assets due within one year		—	—
Other current assets	XIV.7	—	158,465
Total current assets		—	4,320,215
Non-current assets:		—	—
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	XIV.8	20,215,327	584,850
Investment property		—	—
Fixed assets	XIV.9	—	3,963,871
Construction in progress	XIV.10	—	1,279,939
Construction materials		—	—
Disposal of fixed assets		—	—
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	XIV.11	—	271,143
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses	XIV.12	—	135,503
Deferred income tax assets	XIV.13	—	73,783
Other non-current assets		—	—
Total non-current assets		20,215,327	6,309,089
Total assets		20,215,327	10,629,304

BALANCE SHEET (Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2014	At 31 December 2013
Current liabilities:			
Short-term loans	XIV.14	—	1,602,907
Financial liabilities at fair value through profit or loss		—	—
Bills payable	XIV.15	—	400,000
Accounts payable	XIV.16	—	800,758
Advances from customers	XIV.17	—	310,086
Employee benefits payable	XIV.18	—	2,246
Tax payables	XIV.19	—	11,570
Interest payables	XIV.20	—	2,793
Dividend payables		—	—
Other payables	XIV.21	**1,518,207**	374,147
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		**1,518,207**	3,504,507
Non-current liabilities:			
Long-term loans		—	—
Bonds payables		—	—
Long-term payables		—	—
Long-term employee benefits payable		—	—
Special payables		—	—
Estimated liabilities		—	—
Deferred income	XIV.22	—	28,309
Deferred income tax liabilities	XIV.13	—	—
Other non-current liabilities		—	—
Total non-current liabilities		—	28,309
Total liabilities		**1,518,207**	3,532,816
Share capital	XIV.23	**12,809,328**	6,000,000
Capital reserve	XIV.24	**7,132,134**	1,146,794
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve	XIV.25	—	1,447
Surplus reserve	XIV.26	**200,383**	200,383
Retained earnings	XIV.27	**-1,444,725**	-252,136
Equity attributable to shareholders of the company		**18,697,120**	7,096,488
Minority interests		—	—
Total equity		**18,697,120**	7,096,488
Total liabilities and equity		**20,215,327**	10,629,304

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

CONSOLIDATED INCOME STATEMENT

Expressed in RMB thousand

Items	Notes	2014	2013
1.Revenue	V.34	94,481,041	107,406,243
Less: Operating cost	V.34	85,261,101	98,966,691
Business taxes and surcharges	V.35	980,648	1,145,437
Selling expenses	V.36	312,380	321,379
General and administrative expenses	V.37	5,367,890	5,341,940
Finance costs	V.38	806,565	828,277
Impairment losses on assets	V.39	1,135,411	143,048
Add: Gains/(losses) from changes in fair value (loss in “-”)		—	—
Add: Investment income (loss in “-”)	V.40	-1,659	2,639
Including: Investment income from investments in associates and joint ventures		-3,709	55
2.Operating profits (loss in “-”)		615,387	662,110
Add: Non-operating income	V.41	1,710,049	463,709
Including: Gains from disposal of non-current assets		1,172,551	15,486
Less: Non-operating expenses	V.42	118,756	111,044
Including: Losses on disposal of non-current assets		32,053	47,600
3.Profit before income tax (loss in “-”)		2,206,680	1,014,775
Less: Income tax expense	V.43	974,713	925,900
4.Profit for the year/period (loss in “-”)		1,231,967	88,875
Including: Profit from combined party before business combination under common control		2,424,556	1,543,094
Profit for the year/period attributable to:			
– The owners’ of SOSC		1,229,753	61,216
– Minority interests		2,214	27,659
5.Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners’ of parent company		—	—
– Minority shareholders		—	—
6.Total comprehensive income		1,231,967	88,875
Total comprehensive income for the year/period attributable to:			
– The owners’ of parent company		1,229,753	61,216
– Minority shareholders		2,214	27,659
7.Earnings per share			
– Basic		0.08	0.004
– Diluted		0.08	0.004

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

INCOME STATEMENT

Expressed in RMB thousand

Items	Notes	2014	2013
1.Revenue	XIV.28	15,487,726	17,677,171
Less: Operating cost	XIV.28	15,557,127	17,765,544
Business taxes and surcharges	XIV.29	14,687	150
Selling expenses	XIV.30	230,182	226,661
General and administrative expenses	XIV.31	860,978	848,455
Finance costs	XIV.32	36,803	5,236
Impairment losses on assets	XIV.33	1,037,361	6,787
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	XIV.34	168	31
Including: Investment income from investments in associates and joint ventures		168	31
2.Operating profits (loss in "-")		-2,249,244	-1,175,631
Add: Non-operating income	XIV.35	1,159,012	8,550
Including: Gains from disposal of non-current assets		1,145,989	782
Less: Non-operating expenses	XIV.36	28,574	48,586
Including: Losses on disposal of non-current assets		6,477	22,766
3.Profit before income tax (loss in "-")		-1,118,806	-1,215,667
Less: Income tax expense	XIV.37	73,783	238,550
4.Profit for the year/period (loss in "-")		-1,192,589	-1,454,217
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:		—	—
– The owners' of SOSC		-1,192,589	-1,454,217
– Minority interests		—	—
5.Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
6.Total comprehensive income		-1,192,589	-1,454,217
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-1,192,589	-1,454,217
– Minority shareholders		—	—
7.Earnings per share			
– Basic		—	—
– Diluted		—	—

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

CONSOLIDATED CASH FLOW STATEMENT

Expressed in RMB thousand

Items	Notes	2014	2013
1.Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		98,625,937	103,164,157
Tax refunded		422,270	298,142
Cash received from other operating activities		2,890,940	3,912,619
Subtotal of cash inflow from operating activities		101,939,147	107,374,918
Cash paid for the purchases of goods and receiving of services		67,960,803	77,415,642
Cash paid for employees and on behalf of employees		17,567,147	17,790,492
Tax paid		6,245,425	6,944,602
Cash paid for other operating activities		3,419,637	3,466,764
Subtotal of cash outflow from operating activities		95,193,012	105,617,500
Net cash flow from operating activities		6,746,135	1,757,418
2.Cash flows from investing activities:			
Cash received from the investments		1,020,000	135,000
Cash received from the investment income		11,917	4,307
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		64,345	14,660
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities		31,113	34,816
Subtotal of cash inflow from investing activities		1,127,375	188,783
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		4,183,375	7,285,025
Cash paid for the investments		851,349	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		71,933	40,000
Subtotal of cash outflow from investing activities		5,106,657	7,325,025
Net cash flow from investing activities		-3,979,282	-7,136,242
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		—	1,149,340
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		78,120,590	53,451,827
Cash received from issuance of bonds		—	—
Cash received for other financing activities		1,303,683	6,546,816
Subtotal of cash inflow from financing activities		79,424,273	61,147,983
Cash paid for repayments of borrowings		81,851,284	56,370,140
Cash paid for distribution of dividend, profit or payments of interests		692,143	1,470,469
Including: Cash paid for the dividend to minority shareholders of subsidiaries		24,022	13,561
Cash paid for other financing activities		112,504	—
Including: Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		82,655,931	57,840,609
Net cash flow from financing activities		-3,231,658	3,307,374
4.Effect of exchange rate changes on cash and cash equivalents		-27,535	-154,824
5.Net changes in cash and cash equivalents		-492,340	-2,226,274
Add: Cash and cash equivalents at beginning of year/period		1,694,094	3,920,368
6.Cash and cash equivalents at end of year/period		1,201,754	1,694,094

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

CASH FLOW STATEMENT

Expressed in RMB thousand

Items	Notes	2014	2013
1.Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		16,117,141	17,361,754
Tax refunded		6,186	3,800
Cash received from other operating activities		14,022	163,424
Subtotal of cash inflow from operating activities		16,137,349	17,528,978
Cash paid for the purchases of goods and receiving of services		14,899,341	17,034,361
Cash paid for employees and on behalf of employees		1,003,941	1,078,029
Tax paid		40,130	57,614
Cash paid for other operating activities		393,947	432,259
Subtotal of cash outflow from operating activities		16,337,359	18,602,263
Net cash flow from operating activities		-200,010	-1,073,285
2.Cash flows from investing activities:			
Cash received from the investments		—	—
Cash received from the investment income		—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		44,686	2,592
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities		31,113	34,816
Subtotal of cash inflow from investing activities		75,799	37,408
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		29,277	149,405
Cash paid for the investments		—	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		71,933	40,000
Subtotal of cash outflow from investing activities		101,210	189,405
Net cash flow from investing activities		-25,411	-151,997
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		—	—
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		6,010,411	3,889,325
Cash received from issuance of bonds		—	—
Cash received for other financing activities		800,000	—
Subtotal of cash inflow from financing activities		6,810,411	3,889,325
Cash paid for repayments of borrowings		6,585,088	2,687,669
Cash paid for distribution of dividend, profit or payments of interests		84,359	56,314
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities		—	—
Including: Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		6,669,447	2,743,983
Net cash flow from financing activities		140,964	1,145,342
4.Effect of exchange rate changes on cash and cash equivalents		-1,340	3,710
5.Net changes in cash and cash equivalents		-85,797	-76,230
Add: Cash and cash equivalents at beginning of year/period		85,797	162,027
6.Cash and cash equivalents at end of year/period		—	85,797

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Expressed in RMB thousand

Items	Amount of this period									
	Equity attributable to shareholders of the company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	Minority interests	Total equity
Balance at 31 December 2013	6,000,000	23,318,202	—	—	302,429	200,383	—	860,280	84,938	30,766,232
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—
Balance at 1 January 2014	6,000,000	23,318,202	—	—	302,429	200,383	—	860,280	84,938	30,766,232
Changes during the period (decrease in "-")	6,809,328	-19,043,170	—	—	-6,861	—	—	256,529	-85,920	-12,070,094
I. Total comprehensive income	—	—	—	—	—	—	—	1,231,967	2,214	1,231,967
II. Increase or decrease of capital	6,809,328	216,013	—	—	-1,392	—	—	—	-64,112	6,959,837
1.Contribution of capital	6,809,328	58,115	—	—	-1,392	—	—	—	-64,112	6,801,939
2.Share payments recognised in equity	—	—	—	—	—	—	—	—	—	—
3.Others	—	157,898	—	—	—	—	—	—	—	157,898
III. Distribution of profits	—	—	—	—	—	—	—	-17,080	-24,022	-41,102
1.Provision of surplus reserve	—	—	—	—	—	—	—	—	—	—
2.Distribution to (from) shareholders	—	—	—	—	—	—	—	-17,080	-24,022	-41,102
3.Others	—	—	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	956,144	—	—	—	—	—	-956,144	—	—
1.Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—	—	—
2.Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—	—	—
3.Offset of surplus reserve with losses	—	—	—	—	—	—	—	—	—	—
4.Others	—	956,144	—	—	—	—	—	-956,144	—	—
V. Special reserve	—	—	—	—	-5,469	—	—	—	—	-5,469
1.Provided during the period	—	—	—	—	1,251,650	—	—	—	—	1,251,650
2.Used during the period (expressed in "-")	—	—	—	—	-1,257,119	—	—	—	—	-1,257,119
VI. Others	—	-20,215,327	—	—	—	—	—	—	—	-20,215,327
Balance at 31 December 2014	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

Items	Amount of previous period									
	Equity attributable to shareholders of the company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	Minority interests	Total equity
Balance at 31 December 2012	4,000,000	3,146,794	—	—	80	200,383	—	1,202,081	—	8,549,338
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	21,060,692	—	—	351,431	—	—	335,004	77,715	21,824,842
Balance at 1 January 2013	4,000,000	24,207,486	—	—	351,511	200,383	—	1,537,085	77,715	30,374,180
Changes during the period (decrease in "-")	2,000,000	-889,284	—	—	-49,082	—	—	-676,805	7,223	392,052
I. Total comprehensive income	—	—	—	—	—	—	—	61,216	27,659	88,875
II. Increase or decrease of capital	2,000,000	-889,284	—	—	—	—	—	—	-3,485	1,107,231
1.Contribution of capital	2,000,000	-889,284	—	—	—	—	—	-3,485	1,107,231	1,107,231
2.Share payments recognised in equity	—	—	—	—	—	—	—	—	—	—
3.Others	—	—	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	-738,021	-16,951	-754,972
1.Provision of surplus reserve	—	—	—	—	—	—	—	—	—	—
2.Distribution to (from) shareholders	—	—	—	—	—	—	—	-738,021	-16,951	-754,972
3.Others	—	—	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—	—	—
1.Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—	—	—
2.Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—	—	—
3.Offset of surplus reserve with losses	—	—	—	—	—	—	—	—	—	—
4.Others	—	—	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	-49,082	—	—	—	—	-49,082
1.Provided during the period	—	—	—	—	1,453,719	—	—	—	—	1,453,719
2.Used during the period (expressed in "-")	—	—	—	—	-1,502,801	—	—	—	—	-1,502,801
VI. Others	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2013	6,000,000	23,318,202	—	—	302,429	200,383	—	860,280	84,938	30,766,232

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

STATEMENT OF CHANGES IN EQUITY

Expressed in RMB thousand

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
Balance at 31 December 2013	6,000,000	1,146,794	—	—	1,447	200,383	-252,136	7,096,488
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
Balance at 1 January 2014	6,000,000	1,146,794	—	—	1,447	200,383	-252,136	7,096,488
Changes during the period (decrease in "-")	6,809,328	5,985,340	—	—	-1,447	—	-1,192,589	11,600,632
I. Total comprehensive income	—	—	—	—	—	—	-1,192,589	-1,192,589
II. Increase or decrease of capital	6,809,328	5,985,340	—	—	-1,394	—	—	12,793,274
1. Contribution of capital	6,809,328	5,985,340	—	—	-1,394	—	—	12,793,274
2. Share payments recognised in equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
1. Provision of surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to (from) shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
3. Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	-53	—	—	-53
1. Provided during the period	—	—	—	—	917	—	—	917
2. Used during the period (expressed in "-")	—	—	—	—	-970	—	—	-970
VI. Others	—	—	—	—	—	—	—	—
Balance at 31 December 2014	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

STATEMENT OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

Items	Amount of previous period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
Balance at 31 December 2012	4,000,000	3,146,794	—	—	80	200,383	1,202,081	8,549,338
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
Balance at 1 January 2013	4,000,000	3,146,794	—	—	80	200,383	1,202,081	8,549,338
Changes during the period (decrease in "-")	2,000,000	-2,000,000	—	—	1,367	—	-1,454,217	-1,452,850
I. Total comprehensive income	—	—	—	—	—	—	-1,454,217	-1,454,217
II. Increase or decrease of capital	2,000,000	-2,000,000	—	—	—	—	—	—
1. Contribution of capital	2,000,000	-2,000,000	—	—	—	—	—	—
2. Share payments recognised in equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
1. Provision of surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to (from) shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
3. Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	1,367	—	—	1,367
1. Provided during the period	—	—	—	—	1,728	—	—	1,728
2. Used during the period (expressed in "-")	—	—	—	—	-361	—	—	-361
VI. Others	—	—	—	—	—	—	—	—
Balance at 31 December 2013	6,000,000	1,146,794	—	—	1,447	200,383	-252,136	7,096,488

The notes to financial information are the integral part of the financial information.

Director: **Jiao Fangzheng** *General Manager:* **Zhu Ping** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

Notes to the financial statements

For the year ended 31 December 2014 (unless otherwise sates, amounts in RMB thousand)

I. COMPANY GENERAL INFORMATION

1. Company Profile

Sinopec Oilfield Service Corporation (hereinafter referred to as the Company, including its subsidiaries referred to as the Group), formerly known as Sinopec Yizheng Chemical Fibre Company Limited, which was registered in the People's Republic of China ("PRC") and exclusively established by Yihua Group Corporation (hereinafter referred to as "Yihua") on 31 December 1993.The Company's headquarter is located in the 9th Jishi Kou Street,Chaoyang District, Beijing.

The Company issued 1 billion H shares in March 1994, 200million A shares in January 1995 and a further 400 million new H shares in April 1995. The Company's H shares and new H shares were listed and commenced trading on the HKSE on 29 March 1994 and 26 April 1995 respectively. The Company's A shares were listed and commenced trading on the SSE on 11 April 1995.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other government authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited ("CEUPEC") became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company's issued share capital) previously held by Yihua. CITIC Group Corporation ("CITIC", formerly "CITIC Group") continues to hold 720,000,000 A shares (representing 18% of the Company's issued share capital) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares, in total 1,600,000,000 shares.

Following the State Council's approval of the reorganisation of China Petrochemical Corporation (hereinafter referred to as "Sinopec Group") on 21 July 1998, CEUPEC joined Sinopec Group. As a result of the reorganisation, Yihua replaced CEUPEC as the holder of the 42% of the Company's issued share capital.

The reorganisation of Sinopec Group was completed on 25 February 2000 and Sinopec Group set up a joint stock limited company, China Petroleum &Chemical Corporation (hereinafter referred to as "Sinopec Corp."), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec Corp. and Sinopec Corp. became the largest shareholder of the Company.

On 27 December 2011, CITIC established CITIC Limited in PRC and a restructuring agreement was signed. Whereby 720,000,000 of the Company's non-public shares held by CITIC have been transferred to CITIC Limited as part of its capital contributions on 25 February 2013 and CITIC Limited thus holds 18% of the Company's share capital.

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (SASAC Property Right [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. And CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 22 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 31 December 2013, all shares held by Sinopec Corp. And CITIC Limited has not been available for trading. Pursuant to the resolutions of general meeting of shareholders of the Company, the Company converted 5 shares for each 10 H shares and A shares that were registered on 13 November 2013 and 20 November 2013, respectively from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

Pursuant to "the Approval to matters in relation to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Subsequent A Share Placement" (SASAC Property Right [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and "the 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) issued by China Securities Regulatory Committee, the Company implemented the material asset reorganization in 2014. The Company sold all of its assets and liabilities(hereinafter referred to as the ''Outgoing Business'')to Sinopec Corp., in exchange, would repurchase A shares of the Company held by Sinopec Corp. for cancellation, and issue shares to Sinopec Group in order to acquire 100% equity interest of Sinopec Oilfield Service Corporation(hereinafter referred to as "SOSC") held by Sinopec Group (hereinafter referred to as the ''Incoming Equities'' or "SOSC", hereinafter collectively referred to as the "Reorganisation''). The Company executed the Confirmation on Completion of Outgoing Business with Sinopec Corp., executed the Confirmation on Completion of Incoming Equities with Sinopec Group on 22 December 2014.According to the Confirmations, the Company transferred Outgoing Business to Sinopec Corp., Sinopec Group transferred Incoming Equities to the Company. On 30 December 2014, the Company repurchased the Repurchased Shares (a total of 2,415,000,000 A Shares) from Sinopec Corp. for cancellation. On the even date, the Company issued the Consideration Shares (a total of 9,224,327,662 A Shares) to Sinopec Group.

The business scope of the Group was changed from:

"Production of chemical fibre, chemical products and its raw materials, ancillary raw materials and textile machinery, research and development in textile technology and technological services, instalment and maintenance of equipment and facilities, power generation, computer and software service; and services of accommodation, catering, culture and entertainment (limited to branches)".

I. COMPANY GENERAL INFORMATION (Continued)

1. Company Profile (Continued)

To:

"General construction contractor, specialist contractor, labour subcontracting; construction project management; provision of service for production of onshore and offshore oil and natural gas; research and experimental development of engineering and technology; preparation of construction project; sales of mechanical equipment, hardware and electrical equipment, computer, software and auxiliary equipment; leasing of mechanical equipment; energy and mineral geological prospecting, geogical exploration of solid minerals; geological exploration and technical services; investment in oil, natural gas and other mineral resources; organizing enterprises with manufacturing business project in producing metal structure, metal tools, metal pressure vessel, all-purpose instruments, special instruments, chemical reagents, chemical accessories, special chemical products (including oilfield chemicals) and special equipment for mine, metallurgy and construction; organizing enterprises with license for contracting foreign projects in contracting overseas petroleum, natural gas, chemical, bridge, road, housing construction, water resources and hydropower, municipal utility, steel structure, electricity, fire-fighting equipment industrial plant projects and in implementing international tender projects at home; labour dispatching, import and export of goods, import and export agent, and import and export of technologies".

These financial statements and financial information notes have been approved for issue by the second meeting of the eighth term Board of Directors of the Company on 24 March 2015.

2. The Scope of Consolidated Financial Statements

The scope of the Group's consolidated financial statements includes the Company and all its subsidiaries. Compared with the previous year, the scope adds "SOSC" and its subsidiaries dues to the Business combination under common control, the details refer to note VI.Changes in scope of consolidation and note VII.Interests in other entities.

II. Basis of preparation

The financial statements are prepared in accordance with the latest "China Accounting Standards for Business Enterprises" and their application guidelines, interpretations and other relevant requirements (collectively, CASBE) issued by the Ministry of Finance of the PRC ("MOF").In addition, the Group discloses relevant financial information in accordance with requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15—General Rules on Financial Reporting(2014 revised) issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis. The Group's current liabilities exceed current assets of approximately RMB16,113,213 thousand as at 31 December 2014(Current liabilities exceed current assets of RMB12,165,614 thousand in 2013),committed capital expenditures are approximately RMB1.658 billion. The directors of the Company has assessed that the Group has generated sufficient cash flow for many years and is expected to be continue during the next twelve months. As the Group's borrowings are mainly from Sinopec Group and its subsidiaries which have maintained its long-term good relations with the Group, the Group can obtain adequate financial supports from those institutions. After the reorganisation, the Company will further boaden the financing channel, develop good relations with the public and state-owned financial institutions in order to obtain a more adequate line of credit. The directors of the Company consider the measures sufficient to meet the Group's debt repayment and capital commitment required. Consequently, the Company prepared the financial statements on a going concern basis.

The Group follows the accrual basis of accounting. The financial statements are prepared under the historical cost convention except for certain financial instruments and otherwise described below. If assets are impaired, provision for impairment shall be made in accordance with the relevant policies.

III. Summary of significant accounting policies and accounting estimates

The Group's accounting recognition policies for depreciation of fixed assets、amortization of intangible assets and long-term deferred expense and revenue are determined on the basis of its production and management characteristics, specific accounting policies are set out in Note III, 16, Note III, 19, notes III, 22 and Note III, 26.

1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE,which gives a true view of the entire company's and consolidated financial position at 31th December 2014 and the Company's and the consolidated operating results at 31th December 2014.

2. Accounting period

The accounting period of the Group is from 1 January to 31 December.

3. Operating cycle

The operating cycle of the Group is 12 months.

III. Summary of significant accounting policies and accounting estimates (Continued)

4. Functional currency

The Group uses RMB as its functional currency. All amounts in this report are expressed in RMB unless otherwise stated.

The Group's subsidiaries, joint ventures and associates' recording currency is determined on the basis of the currencies in which major income and costs are denominated and settled and translated into RMB for the preparation of the financial statements.

5. Business combinations

(1) Business combination involving entities under common control

For the business combination involving entities under common control, the assets and liabilities that are obtained in the business combination shall be measured at their original carrying amounts at the combination date as recorded by the party being combined, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of assets paid shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess difference shall be adjusted to the retained earnings.

Business combinations involving enterprises under common control and achieved in stages

In the separate financial statements, the initial investment cost is calculated based on the shareholding portion of the assets and liabilities obtained and are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the initial investment cost and the sum of the carrying amount of the original investment cost and the carrying amount of consideration paid for the combination is adjusted to the capital reserve, if the capital reserve is not sufficient to absorb the difference, the excess difference shall be adjusted to retained earnings.

In the consolidated financial statements, the assets and liabilities obtained at the combination shall be measured at the carrying value as recorded by the enterprise at combination date, except for adjustments of different accounting policies. The difference between the sum of the carrying value from original shareholding portion and the new investment cost incurred at combination date and the carrying value of net assets obtained at combination date shall be adjusted to capital reserve, if the balance of capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings. The long-term investment held by the combination party, the recognized profit or lose, comprehensive income and other change of shareholding's equity at the closer date of the acquisition date and combination date under common control shall separately offset the opening balance of retained earnings and profit or loss during comparative statements.

(2) Business combination involving entities not under common control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate fair value at acquisition date, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. At acquisition date, the acquired assets、liabilities or contingent liabilities of acquiree are measured at their fair value.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and measured on the basis of its cost minus accumulative impairment provision; Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving enterprises not under common control and achieved in stages

In the separate financial statements, the initial investment cost of the investment is the sum of the carrying amount of the equity investment held by the entity prior to the acquisition date and the additional investment cost at the acquisition date. The disposal accounting policy of other comprehensive income related with equity investment prior to the purchase date recognized under equity method shall be compliance with the method when the acquiree disposes the related assets or liabilities. Shareholder's equity due to the changes of other shareholder's equity other than the changes of net profit, other comprehensive income and profit distribution shall be transferred to profit or lose for current period when disposed. The accounting policy of the equity investment prior to purchase date shall be compliance with " CASBE 22- Recognition and Measurement of financial instruments", which states that the cumulative changes in fair value recognized in other comprehensive income shall be transferred to profit or loss for current period when accounted for using cost method.

In the consolidation financial statements, the combination cost is the sum of consideration paid at acquisition date and fair value of the acquiree's equity investment held prior to acquisition date; the cost of equity of the acquiree held prior to acquisition date shall be re-measured at the fair value at acquisition date, the difference between the fair value and the carrying amount shall be recognized as investment income or loss for the current period. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment profit or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan

(3) Transaction fees attribution during the combination

The intermediary and other relevant administrative expenses such as audit, legal and valuation advisory for business combinations are recognised in profit or loss when incurred. Transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amounts.

III. Summary of significant accounting policies and accounting estimates (Continued)

6. Method of preparing consolidated financial statements

(1) Scope of consolidation

The scope of consolidation financial statements is on the basis of control. Control refers to the power over investee of the Group, exposure or rights to variable returns in participating in the investee's related activities and the ability to use the power to affect those variable returns. A subsidiary is the entity controlled by the Group (including severable part of the investee and the enterprise, structured body controlled by the enterprise, etc)

(2) Method of preparation of consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

A subsidiary acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation from the beginning of the combination date, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date.

Where a subsidiary has been acquired through a business combination involving entities not under common control, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date to the end of the reporting date.

The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interests and presented in the consolidated balance sheet within shareholders' equity. The portion of a subsidiary's profit or loss that is attributable to the minority interests presented in the consolidated statement of comprehensive income as "minority interests". The portion of a subsidiary's losses that exceeds to the beginning minority interests in the shareholders' equity, the remaining balance still reduces the minority interests.

Transactions that acquire the minority interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and minority interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of minority interests and the fair value of consideration paid/received shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

(3) Treatment of loss of control of subsidiaries

When an enterprise loses control over investee because of disposing part of equity investment or other reasons, the remaining part of the equity investment should be re-measured at fair value at the date when losing control over the investee; the cash received in disposal of the equity investment and the fair value of remaining part of the equity investment, deducting net assets proportion calculated by original share percentage since the acquisition date should be recorded in profit or loss for current period of disposal

Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

(4) Special treatment of step disposal until the loss of control of subsidiaries

The clauses, conditions and economic impact of step disposal until the loss of control of subsidiaries satisfies one or more criteria, the Group will consider these transactions as package transactions for the accounting treatment:

1) These transactions are entered simultaneously or in consideration of the mutual influence

2) These transactions can only achieve one complete business results;

3) The occurrence of a transaction is depending at least one of other transactions;

4) A transaction alone is not the economical; however, it becomes economical to consider together with other transactions.

In the separate financial statements, the difference between the related long term equity investment for each disposal of equity interest and received consideration are recognised in the profit or loss in the current period.

In the consolidated financial statements, the measurement of the remaining equity interest and treatment of the loss of disposal is in accordance to "Treatment of loss of control of subsidiaries as described above". The difference between the disposal consideration and the related share of net assets of the subsidiaries for each step disposal:

1) Related to a package transaction: Recognised as other comprehensive income in capital reserve (other capital reserve). It is recognised in the profit or loss in the current period when the entity loses the control.

2) Not related to a package transaction: Recognised in capital reserve (other capital reserve) as equity transaction. It cannot be recognised in the profit or loss in the current period when the entity loses the control.

III. Summary of significant accounting policies and accounting estimates (Continued)

7. Classification of joint arrangement and accounting treatment for joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The group's joint arrangement is divided into joint operation and joint venture.

(1) Joint operation

A joint operation is a joint arrangement whereby the group that has joint control of the arrangement has rights to the assets, and obligations for the liabilities.

A joint operator shall recognise in relation to its interest in a joint operation:

a) its assets, including its share of any assets held jointly;

b) its liabilities, including its share of any liabilities incurred jointly;

c) its revenue from the sale of its share of the output arising from the joint operation;

d) its share of the revenue from the sale of the output by the joint operation;

e) its expenses, including its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the group that has joint control of the arrangement has rights to the net assets of the arrangement.

The accounting treatment is in accordance with the provisions of long-term investment under equity method.

8. Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily drawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

9. Foreign currency transactions and translation of foreign currency statement

(1) Foreign currency transactions

If foreign currency transactions occur, they are translated into the amount of functional currency by applying the spot exchange rate at the dates of the transactions.

At the end of the period, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognised in profit or loss for the current period; foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are included in profit or loss for the current period.

(2) Translation of foreign currency information

At the balance sheet date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the balance sheet are translated using the spot exchange rate at the balance sheet date; all items except for "undistributed profits" of the shareholders' equity are translated at the spot exchange rate.

The revenue and expenses in profit or loss are translated using at rates with reasonable approximation of the rates prevailing on the transaction dates.

All items of the statement of cash flows are translated using at rates with reasonable approximation of the rates prevailing on the transaction dates. As an adjustment item, the impact of exchange rate changes on cash amount is reflected separately in the cash flow as "Effect of exchange rate changes on cash and cash equivalents".

Differences arising from the translation of financial statements are separately presented as the "other comprehensive income" in the shareholders' equity of the balance sheet.

When disposing overseas operations and losing control, the "Translation reserve" related to the overseas operation presented in the shareholders' equity in the balance sheet shall be transferred together or as the percentage of disposing the overseas operation to profit or loss for the current period of disposal.

III. Summary of significant accounting policies and accounting estimates (Continued)

10. Financial instruments

Financial instruments refer to the contracts of forming enterprise financial assets and other entities' financial liabilities or equity instruments.

(1) Recognition and Derecognition of financial instruments

A financial asset or financial liability is recognised when the Group becomes one party of financial instrument contracts.

If one of the following conditions is met, the financial assets are terminated:

1) The right of the contract to receive the cash flows of financial assets terminates

2) The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

If the obligations of financial liability have been discharged in total or in part, derecognize all or part of it. If the Group (debtor) makes an agreement with the creditor to replace the current financial liability of assuming new financial liability which contract provisions are different in substance, derecognize the current financial liability and meanwhile recognize as the new financial liability

If the financial assets are traded routinely, they are recognised and derecognised at the transaction date.

(2) Classification and measurement of financial assets

Financial assets are, upon initial recognition, classified into the following four categories: financial assets at fair value through profit or loss ("FVTPL" financial assets), held-to-maturity investments, loans and receivables, available-for-sale financial assets ("AFS" financial assets). Financial assets are initially recognised at fair value. In the case of FVTPL" financial assets, the related transaction costs are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in the initial recognition amounts.

Financial assets at fair value through profit or loss

Financial assets at FVTPL include held for trading and those designated upon initial recognition as at fair value through profit or loss. This kind of financial assets are subsequently measured at fair value, all gains and losses, arising from changes in fair value and dividend and interest relevant with the financial assets are recognized in profit or loss for the current period.

Held-to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition, impairment or amortization is recognised in profit or loss for the current period.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including account receivables and other receivables (Note III.12). Receivables are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition, impairment or amortization is recognised in profit or loss for the current period.

Available-for-sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those financial assets not classified as above mentioned.AFS financial assets are subsequently measured at fair value, the discount or premium are amortized using the effective interest method and recognised as interest income. The gains and losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss for the current period) are recognised as other comprehensive income and capital reserve, until the financial assets are derecognised, are transferred to profit or loss for the current period. Interest income and dividends related to the AFS financial assets are recognised as profit or loss for the current period.

The equity investment that is not quoted in an active market and the fair value cannot be measured reliably and the derivative financial instruments that are linked with and settled by such equity instruments shall be measured at cost.

(3) Classification and Measurement of financial liabilities

On initial recognition, financial liabilities are classified as: financial liabilities at fair value through profit or loss (FVTPL) or other financial liabilities. For financial liabilities not classified as at fair value through profit or loss, the transaction costs are recognised in the initially recognised amount.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include transaction financial liabilities and financial liabilities designated as at fair value through profit or loss in the initial recognition. Such financial liabilities are subsequently measured at fair value, all gains and losses arising from changes in fair value and dividend and interest expense relative to the financial liabilities are recognised in profit or loss for the current period.

Other financial liabilities

Derivative financial liabilities which are linked to equity instrument that is not quoted in an active market and its fair value cannot be reliably measured and settled by delivering the equity instrument are subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition or amortization is recognised in profit or loss for the current period.

III. Summary of significant accounting policies and accounting estimates (Continued)

10. Financial instruments (Continued)

(3) Classification and Measurement of financial liabilities (Continued)

Distinction between financial liabilities and equity instruments

The financial liability is the liability that meets one of following criteria:

1) Contractual obligation to deliver cash or other financial instruments to another entity.

2) Under potential adverse condition, contractual obligation to exchange financial assets or financial liabilities with other parties.

3) A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments;

4) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the group cannot unconditionally avoid fulfilling a contractual obligation by delivering cash or other financial assets, the contractual obligation meets the definition of financial liability.

If a financial instrument must or are able to be settled by the group's own equity instrument, the group should consider whether the group's equity instrument as the settlement instrument is a substitute of cash or other financial assets or the residual interest in the assets of an entity after deducting all of its liabilities. If the former, the tool is the group's financial liability; if the latter, the tool is the equity instrument of the group.

(4) Derivative financial instruments and embedded derivatives

The Group's derivative financial instruments are initially measured at fair value on the date of the derivative contract signed and are subsequently measured at fair value. A derivative with positive fair value shall be recognized as an asset, otherwise that with negative fair value shall be recognized as a liability.

Any profit or loss arising from changes of fair value and not compliance with the accounting provision of hedge shall be recognized as profit or loss for current period.

The hybrid instrument contains an embedded derivative, if financial assets or financial liabilities are not accounted for fair value through profit and loss, the economic characteristics and risks of the embedded derivative and the main contract are not closely related, and under the same conditions with embedded derivative, the individual instrument as defined in line with derivatives, embedded derivatives are separated from the hybrid instrument as a separate derivative instrument. If the embedded derivative cannot be separately measured at the date of acquisition or the date subsequent to the financial reporting date, then the hybrid instrument accounted for financial assets or financial liabilities at fair value through profit and loss.

(5) Fair value of financial instruments

The recognization of fair value of financial assets and financial liability is stated as note III, 11.

(6) Impairment of financial assets

The Group assesses the carrying amount of financial assets other than those at fair value through profit or loss at each balance sheet date, if there is objective evidence that financial assets are impaired, the Group determines the amount of impairment loss. Objective evidence of impairment of financial assets are the matters that occurred after the initial recognition of financial assets which has impact on the expected future cash flows of financial assets, and can be reliably measured by the Group.

The objective evidence proving that the financial asset has been impaired refers to the actually incurred events which, after the financial asset is initially recognised, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the enterprise, including but not limited to:

1) significant financial difficulty of the debtor or obligor;

2) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

3) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;

4) it becoming probable that the debtor will enter bankruptcy or other financial Reorganisation;

5) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;

6) upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

Adverse changes in the payment status of borrower in the group of assets;

Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

III. Summary of significant accounting policies and accounting estimates (Continued)

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

7) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;

8) a significant decline in the fair value of an investment in an equity instrument below its cost (i.e. fair value decline over 50%) or a prolonged decline (i.e., fair value decline lasting 12 months) etc..

   Prolonged decline represented the monthly average of fair value of the equity instruments is lower than the initial investment cost in continuously 12 months.

9) other objective evidence indication there is an impairment of a financial asset.

Financial asset measured at amortized cost

If there's objective evidence that the financial assets are impaired, then the carrying amount of financial assets shall be reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred), with the reduced amount recognized to profit or loss for the current period. The present value of estimated future cash flows is carried according to the financial asset's original effective interest rate, and considers the value of collateral.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, if there is objective evidence that it has been impaired, the impairment loss is recognised in profit or loss for the current period. For a financial asset that is not individually significant, the Group assesses the asset by including the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessment for impairment. Asset for which an impairment loss is individually recognized is not included in a collective assessment of impairment.

If, after an impairment loss has been recognised on financial assets measured at amortized cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Available-for-sale financial assets

If there's objective evidence that AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortized, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the fair value of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed and charged to profit or loss for the current period. The impairment losses of AFS equity instruments shall not be reversed through profit or loss.

Financial assets measured at cost

If there's objective evidence that the financial assets are impaired, the difference between the carrying amount and the present value discounted at the market rate of return on future cash flows of the similar financial assets shall be recognised as impairment loss in profit or loss. The impairment loss recognised shall no longer be reversed.

(7) Transfer of financial assets

Transfer of financial assets refers to the transference or deliverance of financial assets to the other party (the transferee) other than the issuer of financial assets.

The Group derecognizes a financial asset only if it transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; the Group should not derecognize a financial asset if it retains substantially all the risks and rewards of ownership of the financial asset.

The Group neither transfers nor retains substantially all the risks and rewards of ownership, shows as the following circumstances: if the Group has forgone control over the financial assets, derecognize the financial assets and verify the assets and liabilities; if the Group retains its control of the financial asset, the financial asset is recognized to the extent of its continuing involvement in the transferred financial asset and recognize an associated liability is recognized.

(8) Offsetting financial assets and financial liabilities

When the Group has the legal rights to offset the recognized financial assets and financial liabilities and is capable to carry it out, the Group plans to net settlement or realize the financial assets and pay off the financial liabilities, the financial assets and financial liabilities shall be listed separately with the neutralized amount in balance sheet and are not allowed to be offset.

III. Summary of significant accounting policies and accounting estimates (Continued)

11. Fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The group measures the relevant assets or liability at fair value supposing the orderly transaction of asset selling or liability transferring incurring in a principal market of relevant assets or liabilities. In the absence of a principal market for the asset or liability, the group assumes that the transaction take place at the most advantageous market of relevant asset or liability. A principal market (or the most advantageous market) is the transaction market that the group can enter into at measurement date. The Group implements the hypothesis used by the market participants to realize the maximum economic benefit in assets or liabilities pricing.

If there exists an active market for the financial assets or financial liabilities, the Group uses the quotation on the active market as its fair value. For those in the absence of active market, the Group uses valuation technique to recognize its fair value.

For non-financial assets measured at fair value, the Group should consider the capacity of the market participants to put the assets into optimal use thus generating the economic benefit, or the capacity to sell assets to other market participants who can put the assets into optimal use and generate economic benefit.

The Group implements the valuation technique suitable for the current condition and supported by enough available data and other information , gives priority in use of relevant observable inputs, only the observable inputs cannot be obtained or impracticable before using unobservable inputs.

For the assets and liabilities measured at fair value or disclosure at financial statements, Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement: Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: inputs are unobservable inputs for the asset or liability.

At each balance sheet date, the group reviews the assets and liabilities recognized to be measured at fair value on the financial statements to make sure whether conversion occurs between fair value hierarchy.

12. Receivables

Receivables include accounts receivables and other receivables

(1) Individually significant receivable but individual provision for bad debts

Individually significant accounts receivable should be taken impairment test separately. Provision for bad debts shall be made when there is an indication that the accounts receivable cannot be received under original terms.

Criteria of individually significant receivables: the carrying amount of the individual account exceeds 5% of the total sum of accounts receivable.

Measurement of individually recognized bad debts provision of individually significant receivables: the provision for bad debts is recognized according to the difference between the present value of future cash flows, which is lower, and the carrying amount.

(2) Individually insignificant receivable but individual provision for bad debts

The reason of provision for bad debts individually is: objective evidence (such as aging over one year and uncollectable after endeavor, special characteristics, etc) indicates that the company is not able to recover the accounts receivable under the original items.

Measurement of individually recognised bad debts provision: the provision for bad debts is recognized as the difference between the present values of predicted future cash flow of accounts receivables under its carrying amounts.

(3) Receivables with provision for bad debts collectively

For individually insignificant receivables, and individually significant receivables which are not impaired in individual test, the provision for bad debts is recognized according to the following credit risk combination, the provision for bad debts is recognized on the basis of the effective loss rate of accounts receivables combination with the similar credit risk in the previous year.

The classification of credit risk combination is as follows:

Type of group	Basis of group	Method of provision for bad debts collectively
Group of ageing	Ageing state	Ageing analysis method
Related party grouping	Type of assets	Estimated future cash flows based on historical loss rate

III. Summary of significant accounting policies and accounting estimates (Continued)

12. Receivables (Continued)

(3) Receivables with provision for bad debts collectively (Continued)

A. For group of ageing, the rate of provision for bad debts in ageing analysis method is as follows:

Ageing	Percentage of provision %
Within 1 year (including 1 year)	0
1-2 years	30
2-3 years	60
Over 3 years	100

13. Inventories

(1) Category of inventory.

Inventories include raw materials, work in progress, spare parts , turnover materials, finished goods, issuing goods and construction contracts, etc.

(2) Determination of cost

Inventories are determined at the actual cost when acquired. Costs of raw materials, work in progress, finished goods, issuing goods are calculated in weighted average method when issued.

Construction contract costs are measured at actual cost comprising the direct and indirect cost incurred from the date of contract signing to the date of contract fulfilling and relative to the contract. The balances construction contracts represent the net amount of construction costs incurred to date and recognized gross profit, less progress billings and provision for foreseeable contract losses. For an individual contract whose costs incurred to date plus recognized profits (less recognized losses) exceeds progress billings, the gross amount due from customers for contract work in inventory is presented as a current asset. For an individual contract whose progress billings exceeds costs incurred to date plus recognized profits (less recognized losses), the gross amount due to customers for contract work in advance from customers is presented as a current liability.

The travel and biding cost incurred for the contract, which can be identified separately and measured reliably and is likely to sign the contract, shall be recognized as the contract cost; if the above conditions are not met, the cost above shall be recognized as the profit or loss

(3) Recognition of the net realizable value and provision for decline in value of inventories

Net realizable value is based on the estimated selling price deducting the estimated costs to be incurred when completed, the estimated selling expenses and related taxes amount. Recognition of the net realizable value is based on the verified evidences and considers the purpose of holding inventories and the effect of post balance sheet events.

At the balance sheet date, if the cost of closing inventory of the Group exceeds its net realizable value, provision for impairment of inventories is recognised. The Group usually recognises provision for impairment of inventories on individual inventory basis, if the factors caused the inventory previously written-down have disappeared, provision for impairment of inventories in the amount originally made is reversed.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortization methods of turnover materials

Turnover materials, including low-value consumables, packaging and other materials, etc spare parts and turnover material are amortized in full when received for use.

14. Assets Held for sale and discontinued operations

Non-current assets (exclude financial assets and deferred tax assets) or the disposal group shall be recognized as assets held for sale when the conditions below are satisfied simultaneously: the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable; the decision of the disposal of the assets or the disposal group made by the group should have be committed by the shareholders' meeting or the appropriate authority if the commitment by the shareholders is necessary. The group has signed an irrevocable transfer agreement with the transferee. the transfer will be completed within one year.

Assets held for sale include individual asset and disposal group. In certain circumstance, disposal group includes the goodwill obtained through business combination.

The non-current assets classified as held for sale and the part of disposal group classified as held for sale shall not be depreciated (or amortized) and are measured by the lower amount of the carrying amount and the fair value less disposal expense, and listed as "classified as held for sale assets". Liabilities in disposal group classified as held for sale shall be presented as "classified as held for sale liabilities"

III. Summary of significant accounting policies and accounting estimates (Continued)

14. Assets Held for sale and discontinued operations (Continued)

If an entity has classified an asset (or disposal group) as held for sale, but the criteria of non-current assets held for sale no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and measure at the lower of :

1) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and

2) its recoverable amount at the date of the subsequent decision not to sell.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale and can be separately distinguished in operation and preparation of financial statements, and

1) Represents a separate major line of business or geographical area of operations,

2) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

3) is a subsidiary acquired exclusively with a view to resale.

15. Long-term equity investment

The group's long-term equity investments include those that the group is able to exercise controls and significant influence over the investees and also the investments to joint ventures. Joint ventures are the investees over which the Company is able to exercise joint control together with other ventures.

(1) Recognition of investment cost

For the long-term investment acquired from the business combination: the cost of the long-term investment acquired from the business combination under common control is recognized as the carrying amount of combined party's equity recorded in the ultimate controlling party's consolidated financial statements at the combination date. For the long-term investment acquired from business combination not under common control, the cost of investment is equal to the combination cost.

For the long-term equity investment acquired in a manner other than business combination: the initial investment cost of the long-term equity investment acquired by payment in cash is recognized as the actual payment of the purchase price; the initial investment cost of the long-term equity investment acquired by issuing equity securities is recognized as the fair value of the equity securities issued.

(2) Subsequent measurement and recognition of related profit and loss

Where the Group is able to exercise control over the investee, the long-term equity investment is accounted for using the cost method; where the Group has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

For long-term equity investment which is accounted for using the cost method, investment income is recognized in profit or loss for the current period as the cash dividend or profit announced and distributed, except for those cash dividend or profit which have already included in the actual payment or consideration of offer when the investment was made.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets, no adjustment is made to the initial investment cost; where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets, the difference is charged to profit or loss for the current period, and the carrying amount of the long-term equity investment is adjusted accordingly.

For long-term equity investments accounted for using the equity method, the Company recognizes the investment income according to its share of net profit or loss of the investee, and the carrying amount of the long-term equity investments shall be adjusted accordingly; The carrying amount of the investment is reduced by the Company's share of the profit distribution or cash dividends declared by an investee; for changes in owners' equity of the investee other than those arising from its net profit or loss, other comprehensive income and profit distribution, the carrying amount of the long-term equity investment shall be adjusted and recognized to shareholder's equity.

If an entity has significant influences or can implement joint control over investees due to additional investment, the initial investment cost is recognized as the sum of the fair value of the original portion of equity investment and the additional investment cost under equity method. For the original portion of equity investment classified as available for sale, the difference between the fair value and carrying amount and cumulative changes in fair value recognized as other comprehensive income shall be recognized as current profit of loss under equity method.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized in accordance with "CASBE 22-Recognition and Measurement of Financial Instruments", and the difference between fair value and carrying amount at the date of loss of joint control or significant influence. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

If an entity loses control over investees due to the elimination of parts of the equity investment , the surplus owners' equity that are able to implement joint control or have significant influence over investees shall be measured at equity method and are deemed to be recognized under equity method since the acquisition date. The surplus owners' equity that are unable to implement joint control or have no significant influence over investees shall be processed in accordance with "CASBE 22-Recognition and Measurement of financial instruments", and the difference between fair value and carrying amount at the day of loss of control shall be recognized as profit or loss for current period.

III. Summary of significant accounting policies and accounting estimates (Continued)

15. Long-term equity investment (Continued)

(2) Subsequent measurement and recognition of related profit and loss (Continued)

The group recognizes the unrealized profit or loss of intra-transaction between the joint ventures or associates that belongs to itself according to the proportion of the shares and recognizes the investment income or loss after offset. But the loss arising from the unrealized intra-transaction between the group and investees, which belongs to the impairment loss of assets transferred, cannot be offset.

For the long-term investments to joint ventures and associates held before January 1,2007, If there is any equity investment debit balance associated with the investment, the investment income or loss shall be recognized after deducting the equity investment debit balance amortized under straight-line method at the remaining term.

(3) Basis for recognition of joint control or significant influence over an investee

Joint control refers to any joint venture party alone cannot control the production and operation activities of the joint venture, decisions related to the basic operating activities of joint venture should require the unanimous consent of the parties sharing control. In determining whether there is a joint control, the first judge is to determine whether the relevant arrangement is controlled collectively by all the parties involved or the group of the parties involved, if the parties involved or the group of the parties involved must act consistently to determine the relevant arrangement, it is considered that the parties involved or the group of the parties involved control the arrangement. Secondly, and then determine whether the decisions related to the basic operating activities should require the unanimous consent of the parties involved. If two or more parties involve in the collectively control of certain arrangement, it shall not be considered as joint control. Protection of rights shall not be considered in determining whether there is joint control.

Control refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

Significant influence refers to the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When the Group, directly or indirectly through subsidiaries, owns 20% of the investee (including 20%) or more but less than 50% of the voting shares, it has significant impact on the investee unless there is clear evidence to show that in this case the Group cannot participate in the production and business decisions of the investee, and cannot form a significant influence; when the Group owns 20% (excluding) or less of the voting shares, generally it is not considered to have a significant impact on the investee, unless there is clear evidence to show that in this case the Group can participate in the production and business decisions of the investee so as to form a significant influence.

(4) Held-for-sale equity investment

Refer to note III, 14 for the relevant accounting treatment of the equity investment to joint ventures or associates all or partially classified as assets held for sale.

The surplus equity investments that are not classified as assets held for sale shall be accounted for using equity method.

The equity investment to joint ventures or associates already classified as held for sale no longer meets the conditions of assets held for sale shall be adjusted retroactively using equity method from the date of being classified as assets held for sale.

(5) Impairment test and Impairment provision

Refer to note III.21 for investment and the impairment provision of assets.

16. Fixed assets

(1) Recognition and initial measurement of fixed asset

Fixed assets comprise buildings, machinery and equipment, motor vehicles, and other fixed assets.

Fixed assets are recognized when it is probable that the related economic benefits will flow to the Company and the costs can be reliably measured. Fixed assets purchased or constructed by the Company are initially measured at cost at the acquisition date. The fixed assets contributed by the State shareholders at the reorganization of the Company into a corporation entity are recognised based on the revaluated amounts approved by the state-owned assets administration department.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Company and the related cost can be reliably measured. The carrying amount of the replaced part is derecognized. All the other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

(2) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. Fixed assets start to be depreciated from the day the assets to the expected conditions for use and stop to be depreciated when the assets are derecognized and are divided into hold-for-sale as non-current assets. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

III. Summary of significant accounting policies and accounting estimates (Continued)

16. Fixed assets (Continued)

(2) Depreciation methods of fixed assets (Continued)

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

Category	Useful years (year)	Residual rate %	Annual depreciation rate %
Buildings	12-50	3	2.43-4.9
Oil engineering equipment and others	4-30	3	3.2-24.3

The depreciation period, differently from the buildings' originally owned by the Company, of simply structured building purchased in the currenct year and classified as buildings, is 12 years.

The estimated useful lives, estimated residual values and depreciation method should be assessed and adjusted if appropriate at year ended.

(3) Refer to note III,21 for the impairment testing and the impairment provision of fixed assets.

(4) Recognition and measurement of fixed assets financed by leasing

The leased fixed assets are recognized as fixed assets financed by leasing if they meet the following one or more criteria:

1) The ownership of leased assets can be transferred to the Group at the end of the lease period.

2) The Group has the option of buying leased assets and the purchase price is estimated to be far less than the fair value of leased assets when exercising the option. So at the beginning date of lease period it is reasonably determined that the Group will exercise the option.

3) Even if the ownership of assets is not transferred, lease period accounts for most of leased assets' useful life.

4) The present value of minimum lease payment almost equals to the fair value of leased asset of the beginning date of lease period.

Leased assets have special characteristics and they are used for the Group only if not reconstructed largely.

At the beginning date of lease period, the Group will recognize the lower of the fair value of leased asset of the beginning date of lease period and the present value of minimum lease payment as the recorded value of the leased asset, their difference is recorded as unrecognized financing charges. Initial direct costs such as charges, legal fee, travelling expenses and stamp taxes of the lease incurred during leasing negotiation and signing leasing contracts are recognized in leased assets' value. Unrecognized financing charges are measured at amortized cost using the effective interest method in the periods of leasing.

Fixed assets financed by leasing are depreciated according to the policy of owned assets. If it can be reasonably determined that the ownership of the leased assets can be obtained at the end of the lease period, the leased assets are depreciated over their useful lives; otherwise, the leased assets are depreciated over the shorter of the lease terms and the useful lives of the leased assets.

17. Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing cost that are eligible for capitalization and other necessary cost incurred to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

For provision for impairment of construction in progress, refer to note III, 21

18. Borrowing costs

(1) Recognition principle of capitalization of borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, they shall be capitalized and included in the cost of related assets; other borrowing costs are recognized as expenses and included in profit or loss when incurred. Capitalization of such borrowing costs can commence only when all of the following conditions are satisfied:

1) Expenditures for the asset are being incurred, capital expenditure includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalization;

2) Borrowing costs are being incurred; and

3) Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

III. Summary of significant accounting policies and accounting estimates (Continued)

18. Borrowing costs (Continued)

(2) Capitalization period of borrowing costs

Capitalization of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The borrowing cost incurred after that is recognised as an expense in the period in which they are incurred and included in profit or loss for the current period.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months; the borrowing costs in the normally interrupted period continue to capitalize.

(3) Calculation of the capitalization rate and amount of borrowing costs.

The interest expense of the specific borrowings incurred at the current period, deducting any interest income earned from depositing the unused specific borrowings in bank or the investment income arising from temporary investment ,shall be capitalized. The capitalization rate of the general borrowing is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings on the asset over the amount of specific borrowings

During the capitalization period, exchange differences on foreign currency special borrowings shall be capitalized; exchange differences on foreign currency special borrowings shall be recognized as current profits or losses.

19. Intangible assets

Intangible assets include land use rights, patent rights and technology rights, and are measured at cost. The intangible assets contributed by the State shareholders at the reorganization of the Company into a corporation are recognized based on the revaluated amounts as approved by the state-owned assets administration department.

The group analyzes and judges the service life of intangible assets when obtained. An intangible asset with finite useful life shall be amortized over the expected useful life using method which can reflect the expected realization of the economic benefits related to the assets from when the intangible asset is available for use. An intangible asset whose expected realization can't be reliably determined is amortized using straight-line amortization; An intangible asset with indefinite useful life shall not be amortized.

Amortization of an intangible asset with finite useful life is as follows:

Category	Useful life	amortization	notes
Land use rights	50 years	straight-line basis	
software	5 years	straight-line basis	
Patent rights	10 years	straight-line basis	
Technology rights	10 years	straight-line basis	

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of each financial year, if it is different from the previous estimates, adjust the previous estimates and deal with it according to changes in accounting estimates.

The Group estimates an intangible asset can no longer bring future economic benefits to the Group at the end of a period, the carrying amount of which should be reversed to profit or loss for the current period.

For the impairment method of intangible assets, refer to Note III.21.

20. Research and development expenditure

Expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognised in profit or loss when incurred.

Expenditure on the development phase is capitalized only when the Group can satisfy all of the following conditions: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset is to use or sell it; how the intangible asset will generate economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development phase. Otherwise, it is charged to profit or loss.

The research and development projects of the Group will enter into the development stage after meeting the above conditions and passing through the technical feasibility and economic feasibility studies and the formation of the project.

Capitalized expenditure on the development phase is presented as "development costs" in the balance sheet and shall be transferred to intangible assets when the project is completed to its intended use state.

III. Summary of significant accounting policies and accounting estimates (Continued)

21. Impairment of assets

The impairment of subsidiaries, associates and joint ventures in the long-term equity investments, fixed assets, construction in progress, intangible assets, etc. (Excluding inventories, deferred income tax assets and financial assets) are determined as follows:

At the balance sheet date, the Group determines whether there may be evidence of impairment, if there is any, the Group will estimate the recoverable amount for impairment, and then test for impairment. For goodwill arising from a business combination, intangible assets with indefinite useful life and the intangible assets that have not yet ready for use are tested for impairment annually regardless of whether such evidence exists.

The recoverable amount of an asset is determined by the higher amount of fair value deducting disposal costs and net present value of future cash flows expected from the assets. The Group estimates the recoverable amount based on individual asset; for individual asset which is difficult to estimate the recoverable amount, the recoverable amount of the asset group is determined based on the asset group involving the asset. The identification of the asset group is based on whether the cash flow generated from the asset group is independent of the major cash inflows from other assets or asset groups.

When the asset or asset group's recoverable amount is lower than its carrying amount, the Group reduces its carrying amount to its recoverable amount, the reduced amount is included in profit or loss, while the provision for impairment of assets is recognised.

In terms of impairment test of the goodwill, the carrying amount of the goodwill, arising from business combination, shall be allocated to the related asset group in accordance with a reasonable basis at acquisition date. Those that are difficult to be allocated to related assets shall be allocated to related asset group. Related assets or assets group refer to those that can benefit from the synergies of business combination and are not larger than the group's recognized reporting segment.

When there is an indication that the asset and asset group are prone to impair, the group should test for impairment for asset and asset group excluding goodwill and calculate the recoverable amount and recognize the impairment loss accordingly. The group should test for impairment for asset or the asset group including goodwill and compare the asset or asset group's recoverable amount with its carrying amount, provision for impairment of assets shall be recognized when the recoverable amount of assets is lower than its carrying amount.

Once impairment loss is recognized, it cannot be reversed in subsequent accounting periods.

22. Long-term deferred expenses

The Group's long-term deferred expenses mainly include oil construction specific drilling equipment, logging equipment, cables and catalyst and evenly amortized on straight-line basis over the expected beneficial period or over operation capacity. For the long-term deferred expense items that cannot benefit in the accounting period, their amortized value is recognized through profit or loss.

23. Employee benefits

(1) The scope of employee benefits

Employee benefits are all forms of consideration and compensation given by the Group in exchange for service rendered by employees or the termination of employment. Employee benefits include short term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Employee benefits include benefits provided to employees' spouses, children, other dependants, survivors of the deceased employees or to other beneficiaries.

According to liquidity, employment benefits are presented separately as "accrued payroll" and "long-term employment benefits payable" in the balance sheet.

(2) Short-term employee benefits

During the accounting period in which the employee render the related services, wages, bonuses ,social security contributions(including medical insurance, injury insurance, maternity insurance, etc.) and house funding are recognized as liability and recognized as current profit of loss or assets related costs. If the short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service and have significant financial impact, the liability shall be measured as the discounted amounts..

(3) Post-employment benefits

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Post-employment benefit of outgoing business includes the basic pension insurance , unemployment insurance and annuity, which belongs to the defined contribution plans.

The basic pension insurance

The employees of the Group participate in the social basic pension insurance operated by the local labor and social security department. The group provides a monthly payment of pension insurance to the local community in basic pension insurance agency according to the local basic pension insurance base and rate. The local labor and social department are responsible for the payment of social pension to the retired employees after the employees retire. During the accounting period in which the employees render services, the group should recognize the amount of pension insurance calculated as the basic pension insurance base and rate above as a liability , and profit or loss or assets associated costs.

III. Summary of significant accounting policies and accounting estimates (Continued)

23. Employee benefits (Continued)

(3) Post-employment benefits (Continued)

Pension plan

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group accrues annuity at a certain percentage of the total wages, and the corresponding expense is recognized in profit or loss. In addition to this, the Group has no other significant commitments of social security of employees.

(4) Termination benefits

The Group recognizes termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The outgoing business cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or encourage the employees to accept voluntary redundancy compensation when the outgoing business cannot withdraw from the termination of employment or the layoff proposal ; or (ii) The Group recognizes the payment of the termination benefits costs and expenses.

(5) Other long-term employee benefits

Other long-term employee benefits provided by employees of the Group to meet the conditions of a defined contribution plan, shall be treated in accordance with the relevant provisions of the above defined contribution plans. The employee benefits compliance with the refined benefit plan are processed in accordance with the relevant provisions of these refined benefit plan,

24. Provisions

An obligation for additional losses of investees related to a contingency is recognised as a provision when all of the following conditions are satisfied:

1) The obligation is a present obligation of the Group;

2) It is probable that an outflow of economic benefits will be required to settle the obligation;

3) The amount of the obligation can be measured reliably.

Provisions are initially measured at the best estimate of the payment to settle the associated obligations and consider the relevant risk, uncertainty and time value of money. If the impact of time value of money is significant, the best estimate is determined as its present value of future cash outflow. The Group reviews the carrying amount of provisions at the balance sheet date and adjusts the carrying amount to reflect the best estimate.

If the expenses for clearing of predictive liability is fully or partially compensated by a third party, and the compensated amount can be definitely received, it is recognised separated as asset. The compensated amount shall not be greater than the carrying amount of the predictive liability.

25. Share-based payment and equity instruments

(1) Category of share-based payment

The group’s share-based payment is classified into cash-settled share-based payment and equity-based share-based payment.

(2) Fair value of equity instrument

For the existence of an active market for options and other equity instruments granted by the group, the fair value is determined at the active market quotations. For options and other equity instruments with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. Factors as follows shall be taken into account using option pricing models: A、the exercise price of the option B、the validity of the option C、the current market price of the share D、the expected volatility of the share price E、predicted dividend of the share F、risk-free rate of the option within the validity period

(3) Recognition of vesting of equity instrument based on the best estimate

During the waiting period at each balance sheet date, the Group shall make the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.

(4) Accounting treatment of implementation, modification and termination of share-based payment

Equity-settled share-based payment is measured at the fair value of the equity instruments granted to employees. For the shares exercise immediately after the grant, the fair value of equity instrument at the grant date included in the relevant costs or expenses and increase in capital reserve accordingly. Within the vesting period, it will recognize the received service-related costs or expense and capital reserves for each reporting date based on the best estimate of the number of vested equity instruments on the grant date of the equity instruments value. After the vesting period, relevant costs or expenses and total shareholders’ equity has been confirmed and will not be adjusted.

III. Summary of significant accounting policies and accounting estimates (Continued)

25. Share-based payment and equity instruments (Continued)

(4) Accounting treatment of implementation, modification and termination of share-based payment (Continued)

Cash-settled share-based payment calculates the fair value of liabilities assumed in accordance with the Group's shares or other equity instruments. For those exercised immediately after the grant, the fair value of the liability included in the relevant costs or expenses cause a corresponding increase in liabilities. For each reporting date in the vesting period, the best estimate of the vesting conditions in accordance with the Group is committed to the fair value of the amount of debt service will recognize the received costs or expenses and the corresponding liabilities. At each reporting date and the settlement date prior to the settlement of liabilities, the fair value of the liability is re-measured through profit or loss.

When there is changes in Group's share-based payment plans, if the modification increases the fair value of the equity instruments granted, corresponding recognition of service increase in accordance with the increase in the fair value of the equity instruments; if the modification increases the number of equity instruments granted, the increase in fair value of the equity instruments is recognized as a corresponding increase in service achieved. Increase in the fair value of equity instruments refer to the difference between the fair values of the modified date. If the modification reduces the total fair value of shares paid or not conductive to the use of other employees share-based payment plans to modify the terms and conditions of service, it will continue to be accounted for in the accounting treatment, as if the change had not occurred, unless the Group cancelled some or all of the equity instruments granted.

During the vesting period, if the cancelled equity instruments (except for failure to meet the conditions of the non-market vesting conditions, such as length of service performance conditions or market conditions are cancelled) granted by the Group to cancel the equity instruments granted amount treated as accelerated vesting of the remaining period should be recognized immediately in profit or loss, while recognizing the capital reserve. Employees or other parties can choose to meet non-vesting conditions but are not met in the vesting period, the Group will treat it as canceled equity instruments granted.

26. Revenue

Revenue is determined in accordance with the fair value of the consideration received or receivables for the sale of goods and services in the operating activities. the income of sales of goods is the net amount calculated as sales of products less sales allowance and sales return.

Revenue can be recognized when the economic benefit relevant with the transaction can flow to the company and the relevant revenue can be reliably measured and satisfies the recognition criteria of special revenue arising from various operating activities below.

(1) Sale of goods

Revenue from the sale of goods is recognised only when all of the following conditions are satisfied: the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement nor effective control over the goods sold, and related income has been achieved or evidences of receivable have been obtained, and the associated costs can be measured reliably.

(2) Providing of services

Where the outcome of a transaction involving the providing of services can be estimated reliably, at the end of the period, revenue associated with the transaction is using the percentage of completion method.

Revenue associated with daily rate contract is recognized when the services are provided, other service income is recognized when the services are provided and consideration received or receivable is probable.

The stage of completion of a transaction involving the providing of services is determined according to the services performed to the total services to be performed.

The outcome of a transaction involving the providing of services can be estimated reliably only when all of the following conditions can be satisfied at the same time: 1. The amount of revenue can be measured reliably; 2. The associated economic benefits are likely to flow into the enterprise; 3. The stage of completion of the transaction can be measured reliably; 4. The costs incurred and to be incurred in the transaction can be measured reliably.

If the outcome of a transaction involving the providing of services cannot be estimated reliably, the revenue of providing of services is recognized at the service cost that incurred and is estimated to obtain compensation and the service cost incurred is recognized in profit or loss for the current period. If the service cost incurred is estimated to obtain compensation, revenue is not recognized.

(3) Transfer of the right to use assets

The Group will recognize revenue when the economic benefits related to transfer of the right to use assets can flow in and the amount of revenue can be measured reliably.

(4) Construction contracts

Where the outcome of a construction contract can be estimated reliably at the balance sheet date, revenues and expenses associated are recognised using the percentage of completion method. Where the outcome of a construction contract cannot be estimated reliably, it should be treated distinctively: if contract costs can be recovered, then the contract revenues is recognised according to the actual contract costs that can be recovered, the contract costs are identified as expenses in the current period; otherwise, contract costs are identified as expenses and revenues shall not be recognised.

If the estimated total costs exceed contract revenue, the Group recognizes estimated loss in profit or loss for the current period.

The stage of completion of an engineering construction contract is determined according to the proportion of accumulated actual contract costs to the estimated total costs and the stage of completion of geophysics or drilling engineering contract is determined according to surveys of the work performed.

III. Summary of significant accounting policies and accounting estimates (Continued)

26. Revenue (Continued)

(4) Construction contracts (Continued)

The outcome of a construction contract can be estimated reliably only when all of the following conditions can be satisfied at the same time: 1. The amount of contract revenue can be measured reliably; 2. The associated economic benefits are likely to flow to the enterprise; 3. The actual contract costs incurred can be distinguished clearly and measured reliably; 4. The stage of completion of the contract and the costs need to be incurred to complete the contract can be measured reliably.

27. Government grants

A government grant shall be recognised only when the enterprise can comply with the conditions attaching to the grant and the enterprise can receive the grant.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where there is undoubted evidence that the grants can meet the relevant conditions of financial support policy and is expected that the financial support fund is receivable, they can be measured in accordance with the receivable amount, otherwise, they shall be measured according to the amount actually received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value, when fair value is not reliably determinable, the item is measured at RMB 1 of nominal amount.

Government grant related to assets represents the government grant received for acquisition, construction and other ways of form of long term assets. Except for these, all are government grant related to income.

Regarding to the government grant not clearly defined in the official documents and can form long term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

Regarding to the government grant not clearly defined in the official documents and can form long term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

When recognised government grants need to be returned, the balance of deferred income is offset against book balance of deferred income and the excess is recognised in profit or loss for the current period; if there is no related deferred income, it is directly recognised in profit or loss for the current period.

28. Deferred tax assets and deferred tax liabilities

Tax expense comprises current tax expense and deferred tax expense. Current tax and deferred tax are included in profit or loss for the current period as tax expense, except for deferred tax related to transactions or events that are directly recognised in shareholders' equity which are recognised directly in shareholders' equity, and deferred tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognised as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognised as deferred tax liabilities except for those incurred in the following transactions:

(1) The initial recognition of goodwill, and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;

(2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognizes a deferred tax asset for the carry forward of deductible temporary differences, deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, deductible losses and tax credits can be utilized, except for those incurred in the following transactions:

(1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;

(2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognized when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future, it is probable that taxable profits will be available in the future, against which the temporary difference can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and their tax effect is reflected.

At the balance sheet date, the Group reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

III. Summary of significant accounting policies and accounting estimates (Continued)

29. Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(1) As lessor

In finance leases, at the beginning date of lease period, the Group will recognize the sum of minimum lease collection and initial direct costs as the recorded value of finance leases receivable and meanwhile is recorded as unguaranteed residual value; the difference between the sum of minimum lease collection, initial direct costs and unguaranteed residual value and their present value is recorded as unrecognized financing income. Unrecognized financing income are measured at amortized cost using the effective interest method in the periods of leasing and recognized in financing income for the current period.

Lease from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The initial direct costs incurred are recognized in profit or loss for the current period.

(2) As lessee

In finance leases, at the beginning date of lease period, the Group will recognize the lower of the fair value of leased asset of the beginning date of lease period and the present value of minimum lease payment as the recorded value of the leased asset, their difference is recorded as unrecognized financing charges. Initial direct costs are recognized in leased assets' value. Unrecognized financing charges are measured at amortized cost using the effective interest method in the periods of leasing and recognized in financing charges for the current period. The Group depreciates the leased assets by adopting the depreciation policy consistent with self-owned fixed assets.

Lease from operating leases is recognised in the cost of relevant assets or profit or loss on a straight-line basis over the lease term. The initial direct costs incurred are recognised in profit or loss for the current period.

30. Safety costs

The Company accrued production safety fund according to the national regulations for high-risk industry. The production safety fund accrued is charged to the cost of related products, and recorded in the specific reserve. As production safety fund is utilised, if it is of expenditure nature, the cost is directly charged against the specific reserves. If it is used for construction, the cost being used is recorded in construction in progress, and transferred to fixed assets when it is ready for its intended use. Meanwhile, the cost of fixed asset is offset against the specific reserves and accumulated depreciation of the same amount is recognised, then the fixed asset is no longer

31. Repurchase of shares

The repurchased shares prior to cancellation or transfer of shares are managed as treasury stocks, all costs incurred from repurchase of shares are recognized as the costs of treasury stocks. Considerations and transaction fee incurred from the repurchase of shares shall lead to the elimination of shareholders' equity and does not recognize profit or loss when shares of the company are repurchased, transferred or cancelled.

The difference between the actual amount received and the carrying amount of the treasury stock are recognized as capital reserve when the treasury stocks are transferred, if the capital reserve is not sufficient to be offset, the excess amount shall be recognized to offset surplus reserve and redistributed profit. When the treasury stocks are cancelled, the capital shall be eliminated according to the number of shares and par value of cancellation shares, the difference between the actual amount received and the carrying amount of the treasury stock are recognized as capital reserve, if the capital reserve is not sufficient to be offset, the excess amount shall be recognized to offset surplus reserve and redistributed profit.

32. Critical accounting judgments and estimates

The Group gives continuous assessment of the reasonable expectations of future events and the critical accounting estimates and key assumptions based on its historical experience and other factors.

The critical accounting estimates and key assumptions that are likely to lead to significant adjusted risks of the carrying amount of assets and liabilities for the next financial year are listed as follows:

III. Summary of significant accounting policies and accounting estimates (Continued)

32. Critical accounting judgments and estimates (Continued)

(1) impairment of receivables

As described in Note III (12), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

(2) Provision for diminution in value of inventories

As described in Note III (13), the net realisable value of inventories is under management's regular review, and as a result, provision for diminution in value of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable value, the Company takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Company's historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product sale ability, manufacturing technology and the actual use of the inventories, resulting in the changes in provision for diminution in value of inventories. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

(3) impairment of long-term assets

As described in Note III (21), long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset (or an asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset (or the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions. If significant changes with an adverse effect that have taken place in relevant assumptions, the Company would need to recognise further impairment against long-term assets.

(4) Depreciation and amortisation of assets such as fixed assets, intangible assets and long-term prepaid expenses

As described in Note 2(11), (14) and (15), fixed assets, intangible assets and long-term prepaid expenses are depreciated and amortised over their useful lives after taking into account residual value. The estimated useful lives of the assets are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes, the amortisation periods for the long-term prepaid expenses are determined by the Company in accordance with the expected benefit period of each expense. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised.

(5) Construction contracts

Contract revenue and costs from individual contracts is recognised under the percentage of completion method. The estimated total contract costs for the calculation of the percentage of completion is according to the management's expectation on the actual situation and past experience of the oil engineering projects. The reviews and revises the estimated total contract costs during the execution of construction contracts and such revisions may result in increase or decrease in revenues or costs and are reflected in different accounting periods.

(6) Pending claims

For the legal proceedings and claims, the Group derive the best estimate of committed losses to the related current obligations based on legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change during the development of the legal proceedings and claims.

III. Summary of significant accounting policies and accounting estimates (Continued)

32. Critical accounting judgments and estimates (Continued)

(7) Deferred income tax assets

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The management needs significant judgement to estimate the time and extent of the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. Where the expectation is different from the original estimate of the future taxable profits, such differences will impact the recognition of deferred tax assets and taxation in the years when the estimates are changed.

(8) Taxation

There are various uncertainties on interpretation of the complicated tax jurisdictions (including related tax incentive regulations) and time and extent of the future taxable revenue. Regarding to various international business relationship and current contract complication, there may be adjustment to the recognized taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretation may be resulted from various events.

33. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

Ministry of finance has issued “CASBE 39 – Fair value measurement” (Referred to as the Enterprise Accounting Standard NO.39), “CASBE 40 – Joint arrangements” (Referred to as the Enterprise Accounting Standard NO.40), “CASBE 41 – Disclosure of interests in other entities” (Referred to as the Enterprise Accounting Standard NO.41), “CASBE 2 -Long-term equity investments (Revised)” (Referred to as the Enterprise Accounting Standard NO.2), “CASBE 9 – Employee benefits (Revised)” (Referred to as the Enterprise Accounting Standard NO.9), “CASBE 30 – Presentation of financial statements” (Referred to as the Enterprise Accounting Standard NO.30), “CASBE 33 – Consolidated financial statements (Revised)” (Referred to as the Enterprise Accounting Standard NO.33), “CASBE 37 – Presentation of financial instruments (Revised)” (Referred to as the Enterprise Accounting Standard NO.37) from the period beginning on 1 January 2014, in addition to Enterprise Accounting Standard NO.39 used in the financial reports in the year 2014 and the subsequent period, other standards above come into force on July 1, 2014.

On August 22, 2014, the group has approved the resolution about carrying out “CASBE 2-long –term equity investment” and other seven new accounting standards on the thirteenth meeting of the seventh term Board of Directors. After analysis and judgment, the group thinks the execution of the new accounting standards has no significant impact on the group’s financial statements for the current year and comparative period.

The group has prepared the financial statements ended January 1,2014 to December 31,2014 in accordance with the standards above, the impact on the group’s financial statements are as follows:

Affected items	At 31 December 2013			At 1 January 2013		
	Before adjustment	Amount of adjustment	After adjustment	Before adjustment	Amount of adjustment	After adjustment
Sum of assets	92,736,669		92,736,669	86,089,330		86,089,330
Including: available-for-sale financial assets		41,494	41,494		44,494	44,494
Long-term equity investments	640,958	-41,494	599,464	643,924	-44,494	599,430

(2) Changes in significant accounting estimate.

The group has no significant changes in accounting estimates this year.

IV. Taxation

(1) Types of taxes and tax rates

Type of taxes	Tax base	Tax rate%
Value added tax	Taxable value added(for the calculation of the output VAT and deducted by the input VAT)	3、4、6、11、13 or 17
Business tax	Taxable income	3 or 5
Urban maintenance and construction tax	Turnover tax payable	1、5、7
Educational surtax	Turnover tax payable	5
		25

Corporate income tax:

Taxpayer	Tax rate%
Sinopec Southwest Oil Engineering Company Limited	15
Sinopec Oil Engineering Design Company Limited	15
Sinopec Zhongyuan Oil Engineering Design Company Limited	15
Sinopec Henan Oil Engineering Design Company Limited	15

(2) Tax incentives and approval documents

(1) Consumption tax refund of self-used refined oil

In accordance to “Notification of refund of consumption tax for own use refined oil during oil (gas) field production” (Cai Shui [2011] No.7)) issued by MOF and State Taxation Administration, from 1 January 2009, the oil (gas) field enterprises will be refunded the consumption tax after the actual payment of temporary consumption tax paid for the purchases of refined oil used in the exploitation of crude oil.

(2) Corporate income tax

In accordance to “Notification of tax policy issues on thorough implementation of western development strategy issued by MOF and State Taxation Administration”(Cai Shui[2011]No.58)and “Proclamation of corporate income tax issues on thorough implementation of western development strategy issued by State Taxation Administration”([2012]No.12),a subsidiary of the Group, Sinopec Southwest Oil Engineering Company Limited has enjoyed a preferential western development corporate income tax rate at 15% confirmed by “Permission of agreement that Sinopec Southwest Oil Engineering Company Limited enjoys preferential western development corporate income tax rate”(Cuan Guo Shui Zhi Fa[2014]No.8)issued by SiChuan province state taxation bureau directly-managed branch bureau.

In accordance to “Notification of publicity of proposed list of Shandong Province High-tech enterprises subject to review in 2012” (Lu Ke Gao Zi [2012] No.184) issued by Science and Technology Department of Shangdong Province, Department of Finance of Shandong Province, The State Tax Administration of Shangdong Province, The Local Tax Administration of Shangdong Province, Sinopec Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to to “Notification of second batch of Henan Province High-tech enterprise accreditation in 2012” (Yu Ke[2012]No.173) issued by Science and Technology Department of Henan Province, Henan Provincial Department of Finance, The State Tax Administration of Henan Province, The Local Tax Administration of Henan Province, Sinopec Zhongyuan Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to “Notification of second batch of Henan Province High-tech enterprise accreditation in 2011” (Yu Ke[2012]No.39) issued by Science and Technology Department of Henan Province, Henan Provincial Department of Finance, The State Tax Administration of Henan Province, The Local Tax Administration of Henan Province, Sinopec Henan Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

V. Notes to the consolidated financial statements

1. Cash at bank and on hand

Items	At 31 December 2014			At 31 December 2013		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	15,635	—	—	18,289
RMB	—	—	4,070	—	—	7,342
USD	586	6.1190	3,585	671	6.0969	4,089
EUR	45	7.4556	338	15	8.4189	130
BRL	287	2.3039	661	17	2.5906	45
DZD	4,259	0.0696	296	11,516	0.0783	902
IRR	57,098	0.0002	13	364,384	0.0002	87
KWD	27	20.8866	573	7	21.5988	157
KZT	11,130	0.0336	373	19,034	0.0397	756
SAR	874	1.6310	1,420	900	1.6258	1,464
Others	—	—	4,306	—	—	3,317
Cash at banks:	—	—	1,154,823	—	—	1,651,158
RMB	—	—	243,857	—	—	486,050
USD	97,685	6.1190	597,735	115,579	6.0969	704,907
EUR	154	7.4556	1,145	5,380	8.4189	45,295
BRL	3,826	2.3039	8,815	24,561	2.5906	63,629
DZD	446,564	0.0696	32,466	193,930	0.0783	15,185
IRR	—	—	—	5,654,565	0.0002	1,357
KWD	1,741	20.8866	36,362	1,309	21.5988	28,279
KZT	352,830	0.0336	11,840	1,503,155	0.0397	59,675
SAR	83,479	1.6310	136,151	104,636	1.6258	170,117
Others	—	—	86,452	—	—	76,664
Among cash at bank: Related parties	—	—	530,069	—	—	887,527
Including:RMB	—	—	87,867	—	—	467,148
USD	55,987	6.1190	342,585	47,222	6.0992	288,017
SAR	60,237	1.6310	98,230	79,689	1.6258	129,772
Others			1,387			2,590
Other monetary funds:	—	—	43,439	—	—	58,339
RMB	—	—	19,976	—	—	18,691
USD	2,511	6.1190	15,365	4,865	6.0969	29,663
AED	131	1.6644	219	131	1.6658	219
DZD	11,058	0.0696	769	14,216	0.0783	1,113
SAR	1,062	1.6310	1,733	1,062	1.6258	1,727
KZT	1,252	0.0336	42	114,610	0.0397	4,550
Others	—	—	5,335	—	—	2,376
Total:	—	—	1,213,897	—	—	1,727,786

At 31 December 2014, the Group's margin deposits is RMB12,143 thousand(At 31 December 2013:RMB13,692 thousand),there is no deposits pledged to banks for issuing bankers' acceptances(At 31 December 2013:RMB20,000 thousand).

V. Notes to the consolidated financial statements (Continued)

2. Notes receivable

Category	At 31 December 2014	At 31 December 2013
Bank acceptance bills	207,691	2,744,179
Trade acceptance bills	11,815	—
Total	219,506	2,744,179

(1) There is no pledged or overdue notes receivable at 31 December 2014 and 2013.

(2) At 31 December 2014,the endorsed undue notes receivable

Type	At 31 December 2014	At 31 December 2013
Bank acceptance bills	222,423	—
Trade acceptance bills	72,914	—
Total	295,337	—

(3) As at 31 December 2014, the five largest notes receivable that are not mature but have been endorsed to other parties are as follows:

	Issuance date	Maturity date	Amount
Issuer 1	26 December 2014	11 June 2015	13,730
Issuer 2	26 December 2014	11 June 2015	11,000
Issuer 3	29 December 2014	26 June 2015	10,000
Issuer 4	27 December 2014	11 March 2015	5,862
Issuer 5	30 July 2014	30 January 2015	5,000
Total			45,592

3. Accounts receivable

	At 31 December 2014	At 31 December 2013
Accounts receivable	28,494,350	26,066,661
Less: provision for bad debts	429,415	385,093
Net	28,064,935	25,681,568

(1) Accounts receivable disclosed by categories:

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	8,962,576	31.46	417,087	4.65	8,545,489
Related party grouping	19,519,440	68.50	—	—	19,519,440
Subtotal	28,482,016	99.96	417,087	1.46	28,064,929
Individually insignificant but provision for bad debts individually	12,334	0.04	12,328	99.95	6
Total	28,494,350	100.00	429,415		28,064,935

Type	At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	10,271,741	39.41	385,093	3.75	9,886,648
Related party grouping	15,794,920	60.59	—	—	15,794,920
Subtotal	26,066,661	100.00	385,093	1.48	25,681,568
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	26,066,661	100.00	385,093	—	25,681,568

V. Notes to the consolidated financial statements (Continued)

3. Accounts receivable (Continued)

(1) Accounts receivable disclosed by categories: (Continued)

① At 31 December 2014 and 2013, there is no accounts receivable that individually significant and provision for bad debts individually.

② Group of ageing accounts receivable made provision for bad debts by ageing analysis is as follows:

Ageing	At 31 December 2014					At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	8,206,262	91.56	—	—	8,206,262	9,469,617	92.20	—	—	9,469,617
1 – 2 years	380,448	4.25	114,134	30.00	266,314	508,750	4.95	152,625	30.00	356,125
2 – 3 years	182,285	2.03	109,371	60.00	72,914	152,265	1.48	91,359	60.00	60,906
Over 3 years	193,582	2.16	193,582	100.00	—	141,109	1.37	141,109	100.00	—
Total	8,962,577	100.00	417,087	—	8,545,490	10,271,741	100.00	385,093	—	9,886,648

(2) Provision, recovery or reversal of bad debt

During the reporting period, the Group did not have accounts receivable for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(3) During the reporting period, the Group written-off of accounts receivable RMB 2,517 thousand (2013:RMB840 thousand), there is no written-off of accounts receivable occurred by related party transactions.

(4) As at 31 December 2014, the five largest accounts receivable are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision
Entity A	Common controlled by Sinopec Group	17,559,418	61.62	—
Entity B	Third party	1,681,335	5.90	24,720
Entity C	Third party	764,127	2.68	—
Entity D	Third party	639,105	2.24	—
Entity E	Third party	387,143	1.36	472
Total	—	21,031,128	73.81	25,192

4. Prepayments

	At 31 December 2014	At 31 December 2013
Prepayments	675,042	783,885
Less: provision for bad debts	14,771	7,466
Net	660,271	776,419

(1) The ageing analysis of prepayments is as follows:

Ageing	At 31 December 2014		At 31 December 2013	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	641,955	95.09	746,287	95.20
1 – 2 years	25,423	3.77	30,309	3.87
2 – 3 years	656	0.10	6,761	0.86
Over 3 years	7,008	1.04	528	0.07
Total	675,042	100.00	783,885	100.00

V. Notes to the consolidated financial statements (Continued)

4. Prepayments (Continued)

(1) The ageing analysis of prepayments is as follows: (Continued)

(2) As at 31 December 2014, the five largest prepayments are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total prepayments
Entity A	Third party	106,106	15.72
Entity B	Third party	61,697	9.14
Entity C	Common controlled by Sinopec Group	47,954	7.10
Entity D	Third party	20,992	3.11
Entity E	Third party	18,426	2.73
Total		255,175	37.80

5. Other receivables

	At 31 December 2014	At 31 December 2013
Other receivables	2,576,835	3,038,020
Less: provision for bad debts	361,703	351,682
Net	2,215,132	2,686,338

(1) Other receivables disclosed by categories:

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively	—	—	—	—	—
Including: Ageing groups	2,443,121	94.81	361,703	14.8	2,081,418
Related party grouping	133,714	5.19	—	—	133,714
Subtotal	2,576,835	100	361,703	14.04	2,215,132
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	2,576,835	100.00	361,703	14.04	2,215,132

Type	At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively	—	—	—	—	—
Including: Ageing groups	1,873,111	61.66	351,682	18.78	1,521,429
Related party grouping	1,164,909	38.34	—	—	1,164,909
Subtotal	3,038,020	100.00	351,682	11.58	2,686,338
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	3,038,020	100.00	351,682	11.58	2,686,338

V. Notes to the consolidated financial statements (Continued)

5. Other receivables (Continued)

(1) Other receivables disclosed by categories: (Continued)

① At 31 December 2014 and 2013, there is no other receivables that is individually significant and provision for bad debts individually.

② Group of ageing other receivables made provision for bad debts by ageing analysis is as follows:

	At 31 December 2014					At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	2,028,636	83.03	—	—	2,028,636	1,479,965	79.01	—	—	1,479,965
1 – 2 years	49,897	2.04	14,969	30.00	34,928	45,454	2.43	13,637	30.00	31,817
2 – 3 years	44,635	1.83	26,781	60.00	17,854	24,117	1.29	14,470	60.00	9,647
Over 3 years	319,953	13.10	319,953	100.00	—	323,575	17.27	323,575	100.00	—
Total	2,443,121	100.00	361,703	—	2,081,418	1,873,111	100.00	351,682	—	1,521,429

(2) During the reporting period, the Group did not have other receivables for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(3) During the reporting period, the Group written-off of other receivables RMB 313 thousand (2013:RMB832 thousand),there is no written-off of other receivables occurred by related party transactions.

(4) Other receivables disclosed by nature:

Items	At 31 December 2014	At 31 December 2014
Pretty cash funds	125,405	142,916
Guarantee	718,477	492,336
Disbursement of funds	755,768	409,189
Temporary payment	358,245	261,174
Escrow funds	16,559	15,624
Loan	10,000	1,013,120
Deposits	64,015	56,733
Export tax refund receivable	2,839	6,430
Others	525,527	640,498
Total	2,576,835	3,038,020

(5) As at 31 December 2014, the five largest other receivables are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision	Company Name
Entity A	Third party	Project payment	166,339	6.46	166,339
Entity B	Third party	Project margin	142,731	5.54	—
Entity C	Third party	Project margin	60,693	2.36	—
Entity D	Third party	Project margin	49,298	1.91	—
Entity E	Third party	Accounts	38,515	1.49	38,515
Total	—		457,576	17.76	204,854

V. Notes to the consolidated financial statements (Continued)

6. Inventories

(1) Inventories by categories

Category	At 31 December 2014			At 31 December 2013		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,743,628	7,724	1,735,904	2,088,257	19,116	2,069,141
Work in progress	89,322	—	89,322	245,877	—	245,877
Finished goods	99,015	—	99,015	807,599	16,447	791,152
Turnover materials	24,917	—	24,917	124,413	17,850	106,563
Amounts due from customers for contract work	10,009,710	28,159	9,981,551	10,648,754	—	10,648,754
Others	1,433	—	1,433	7,841	—	7,841
Total	11,968,025	35,883	11,932,142	13,922,741	53,413	13,869,328

As at 31 December 2014 and 2013, no capitalised borrowing costs were included in the balance of inventories, and the above inventories were not pledged.

(2) Provision for decline in the value of inventories is analysed as follows:

Category		Increase during the period		Written back during the period		
	At 1 January 2014	Provision	Others	Reversal or Write-off	Others	At 31 December 2014
Raw materials	19,116	—	—	—	11,392	7,724
Finished goods	16,447	12,837	—	—	29,284	—
Turnover materials	17,850	—	—	—	17,850	—
Amounts due from customers for contract work	—	28,159	—	—	—	28,159
Total	53,413	40,996	—	—	58,526	35,883

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

Provision for decline in the value of Amounts due from customers for contract work is determined at the excess amount of the total estimated contract costs exceed the total estimated contract revenue.

During the reporting period, provision for decline in the value of inventories decrease RMB58,526 thousand for selling all of the assets and liabilities of fiber business to Sinopec Group.

(3) Completed yet settled assets formed by construction contracts

Items	At 31 December 2014
Contract cost incurred	34,644,336
plus recognised profit	2,664,907
Less: Loss on contracts	28,159
Less: Progress billings	27,299,532
Book value of Amounts due from customers for contract work	9,981,552

7. Non-current assets due within one year

Items	At 31 December 2014	At 31 December 2013
Long-term deferred expenses due within one year	1,350,742	1,317,592
Total	1,350,742	1,317,592

8. Other current assets

Items	At 31 December 2014	At 31 December 2013
Value Added Tax to be offset	168,076	332,452
Other prepaid taxes	—	7,341
Total	168,076	339,793

V. Notes to the consolidated financial statements (Continued)

9. Available-for-sale financial assets

(1) The situation of Available-for-sale financial assets

Items	At 31 December 2014			At 31 December 2013		
	Ending balance	**Provision for diminution in value**	**Carrying amount**	Ending balance	Provision for diminution in value	Carrying amount
Available-for-sale financial assets	**40,494**	**—**	**40,494**	41,494	—	41,494
Including:based on cost	**40,494**	**—**	**40,494**	41,494	—	41,494
Total	**40,494**	**—**	**40,494**	41,494	—	41,494

The long-term equity investment of Henan Oilfield Oil Technology Service Company Limited held by the Group has been transferred to Henan Petroleum Exploration Bureau with nil consideration. Thus, there was a reduction of RMB1,000 thousand of the carrying amount of available-for-sale financial assets.

(2) The analysis of Available-for-sale financial assets

Items	At 31 December 2014	At 31 December 2013
Listed	**—**	—
Unlisted	**40,494**	41,494
Total	**40,494**	41,494

Unlisted investments represent the Group's equity interests of the unlisted entities in the PRC. They are mainly engaged in oil drilling and technical services.

10. Long-term equity investments

Name of company		The fluctuation of this period									
	At 1 January 2014	Additional investment	Reduce investment	Investment gains and losses confirmed by the equity method	Adjustment of other comprehensive income	Changes in other equity	The issuance of profit	Impairment	Others	At 31 December 2014	The ending balance of impairment
① Joint venture											
SinoFTS Petroleum											
Services Ltd. (SinoFTS)	—	74,379	—	-1,794	—	-5	—	—	—	72,580	—
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	—	22,875	—	-2,110	—	37	—	—	—	20,802	—
Sinopec Gulf Petroleum Engineering Services, LLC	13,382	—	—	—	—	—	—	—	—	13,382	—
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,104	—	—	27	—	—	24	—	—	1,107	—
Far Eastern Yihua Petrochemical (Yangzhou)Co., Ltd. ("FEYP")	584,850	—	585,018	168	—	—	—	--	—	—	—
Subtotal	599,336	97,254	585,018	-3,709		32	24			107,871	
② Associates											
Sinopec International Trading (Nigeria) Company Limited	128	—	—	—	—	—	—	—	—	128	—
Subtotal	128	—	—	—	—	—	—	—	—	128	—
Total	599,464	97,254	585,018	-3,709	—	32	24	—	—	107,999	—

There is no restriction on sale of the long-term equity investments held by the Group.

The information of the Group's joint venture and associates refer to note VII.2.

V. Notes to the consolidated financial statements (Continued)

11. Fixed assets

(1) Fixed assets by categories

Items	Buildings	Equipment and others	Total
Cost:			
1. At 31 December 2013	4,771,441	65,307,156	70,078,597
2. Increase in the year	177,979	5,867,432	6,045,411
(1) Addition	1,290	1,827,753	1,829,043
(2) Transferred from construction in progress	93,060	3,449,705	3,542,765
(3) Transfer (a)	25,548	—	25,548
(4) Revaluation surplus (b)	58,081	589,974	648,055
3. Written back during the year	3,827,640	15,899,885	19,727,525
(1) Disposal/Write-off	70,179	826,951	897,130
(2) Transfer(a)	1,770,632	1,566,258	3,336,890
(3) Assessment of impairment (b)	310	467,899	468,209
(4) Disposal of Outgoing Business (c)	1,986,519	13,038,777	15,025,296
4. At 31 December 2014	1,121,780	55,274,703	56,396,483
Accumulated depreciation:			
1. At 31 December 2013	1,864,390	32,277,786	34,142,176
2. Increase in the year	167,130	4,516,625	4,683,755
(1) Depreciation (d)	143,410	4,216,825	4,360,235
(2) Transfer (a)	19,890	—	19,890
(3) Adjustment of assessment (b)	3,830	299,800	303,630
3. Written back during the year	1,692,633	10,719,242	12,411,875
(1) Disposal/Reversal of write-off	39,311	804,121	843,432
(2) Transfer(a)	624,281	769,050	1,393,331
(3) Adjustment of assessment (b)	10,501	345,340	355,841
(4) Reversal upon disposal of Outgoing Business (c)	1,018,540	8,800,731	9,819,271
4. At 31 December 2014	338,887	26,075,169	26,414,056
Provision for impairment			
1. At 31 December 2013	76,459	956,144	1,032,603
2. Increase in the year	—	845,949	845,949
(1) Provision(e)	—	845,949	845,949
(2) Other additions	—	—	—
3. Written back during the year	67,836	1,521,435	1,589,271
(1) Disposal/Reversal of write-off	12,064	16,204	28,268
(2) Transfer(a)	48,256	5,731	53,987
(3) Adjustment of assessment (b)	—	23,624	23,624
(4) Reversal upon disposal of Outgoing Business (c)	7,516	1,475,876	1,483,392
4. At 31 December 2014	8,623	280,658	289,281
Net carrying amount			
1. At 31 December 2014	774,270	28,918,876	29,693,146
2. At 31 December 2013	2,830,592	32,073,226	34,903,818

V. Notes to the consolidated financial statements (Continued)

11. Fixed assets (Continued)

(1) Fixed assets by categories (Continued)

As at 31 December 2014 and 2013, no fixed assets of the Group were pledged.

(a) Approved by Sinopec Group, net carrying amount of the fixed assets decreases by 1,883,914 thousand in 2014 since the Group transferred part of fixed assets held by the Incoming Equities to Sinopec Group and its subsidiaries during the reorganization.

(b) Some subsidiaries of Incoming Equities reformed state-owned enterprises into Limited Liability Company, pursuant to the relevant provisions of "Interpretation No.1 of the Enterprise Accounting Standards" and "Interpretation No.2 of the Enterprise Accounting Standards" issued by the Ministry of Finance of the PRC ("MOF"), the Group adjusted net carrying amount of the evaluated fixed assets according to the amount of the revaluation.

(c) The Group sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Group and Sinopec Corp. dated 12 September 2014.

(d) In 2014, the depreciation charges of fixed assets amounted to RMB4,360,235 thousand (2013: RMB4,037,796 thousand), of which RMB4,291,302 thousand,676 thousand and 68,257 thousand was charged in costs of goods sold, selling expenses and general and administrative expenses, respectively (2013: RMB3,976,391 thousand, 676 thousand and 60,729 thousand).

(e) Due to the rapid increase of raw materials prices, the profit margin of polyester chip products shrinked sharply in the second quarter of 2014. The Group assessed the recoverable amount of assets group including fixed assets and intangible assets in relation to polyester chip production facilities as at 30 June 2014 and as a result the carrying amount of fixed assets was written down by 164,028 thousand. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 13%. In addition, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation.

Furthermore, in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of fierce competition with coal chemical products and severe over-capacity in the industry, and lack of competitiveness in terms of production cost of the Group's 1, 4-butanediol product in current market due to technological reason, the Group assessed the recoverable amount of maleic anhydride and 1, 4-butanediol production facilities as at 30 June 2014 and decided to shut down 1, 4-butanediol production facilities that does not result in economic benefits. Based on the assessment of the recoverable amount of assets group including fixed assets, intangible assets and long-term prepaid expenses, the carrying amount of fixed assets and intangible assets was written down by RMB681,921 thousand and 178,575 thousand, respectively. In addition, considering the manufacture of 1, 4-butanediol product will be shut down and the catalyst already in the production facilities will lose its activity as time passes, the Group expensed all of the net book value of the catalyst amounting to RMB135,503 thousand in the six months period ended 30 June 2014. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 13%. In addition, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation.

The costs of fixed assets transferred from construction in progress amounted to RMB3,542,765 thousand in 2014 (2013:RMB2,567,361 thousand).

(2) Fixed assets rented under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Net carrying amount
Equipment	77,897	3,347	—	74,550
Total	77,897	3,347	—	74,550

V. Notes to the consolidated financial statements (Continued)

12. Construction in progress

(1) Details of construction in progress

Items	At 31 December 2014			At 31 December 2013		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	128,663	3,502	125,161	1,404,714	3,502	1,401,212
Major Materials and equipment procurement projects	1,343,219	91,762	1,251,457	2,364,519	91,762	2,272,757
Other construction projects	10,666	—	10,666	9,097	—	9,097
Total	1,482,548	95,264	1,387,284	3,778,330	95,264	3,683,066

(2) The major construction projects in progress are set out as follows:

Project name	At 1 January 2014	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	Including current capitalized interest	Capitalised rate%	At 31 December 2014
	A	B	C	D				E = A+B-C-D
100 thousand tonne/year 1,4-butanediol project	1,027,276	42,902	891,603	178,575	—	—	—	—
New No.1 drilling platform	247,537	101,848	349,385		4,365	4,114	2.89	—
Shenli operating No. 6 platform	170,915	143,991			4,277		4.30	314,906
Shenli operating 90 meters		196,285						196,285
25 m working platform project	4,276	167,111			559	559	4.30	171,387
Saudi drilling acquisition or construction project		219,254	163,839					55,415
Kuwait rig acquisition projects		516,541	454,407					62,134
The 3rd exploration well control system transformation	70,913	164,106	235,019		6,230	6,230	6.00	—
7000HP Multipurpose Supply Vessel	66,348	72,716			6,700	6,567	6.00	139,064
8000HP Multipurpose Supply Vessel		35,617			438	438	6.00	35,617
Total	1,587,265	1,660,371	2,094,253	178,575	22,569	17,908	—	974,808

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
100 thousand tonne/year 1, 4-butanediol project	1,670,082	98	100	Self raised
New No.1 drilling platform	537,530	65	65	loans, Self raised
Shenli operating No. 6 platform	312,370	100	99	loans, Self raised
Shenli operating 90 meters	700,000	28	28	Self raised
25 m working platform project	466,030	36.78	36.78	loans, issue of ordinary shares
Saudi drilling acquisition or construction project	246,330	89	89	Self raised
Kuwait rig acquisition projects	1,600,000	32.3	32.3	Self raised, issue of ordinary shares
The 3rd exploration well control system transformation	241,460	97.5	97.5	loans, Self raised
7000HP Multipurpose Supply Vessel	187,500	74.2	74.2	loans, Self raised
8000HP Multipurpose Supply Vessel	195,000	18.3	18.3	loans, issue of ordinary shares
Total	6,156,302	—	—	—

V. Notes to the consolidated financial statements (Continued)

13. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Patent rights	Computer software	Others	Total
Cost:					
1. At 31 December 2013	496,562	208,893	88,705	167,642	961,802
2. Increase in the year	—	178,761	22,766	131	201,658
(1) Addition	—	—	22,760	—	22,760
(2) Transferred from construction in progress		178,575	—	—	178,575
(3) Revaluation surplus (a)	—	186	6	131	323
3. Written back during the year	434,788	387,468	—	152,435	974,691
(1) Disposal/Write-off (b)	144,190	—	—	—	144,190
(2) Transfer(c)	28,665	—	—	—	28,665
(3) Disposal of Outgoing Business(d)	261,933	387,468	—	152,435	801,836
4. At 31 December 2014	61,774	186	111,471	15,338	188,769
Accumulated amortization:					
1. At 31 December 2013	157,325	208,893	59,724	157,786	583,728
2. Increase in the year	8,173	19	12,567	1,344	22,103
(1) Amorisation	8,173	19	12,567	1,344	22,103
(2) Other additions	—	—	—	—	—
3. Written back during the year	154,832	208,893	—	145,688	509,413
(1) Disposal/Write-off (b)	38,562	—	—	—	38,562
(2) Transfer(c)	5,382	—	—	—	5,382
(3) Reversal upon disposal of Outgoing Business(d)	110,888	208,893	—	145,688	465,469
4. At 31 December 2014	10,666	19	72,291	13,442	96,418
Provision for impairment					
1. At 31 December 2013	—	—	—	—	—
2. Increase in the year	—	178,575	—	—	178,575
(1) Impairment loss(e)	—	178,575	—	—	178,575
3. Written back during the year	—	178,575	—	—	178,575
(1) Reversal upon disposal of Outgoing Business (d)	—	178,575	—	—	178,575
4. At 31 December 2014	—		—	—	—
Carrying amount					
1. At 31 December 2014	51,108	167	39,180	1,896	92,351
2. At 31 December 2013	339,237	—	28,981	9,856	378,074

13. Intangible assets (Continued)

(1) Classification of intangible assets (Continued)

(a) Some subsidiaries of Incoming Equities reformed state-owned enterprises into Limited Liability Company, pursuant to the relevant provisions of "Interpretation No.1 of the Enterprise Accounting Standards "and "Interpretation No.2 of the Enterprise Accounting Standards" issued by the Ministry of Finance of the PRC ("MOF"), the Group adjusted net carrying amount of the evaluated intangible assets according to the amount of the revaluation.

(b) Due to the restriction by respective PRC land regulations, the transfer of land use right pursuant to an assets transfer plan entered into by the Group and Yihua Group in 2001 could not be finalised. By mutual agreement, the transfer of aforementioned land use right was canceled and those land use right with cost of RMB131,398 thousand was reclassified as receivables due from Yihua group and Yihua Group agreed to pay a compensation amounted to RMB7,400 thousand to the Group.

(c) Approved by Sinopec Group, net carrying amount of the intangible assets decreases by 23,283 thousand in 2014 since the Group transferred the use rights of allocation land held by the Incoming Equities to Sinopec Group and its subsidiaries during the reorganization.

(d) The Group sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Group and Sinopec Corp. dated 12 September 2014.

(e) As mentioned in Note V(11), in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of severe over-capacity in the industry and lack of competitiveness in terms of production cost of the Group's 1, 4-butanediol product in current market due to high price of raw materials, the Group assessed the recoverable amount of assets group of its 1, 4-butanediol business as at 30 June 2014 and made provision for assets impairment accordingly. Considering the production of 1, 4-butanediol will not be resumed in the foreseeable future, the Group made a full provision of RMB 178,575 thousand against the patents that are used in the production of 1, 4-butanediol.

As at 31 December 2014 and 31 December 2013, the above intangible assets were not pledged.

For the year ended 31 December 2014, amortisation of intangible assets amounted to RMB22,103 thousand (2013: 38,680 thousand), were included in profit and loss.

14. Long-term deferred expenses

			Amortisation in the year		
Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014	Other decreases
Long-acting catalysts	135,503	—	135,503	—	—
Special tools of petroleum engineering	3,871,534	2,122,002	1,947,754	16,420	4,029,362
Other tools of Petroleum engineering	488,542	344,874	209,794	5,567	618,055
Camping house	559,727	391,470	310,605	3,916	636,676
Other long-term deferred expenses	27,056	52,756	18,770	4,514	56,528
Total	5,082,362	2,911,102	2,622,426	30,417	5,340,621
Including:Amount due within one year	1,317,592				1,350,742
Due over one year	3,764,770				3,989,879

Long-term deferred expenses mainly represent the long-acting catalysts for production equipment, special drilling and logging tools of petroleum engineering, geophysical special tools, camping house etc.

As mentioned in Note V(11), in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of severe over-capacity in the industry and lack of competitiveness in terms of production cost of the Group's 1, 4-butanediol product in current market due to high price of raw materials, the Group assessed the recoverable amount of the assets group of its 1, 4-butanediol business assets group including fixed assets, intangible assets and long-term prepaid expenses as at 30 June 2014. Considering the production of 1, 4-butanediol product will not be resumed in the foreseeable future and the catalyst already in the production facilities will lose its activity as time passes, the Group expensed all of the net book value of the catalyst amounting to RMB135,503 thousand in the six months period ended 30 June 2014.

Approved by Sinopec Group, net carrying amount of the Long-term deferred expenses decreases by 30,417 thousand in 2014 since the Group transferred part of the petroleum engineering tools held by the Incoming Equities to Sinopec Group and its subsidiaries during the reorganization.

V. Notes to the consolidated financial statements (Continued)

15. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities without offsetting

Items	At 31 December 2014		At 31 December 2014	
	Deductible/ taxable temporary differences	Deferred income tax assets/liabilities	Deductible/ taxable temporary differences	Deferred income tax assets/liabilities
Deferred income tax assets				
Provision for impairment on assets and influence on depreciation	214,636	53,659	524,201	131,050
Provision for bad debts	392,648	95,030	294,233	71,638
Accrued expenses	—	—	5,174	1,293
Deferred income	31,961	7,990	63,880	15,970
Others	—	—	1,695	424
Subtotal	639,245	156,679	889,183	220,375
Deferred income tax liabilities				
Revaluation of assets	185,953	45,702	19,407	4,852
Depreciation of fixed assets	7,459	1,193	—	—
Subtotal	193,412	46,895	19,407	4,852

(2) Details of unrecognised deferred income tax assets of deductible temporary differences and tax losses:

The tax losses of the Group can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Group, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future.

Considering the large losses incurred in 2012-2014 annual and uncertainty of future market, management of the Company assess it is significantly uncertain whether the Company can make sufficient taxable income to utilise those tax losses and thus determine to write off the deferred income tax assets amounted to RMB73,783 thousand.

Tax losses that are not recognized as deferred tax assets are analysed as follows:

Items	At 31 December 2014	At 31 December 2013
Deductible temporary differences	1,686,714	386,451
Tax losses	4,015,385	2,589,628
Total	5,702,099	2,976,079

(3) Tax losses that are not recognized as deferred tax assets will be expired as follows:

Years	At 31 December 2014	At 31 December 2013	Note
2014	—	10,234	
2015	21,658	21,658	
2016	33,472	33,472	
2017	975,715	1,088,646	
2018	1,428,491	1,435,618	
2019	1,556,049	—	
Total	4,015,385	2,589,628	

V. Notes to the consolidated financial statements (Continued)

16. Short-term loans

Items	Currency	At 31 December 2014	At 31 December 2013
Unsecured borrowings from related parties	RMB	**4,350,000**	8,689,900
	USD	**7,502,995**	6,424,859
Unsecured borrowings from third parties	RMB		720,000
	USD	**36,714**	182,907
Total		**11,889,709**	16,017,666

As at 31 December 2014, the interest rate range of short-term borrowings is 1.55%-6% (31 December 2013:1.30%-5.25%).

As at 31 December 2014, the Group had no overdue short-term borrowings.

As at 31 December 2014, the unused facility of short-term borrowings is RMB 0 (31 December 2013:RMB550,000 thousand).

17. Notes payable

Category	At 31 December 2014	At 31 December 2013
Commercial acceptance bills		
Bank acceptance bills	**856,442**	1,141,591
Total	**856,442**	1,141,591

As at 31 December 2014 and 2013, a bank deposit of RMB 0 and 20,000 thousand was pledged as collateral for the bills payable .

18. Accounts payable

Items	At 31 December 2014	At 31 December 2013
Payables for materials	**9,713,409**	9,653,050
Payables for construction	**8,634,143**	9,289,724
Payable for labour cost	**9,190,948**	9,814,040
Payables for equipment	**2,276,547**	1,822,369
Others	**242,118**	25,588
Total	**30,057,165**	30,604,771

Important accounts payable aged over one year:

Items	At 31 December 2014	Overdue reasons
Entity A	158,730	Retention money、Unsettled
Entity B	96,295	Retention money、Unsettled
Entity C	96,295	Retention money、Unsettled
Entity D	79,405	Retention money、Unsettled
Entity E	70,401	Retention money、Unsettled
Total	501,126	

V. Notes to the consolidated financial statements (Continued)

19. Advances from customers

Items	At 31 December 2014	At 31 December 2013
Payment for goods		310,086
Advances for construction labor and service	1,853,049	1,817,332
Amounts due to customers for contract work	6,564,119	5,130,579
Total	8,417,168	7,257,997

(1) Important advance from customers aged over one year:

Items	At 31 December 2014	Overdue reasons
Entity A	323,672	Not yet finalised
Entity B	49,325	Not yet finalised
Total	372,997	

(2) Completed yet settled assets formed by construction contracts

Items	At 31 December 2014
Contract cost incurred	13,809,458
plus recognised profit	859,499
Less: Progress billings	21,233,076
Less: Loss on contracts	—
Amounts due to settled yet completed contract work	-6,564,119

20. Employee benefits payable

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Short term employee benefits	320,397	15,755,679	15,874,802	201,274
Post-employment benefits	167,059	1,862,683	1,942,731	87,011
Termination benefits	—	80	80	—
Total	487,456	17,618,442	17,817,613	288,285

(1) Short-term employee benefits

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Wages or salaries, bonuses, allowances and subsidies	53,177	8,403,385	8,429,412	27,150
Staff welfare		1,240,182	1,240,182	
Social security contributions	864	878,677	875,587	3,954
Including: 1. Basic medical insurance	141	623,577	623,718	
2. Supplementary medical insurance	679	101,647	102,313	13
3. Work-related injury insurance	4	69,570	69,574	
4. Birth insurance	11	50,128	46,220	3,919
5. Other insurance	29	33,755	33,762	22
Housing funds	88,294	877,540	964,438	1,396
Labor union and employee education funds	90,849	285,054	275,010	100,893
Labour and service costs	—	191	191	—
Others	87,213	4,070,650	4,089,982	67,881
Total	320,397	15,755,679	15,874,802	201,274

As at 31 December 2014, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2015.

V. Notes to the consolidated financial statements (Continued)

20. Employee benefits payable (Continued)

(2) Post-employment benefits

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Basic pension insurance	93,397	1,382,849	1,476,246	—
Unemployment insurance	14	107,209	107,223	—
Annuity	73,648	372,625	359,262	87,011
Total	167,059	1,862,683	1,942,731	87,011

The in-service employees of the Group are subject to basic pension and medical insurance, which are extracted and paid according to regulated rates and set up and governed by local government. In addition, the Group provides a supplementary defined contribution retirement plan for its employees at rates not exceeding 5% of their salaries. Employees who have served the Group for more than one year may participate in this plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group. A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with the basic and supplementary pension plans beyond the annual contributions described above.

(3) Termination benefits

During this report, the Group paid 80 thousand compensation to the resigning employee for terminating labor relation.

21. Tax payables

Items	At 31 December 2014	At 31 December 2013
Value Added Tax	1,905,588	1,863,394
Business tax	83,680	92,780
Urban maintenance and construction tax	135,540	130,566
Education surtax	92,125	86,852
Corporate income tax	432,426	149,997
Individual income tax	150,421	140,321
Withholding tax	66,205	39,925
Others	89,793	60,230
Total	2,955,778	2,564,065

22. Interest payable

Items	At 31 December 2014	At 31 December 2013
Interest payables of long term loan which interest paid by installment and principal paid at maturity date	331	520
Interest payable of short term loan	19,697	33,387
Total	20,028	33,907

V. Notes to the consolidated financial statements (Continued)

23. Other payables

Items	At 31 December 2014	At 31 December 2013
Guarantee deposits	409,207	480,158
Deposits	161,140	143,858
Disbursement of funds	339,054	865,583
Temporary receipts	369,576	910,703
Escrow payments	28,437	36,805
Withheld payments	169,590	96,985
Sinopec Group capital restructuring funds	4,000,000	—
Net profit of Material Assets Reorganisation	1,479,207	—
Others	371,258	467,072
Total	7,327,469	3,001,164

As at 31 December 2014, other payables with aging over 1 year with a carrying amount of RMB598,252 thousand (31 December 2013: RMB729,277 thousand) are mainly construction projects retention money, deposits, guarantee and so on. Those payables are unsettled due to the guarantee period isn't end or not yet reached the settlement period.

24. Non-current liabilities due within one year

Items	At 31 December 2014	At 31 December 2013
Long-term loans within one year	110,000	200,000
Long-term payables within one year	15,870	—
Total	125,870	200,000

(1) Long-term loans within one year

Items	At 31 December 2014	At 31 December 2013
Mortgage loan		
Loans on credit	110,000	200,000
Total	110,000	200,000

(2) Long-term payables within one year

Items	At 31 December 2014	At 31 December 2013
Finance leases liabilities	15,870	—
Total	15,870	—

25. Long-term loans

Items	At 31 December 2014	Range of interest rate	At 31 December 2013	Range of interest rate
Mortgage loan	428,723	5.60%	—	—
Loans on credit	180,000	5.56-6.15%	780,000	3.78%-6.15%
Subtotal	608,723	—	780,000	—
Less: Long-term loans within one year	110,000	5.56-6.15%	200,000	3.78%
Total	498,723	—	580,000	—

V. Notes to the consolidated financial statements (Continued)

26. Long-term payables

Items	At 31 December 2014	At 31 December 2013
Finance leases liabilities	85,310	—
Subtotal	85,310	—
Less: Long-term payables within one year	15,870	—
Total	69,440	—

27. Special payables

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014	Reasons
Compensation of relocation	7,380		4,734	2,647	Relocation of public interests
Total	7,380		4,734	2,647	

28. Deferred income

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014
Government grants related to assets	34,593	1,520	27,826	8,287
Government grants related to income	34,995	440,269	439,600	35,664
Total	69,588	441,789	467,426	43,951

Including: Details of deferred income – Government grants

Government grants projects	At 31 Dec-13	Increase in current year	Recognised in non-operating income in current year	Decrease by selling of a business	At 31 DEC-14	Related to assets/income
The 863 plan of developing radar imaging prototype	1,150	50	—	—	1,200	Related to assets
Major national special funds of cementing technology for ultra deep horizontal wells	—	196	6	—	189	Related to assets
Environmental protection projects funding	6,584	—	611	5,973	—	Related to assets
Special equipment asset allocation	10,625	1,000	1,183	10,442	—	Related to assets
Research and development projects funding	6,000	—		6,000	—	Related to assets
Other government grants	3,100	—	151	2,949	—	Related to assets
Compensation of relocation	—	510	510	—	—	Related to assets
Subsidies of public service positions	—	652	652	—	—	Related to assets
National 863 project	2,028	600	1,354	—	1,274	Related to assets
National special research	35,336	53,184	54,326	—	34,195	Related to assets
Industry support fund	—	2,376	2,376	—	—	Related to assets
Labor insurance fee refund	—	15,918	15,919	—	—	Related to assets
Subsidies of car scrappage	—	743	742	—	—	Related to assets
Pension allowance	—	6,347	6,347	—	—	Related to assets
Subsidies of reemployment	—	5,322	5,322	—	—	Related to assets
Consumption tax refund	—	348,139	348,139	—	—	Related to assets
Technology development funding	2,000	—	—	2,000	—	Related to assets
Other government grants	2,765	6,752	2,424	—	7,093	Related to assets
Total	69,588	441,789	440,062	27,364	43,951	

V. Notes to the consolidated financial statements (Continued)

29. Share capital (Unit: thousand shares)

At 31 December 2014:

Items	At 1 January 2014	Changes in current(+、-)		Subtotal	At 31 December 2014
		Issued shares	Write off Repurchase of shares		
Domestic non-public legal person shares	3,450,000	9,224,328	-2,415,000	6,809,328	10,259,328
Social public A shares	450,000	—	—	—	450,000
H share	2,100,000	—	—	—	2,100,000
Total	6,000,000	9,224,328	-2,415,000	6,809,328	12,809,328

As mentioned in Note I, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those no circulating shares without trading and transferring within 12 months since they obtains the circulating right. After the maturity of the restriction period, Sinopec Corp. and CITIC Limited can trade those non-circulating shares up to 5% of the Company's total shares within 12 months and 10% within 24 months. As at 31 December 2014, all shares held by original non-circulating shareholders have not been available for trading.

Pursuant to the resolution of the Company's First Extraordinary General Meeting and 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) issued by China Securities Regulatory Committee, the Company would sell all of the assets and liabilities to Sinopec Corp. and repurchase the Repurchased Shares(a total of 2,415,000,000 A Shares)form Sinopec Corp. for cancellation. On the even date, the Company would issue the Consideration Shares (a total of 9,224,327,662 A Shares) to Sinopec Group in order to acquire 100% equity interest of held by Sinopec Group. The registration of shares change was completed on 31 December 2014 and has been verified by Grant Thornton China pursuant to the capital verification report (GT Yan Zi (2014) No.110ZC0383).

At 31 December 2013:

Items	At 1 Jan-13	Changes in current(+、-)		Subtotal	At 31ec-13
		Convert capital reserve into share capital	Others		
Domestic non-public legal person shares	2,400,000	1,050,000	—	—	3,450,000
Social public A shares	200,000	250,000	—	—	450,000
H share	1,400,000	700,000	—	—	2,100,000
Total	4,000,000	2,000,000	—	—	6,000,000

Pursuant to approved A Share Reform Scheme, the Company is allowed to convert 5 shares for each 10 shares from capital surplus into share capital. The conversion of 2,000,000,000 share was completed on 22 November 2013 and has been verified by PricewaterhouseCoopers Zhong Tian LLP pursuant to the capital verification report (PwC ZT Yan Zi (2014) No. 138).

30. Capital reserve

At 31 December 2014:

Items	At 1 January 2014	Increase for the period	Decrease for the period	At 31 December 2014
Share premium	23,250,233	7,105,040	26,148,210	4,207,063
Other capital reserve	67,969	—	—	67,969
Total	23,318,202	7,105,040	26,148,210	4,275,032

Items	At 1 January 2013	Increase for the period	Decrease for the period	At 31 December 2013
Share premium	24,139,517	1,110,716	2,000,000	23,250,233
Other capital reserve	67,969	—	—	67,969
Total	24,207,486	1,110,716	2,000,000	23,318,202

V. Notes to the consolidated financial statements (Continued)

30. Capital reserve (Continued)

Reasons for the change are as follows:

Items	2014	2013
Capital reserve before adjustment at the end of last year	—	3,146,794
Adjustment of business combination under common control(a)	—	21,060,692
Capital reserve after adjustment at the beginning of the year	23,318,202	24,207,486
Increase for the period:	7,105,040	1,110,716
Including: Investment increased by Sinopec Group invest Incoming Equities (b)	5,689	1,110,231
Acquisition of subsidiaries' minority interest (c)	11,600	485
Major reorganization(a)	5,985,340	—
Revaluation of assets(d)	146,267	—
Adjustment of interests reclassification(d)	956,144	—
Decrease for the period:	26,148,210	2,000,000
Including: Convert capital reserve into share capital(NoteV.29)	—	2,000,000
Investment funds recovered by Sinopec Gorp(e)	5,932,883	—
Adjustment of business combination under common control (a)	20,215,327	—
Capital reserve at the end of the year	4,275,032	23,318,202

(a) The company sold all of the assets and liabilities to Sinopec Corp., repurchased the Repurchased Shares(a total of 2,415,000,000 A Shares)form Sinopec Corp. for cancellation and issued the Consideration Shares to Sinopec Group in order to acquire 100% equity interest of (details of the acquisition refer to NoteVI.1).As described in NoteVI.1,according to the change of consolidation scope caused by business combination under common control, opening balance of capital reserve in 2013 increased 21,060,692 thousand, capital reserve decreased 20,215,327 thousand in 2014 in accordance with the net assets of the merging parties enjoyed in merger date.

According to the business combination under common control acquired 100% share of, the initial investment cost is recognized as the carrying amount of acquiree's net assets at acquisition date. The share premium increased 9,872,096 thousand due to the difference between the payment of shares and initial investment cost, decreased 3,886,756 thousand due to the difference between repurchase of shares and payment of the price. The net increase in share premium is 5,985,340 thousand.

(b) The subsidiary acquired in the business combination under common control obtained additional investment of Sinopec Group before acquisition date. The investment amount was 5,689 thousand in 2014. (2013:1,110,231 thousand)

(c) purchased minority interest of its subsidiaries, the difference of acquisition cost and the share of the subsidiaries' net assets carrying amount calculated during investment date after the completion of the acquisition were recognized as capital reserve. The amount was 11,600 thousand in 2014. (2013:485 thousand).

(d) Some subsidiaries of reformed state-owned enterprises into Limited Liability Company, pursuant to the relevant provisions of "Interpretation No.1 of the Enterprise Accounting Standards" and "Interpretation No.2 of the Enterprise Accounting Standards" issued by the Ministry of Finance of the PRC ("MOF"),capital reserve increased 146,267 thousand and retained earnings reclassified into capital reserve 956,144 thousand.

(e) Capital reserve decreased 5,932,883 thousand due to Sinopec Group recovered investment funds before acquisition date in 2014.

31. Special reserve

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014
Special reserve	302,429	1,251,650	1,257,117	295,568
Total	302,429	1,251,650	1,257,117	295,568

In accordance with PRC regulations, the Group appropriated production safety fund of RMB1,251,650 thousand to specific reserve for the year ended 31 December 2014 (2013: RMB1,453,719 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2014, the Group utilised production safety fund amounting to RMB1,257,117 thousand (2013: RMB1,502,801 thousand) which was of expenditure nature.

V. Notes to the consolidated financial statements (Continued)

32. Surplus reserve

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014
Statutory surplus reserve	200,383	—	—	200,383
Total	200,383	—	—	200,383

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities

33. Retained earnings

Items	2014	2013	Appropriation/ distribution ratio
Retained earnings before adjustment at the end of last year	—	1,202,081	—
Adjustment of business combination under common control(Add+, Less-)	—	335,004	—
Retained earnings after adjustment at the beginning of the year	860,280	1,537,085	
Add: Net profit attributable to parent company	1,229,753	61,216	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Incoming Equities assigned to Sinopec Group before acquisition date	17,080	738,021	
Adjustment of interests reclassification	956,144	—	
Retained earnings at the end of the year	1,116,809	860,280	
Including: Surplus reserve attributable to parent company extracted by subsidiaries	273,531	81,758	

As described in NoteVI.1, according to the change of consolidation scope caused by business combination under common control, opening balance of retained earnings in 2013 increased 335,004 thousand.

Retained earnings reclassified into capital reserve according to the corporate system reform of the 's subsidiaries in 2014.

34. Revenue and Operating cost

	2014		2013	
Items	Revenue	Cost	Revenue	Cost
Major business	93,074,684	84,052,168	105,983,554	97,697,895
Other business	1,406,357	1,208,933	1,422,689	1,268,796
Total	94,481,041	85,261,101	107,406,243	98,966,691
Including: Continuing operations	78,993,315	69,703,974	89,729,072	81,201,147
Discontinued operations	15,487,726	15,557,127	17,677,171	17,765,544

Notes: The analysis information of the Group's revenue and cost by industry and region refer to Note XIII No.7

V. Notes to the consolidated financial statements (Continued)

34. Revenue and Operating cost (Continued)

(1) Major business

	2014		2013	
Industry	Revenue	Cost	Revenue	Cost
Geophysics	5,065,923	4,411,524	6,642,305	6,089,750
Drilling Engineering	39,003,458	33,964,781	41,456,560	37,754,141
Logging and Mud Logging	4,176,936	3,290,356	5,119,581	4,190,846
Special Downhole Operations	8,457,649	7,549,804	9,423,159	8,452,563
Engineering Construction	19,875,867	18,686,502	24,484,293	22,611,973
Fiber	14,902,022	14,848,968	17,024,722	17,149,134
Others	1,592,829	1,300,233	1,832,934	1,449,488
Total	93,074,684	84,052,168	105,983,554	97,697,895

(2) Business revenue (Classified by area)

Area	2014	2013
China mainland	76,089,832	86,635,073
Hong Kong, Macao, Taiwan and other countries	16,984,852	19,348,481
Total	93,074,684	105,983,554

35. Business tax and surcharges

Items	2014	2013
Business tax	245,681	296,771
Urban maintenance and construction tax	294,331	303,452
Education surtax	223,061	234,527
Overseas tax	194,894	281,595
Others	22,681	29,092
Total	980,648	1,145,437

Notes: The provision and payment standards of business tax and surcharges refer to Note IV.Taxation.

36. Selling expenses

Items	2014	2013
Freight	186,528	172,299
Commission fee	22,333	31,860
Staff costs	53,579	51,174
Depreciation	676	676
Transportation	8,947	11,480
Storage charges	7,317	6,983
Sales service fees	8,266	10,537
Others	24,734	36,370
Total	312,380	321,379

V. Notes to the consolidated financial statements (Continued)

37. General and administrative expenses

Items	2014	2013
Repair and maintenance	868,640	1,077,312
Staff costs	1,246,792	1,150,061
Integrated service	1,705,068	1,637,894
Research and development expenses	524,879	484,506
Taxes	238,614	243,270
Transportation	88,696	97,178
Rental expenses	73,754	46,180
Depreciation and amortization	83,801	69,865
Consultation	66,056	22,352
Others	471,590	513,322
Total	5,367,890	5,341,940

38. Finance costs

Items	2014	2013
Interest expenses	646,557	847,072
Less: Capitalisation of interest expenses for qualifying assets	17,908	21,583
Less: Interest income	63,620	65,118
Exchange losses, net	152,034	1,131
Bank and other charges	89,502	66,775
Total	806,565	828,277

Notes:

The Group's interest expenses are bank loan interest repayable within five years.

The capitalized interest is reckoned in construction in progress. The capitalised rate used to calculate capitalized borrowing cost is 2.89%-6.0% in 2014(2013: 2.89%-6.15%).

39. Impairment losses on assets

Items	2014	2013
(1) Provision for bad debts	69,891	133,169
(2) Provision for decline in the value of inventories	40,996	6,854
(3) Impairment losses on fixed assets	845,949	3,025
(4) Impairment losses on intangible assets	178,575	—
Total	1,135,411	143,048

40. Investment income

Items	2014	2013
Investment income from long-term equity investments under equity method	-3,709	55
Gain on disposal of available-for-sale financial assets	2,050	2,239
Interest income from entrusted investment and financing	—	345
Total	-1,659	2,639

V. Notes to the consolidated financial statements (Continued)

41. Non-operating income

(1) Breakdown of non-operating income

Items	2014	2013	Recognised as non-recurring income
Total gains from disposal of non-current assets	1,172,552	15,486	1,172,552
Including:Gains from disposal of fixed assets	17,596	11,032	17,596
Others(a)	1,145,141	—	1,145,141
Government grants	440,062	403,553	440,062
Penalty income	4,746	2,196	4,746
Waived payables	68,567	25,777	68,567
Asset inventory surplus	10,082	8,545	10,082
Compensation received	276	301	276
Others	13,764	7,851	13,764
Total	1,710,049	463,709	1,710,049

(a) The Group sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Group and Sinopec Corp. dated 12 September 2014.The non-operating income increased 1,145,141 thousand according to the difference between transfer price and carrying amount of net assets.

(b) The Company's non-operating income was recognised as non-recurring income. The Incoming Equities' non-operating income was recognized as non-recurring income in accordance with the net profit or loss of subsidiaries formed by business combination under common control from the beginning of the year to the acquisition date.

(2) Breakdown of government grants

Items	2014	2013	Related to assets/income
Consumption tax refund	348,139	267,041	Related to income
National special research	54,325	67,730	Related to income
Labor insurance fee refund	15,919	19,125	Related to income
Pension allowance	6,347	5,710	Related to income
Subsidies of reemployment	5,322	1,090	Related to income
Industry support fund	2,376	15,033	Related to income
National 863 project	1,354	181	Related to income
Subsidies of retirees	—	21,194	Related to income
Other government grants	4,329	5,125	Related to income
Major national special funds of cementing technology for ultra deep horizontal wells	6	—	Related to assets
Environmental protection projects funding	611	395	Related to assets
Special equipment asset allocation	1,183	929	Related to assets
Other government grants	151	—	Related to assets
Total	440,062	403,553	

V. Notes to the consolidated financial statements (Continued)

42. Non-operating expenses

Items	2014	2013	Recognised as non-recurring income
Loss on disposal of non-current assets	32,053	47,600	32,053
Including:Loss on disposal of fixed assets	32,053	46,518	32,053
Donation	656	1,111	656
Loss on fixed assets written off	4,096	5,893	4,096
Penalty	18,028	16,679	18,028
Compensation	17,286	12,528	17,286
Others	46,637	27,233	46,637
Total	118,756	111,044	118,756

43. Income tax expense

(1) Details of income taxes expenses

Items	2014	2013
Current tax in accordance with tax laws and related regulations	917,090	726,009
Deferred income tax	57,623	199,891
Total	974,713	925,900

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Items	2014	2013
Profit before income tax	2,206,680	1,014,775
Taxation calculated at the statutory tax rate(Total profit * 25%)	551,670	253,694
Difference in overseas profit tax rates	-89,145	24,647
Adjustments of current tax in previous years	47,615	36,804
Equity method accounting for the joint venture and associates' profit or loss	927	-6
Non-taxable income (expressed in "-")	—	—
Non-deductible expenses	62,553	146,608
Effect on the change in statutory tax rate on opening balance of deferred tax	—	—
Reversal of previously recognized deferred tax assets	73,783	209,237
Effect of utilization of unrecognised tax losses and deductible temporary differences	-43,374	—
Effect of unrecognised tax losses and deductible temporary differences	416,702	294,078
Tax effect on research and development expenses (expressed in "-")	-43,020	-39,162
Others	-2,998	—
Income tax expense	974,713	925,900

V. Notes to the consolidated financial statements (Continued)

44. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	2014	2013
Disbursement of funds	981,195	1,987,944
Government grants	440,268	391,024
Temporary receipt and payment	344,439	273,336
Guarantee	818,930	758,410
Compensation	32,789	36,281
Deposits	113,051	87,646
Others	160,268	377,978
Total	2,890,940	3,912,619

(2) Cash paid for other operating activities

Items	2014	2013
Temporary receipt and payment	184,838	168,767
Repair and maintenance expenses	612,901	749,355
Guarantee	928,793	872,882
Travelling expenses	89,264	98,067
Motor vehicle expenses	198,264	190,090
Handling charges	71,499	25,866
Conference expenses	11,672	19,205
Deposits	86,208	85,667
Integrated service	862,319	759,782
Others	373,879	497,083
Total	3,419,637	3,466,764

V. Notes to the consolidated financial statements (Continued)

44. Notes to Cash Flow Statement (Continued)

(3) Cash received from other investing activities

Items	2014	2013
Interest of bank deposits	2,656	3,163
Collection of time deposits	20,000	20,000
Others	8,457	11,653
Total	31,113	34,816

(4) Cash paid for other investing activities

Items	2014	2013
Payment of time deposit	—	40,000
Disposal of Outgoing Business	71,933	—
Total	71,933	40,000

(5) Cash received from other financing activities

Items	2014	2013
Temporary borrowings	800,000	—
Withdraw borrowings of subsidiaries not included in the scope of consolidation due to equity transfer	503,683	—
Receipt of capital return for the 2012 restructuring		6,546,816
Total	1,303,683	6,546,816

(6) Cash paid for other financing activities

Items	2014	2013
Finance lease expenses	8,000	—
Notes acceptance fees	177	—
Internal deposits payment of the company which is not included in the scope of consolidation due to transfer	104,327	—
Total	112,504	—

V. Notes to the consolidated financial statements (Continued)

45. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	2014	2013
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	1,231,967	88,875
Add: Provision for impairment losses on assets	1,135,411	143,048
Depreciation of fixed assets	4,360,235	4,037,796
Amortization of intangible assets	22,103	38,680
Amortization of long-term deferred expenses	2,622,426	3,194,385
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	-1,140,498	32,114
Losses on retirement of fixed assets (Gain as in "-")	4,096	5,894
Fair value losses (Gain as in "-")	—	—
Finance costs (Income as in "-")	607,789	832,227
Investment losses(Income as in "-")	1,659	-2,639
Decrease in deferred tax income assets (Increase as in "-")	63,650	199,891
Increase in deferred income tax liabilities (Decrease as in "-")	-6,027	—
Decrease in inventories (Increase as in "-")	812,934	1,813,071
Decrease in operating receivables (Increase as in "-")	-1,772,162	-12,468,474
Increase in operating payables (Decrease as in "-")	-1,190,587	3,891,632
Others	-6,861	-49,082
Net cash flows from operating activities	6,746,135	1,757,418
2. Significant investment or finance activities not involving cash:		
Transfer of assets to Sinopec Group		
Revaluation gains		
Fixed assets acquired under finance leases		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	1,201,754	1,694,094
Less: Opening balance of cash	1,694,094	3,920,367
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net decrease/(increase) in cash and cash equivalents	-492,340	-2,226,273

V. Notes to the consolidated financial statements (Continued)

45. Supplement information to Cash Flow Statement (Continued)

(2) Net cash received from outgoing business

Items	2014
Cash and cash equivalents of Outgoing Business received during this period	
Less: cash and cash equivalents of Outgoing Business at assets closing date	71,933
Net cash received from Outgoing Business	-71,933

(3) Composition of cash and cash equivalents

Items	2014	2013
1. Cash	1,201,754	1,694,094
Including: Cash in hand	15,636	18,289
Cash at bank	1,154,823	1,631,158
Other monetary funds	31,295	44,647
2. Cash equivalents	—	—
3. Closing balance of cash and cash equivalents	1,201,754	1,694,094
4. Restricted cash	12,143	33,692
5. Balance of cash on hand and at bank	1,213,897	1,727,786

46. Notes of Statements of Changes in Equity

The company issued the Consideration Shares to Sinopec Group in order to acquire 100% equity interest of (details of the acquisition refer to NoteVI.1). As described in NoteVI.1,according to the change of consolidation scope caused by business combination under common control, opening balance of capital reserve, special reserve, retained earnings and minority interests respectively increased by 21,060,692 thousand, 351,431 thousand, 335,004 thousand and 77,715 thousand in 2013.Capital reserve decreased by 20,215,327 thousand in 2014 in accordance with the net assets of the merging parties enjoyed in merger date.

47. Restricted assets

Items	2014	Restricted reasons
Cash at bank and on hand	12,143	Guarantee
Total	12,143	—

V. Notes to the consolidated financial statements (Continued)

48. Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			945,994
Including: USD	100,782	6.1190	616,685
EUR	199	7.4556	1,482
BRL	4,113	2.3039	9,476
DZD	461,882	0.0726	33,532
IRR	57,098	0.0002	13
KWD	1,768	20.8867	36,935
KZT	365,212	0.0336	12,255
SAR	85,416	1.6309	139,304
Others	116,356	0.8277	96,312
Accounts receivable		—	4,150,491
Including: USD	408,446	6.1190	2,499,279
EUR	5,980	7.4556	44,586
BRL	68,790	2.3039	158,486
DZD	410,992	0.0696	28,592
KWD	11,600	20.8866	242,294
KZT	9,381,299	0.0336	314,800
SAR	455,662	1.6309	743,136
Others	723,324	0.1650	119,318
Other receivables		—	1,079,242
Including: USD	144,233	6.1190	882,559
EUR	432	7.4555	3,219
BRL	38,687	2.3039	89,132
DZD	271,739	0.0696	18,904
IRR	1,421,082	0.0002	321
KWD	1,178	20.8865	24,601
SAR	12,560	1.6309	20,484
Others	839,661	0.0477	40,022
Prepayments		—	398,500
Including: USD	14,273	6.1190	87,339
EUR	176	7.4554	1,309
BRL	1,128	2.3039	2,598
DZD	207,914	0.0696	14,464
KWD	777	20.8866	16,234
KZT	638,977	0.0336	21,442
SAR	150,796	1.6309	245,933
Others	1,044,032	0.0088	9,181

V. Notes to the consolidated financial statements (Continued)

48. Foreign currency items (Continued)

Items	Original	Exchange rate	Amount (RMB)
Accounts payable		—	1,083,171
Including: USD	114,952	6.1190	703,394
EUR	7	7.4552	52
BRL	65,576	2.3039	151,082
DZD	68,984	0.0696	4,799
KWD	936	20.8866	19,542
KZT	195,018	0.0336	6,544
SAR	63,303	1.6309	103,240
Others	5,848,006	0.0162	94,518
49. Advances from customers		—	959,560
Including: USD	1,869	6.1190	11,438
KWD	14,579	20.8866	304,497
KZT	46,647	0.0336	1,565
SAR	380,395	1.6309	620,384
Others	90,569	0.2393	21,676
50. Other payables		—	256,570
Including: USD	14,891	6.1190	91,116
EUR	258	7.4556	1,926
DZD	28,488	0.0696	1,982
IRR	51,549	0.0002	12
KWD	517	20.8865	10,791
KZT	1,196,897	0.0336	40,164
SAR	59,143	1.6309	96,456
Others	125,515	0.1125	14,124
51. Short-term loans	—	—	7,539,709
Including: USD	1,232,180	6.1190	7,539,709
52. Long-term loans			
Including: USD	70,064	6.1190	428,723

VI. Changes in scope of consolidation

1. Business combination under common control

(1) Business combination under common control in the current financial year

Name of combined company	Percentage of equity acquired of business combination%	Transaction constitutes base of business combination under common control	Date of combination	Base of combination date	Business revenue of SOSC for the year ended 31 Dec 2014	Net profit of SOSC for the year ended 31 Dec 2014	Business revenue for the last financial year	Net profit for the last financial year
Sinopec Oilfield Service Corporation (SOSC)	100%	Controlled by Sinopec group before and after the combination	2014.12.31	Completion of registration of consideration shares issued	78,993,315	2,424,556	89,729,072	1,543,094

The Company issued shares to Sinopec Group, the ultimate control party of The Company, and acquired 100% of the equity interest of SOSC which is a subsidiary of Sinopec Group on December 2014. The business combination is considered as a business combination under common control according to the control of Sinopec Group to both the Company and SOSC. The equity transaction was completed on 22 Dec 2014, the Company issued the Consideration Shares (a total of 9,224,327,662 A Shares at the price of RMB 2.61 per each consideration share) to Sinopec Group on 31 December 2014. Assets and liabilities obtained in the business combination between SOSC and the Company shall be measured at their original carrying amount at the combination date as recorded by the party being combined.

SOSC is a sole-funded limited liability company under Sinopec Group with registered capital of RMB 4 billion in June 2014. The scope of business covers services for exploring, prospecting, drilling and procuring of onshore and offshore oil & gas and other geology and mineral resources, EPC project for crude oil and natural gas and other engineering and construction project. In accordance with the resolution of the Company's First Extraordinary General Meeting for 2014 and the "Approval to the Material Asset Reorganization of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRS Permit [2014] No. 1370) from China Security Regulatory Committee, the Company acquired 100% of the equity interest of SOSC. SOSC completed the change of its Business License for Enterprise as a Legal Person issued by Beijing Administration Bureau of Industrial and Commerce. The Company holds a long-term investment of 20,215,327 (in thousand Yuan) and 100% shareholding percentage of shares of SOSC.

(2) Carrying amount of consideration paid for the combination

Project	Amount
Par value of Equity Securities Issued	9,224,328
Total Cost	9,224,328

(3) Assets and liabilities of the combined company

	As at 31 December 2014	As at 31 December 2013
Current assets	45,824,703	44,822,789
Non-current assets	35,471,007	37,284,577
Current liabilities	61,538,612	57,804,110
Non-current liabilities	661,656	633,511
Net assets	19,095,442	23,669,745
Less: Minority interests	-982	84,938
Net assets obtained under common control	19,096,424	23,584,807
Consideration paid for the combination	9,224,328	—
The difference adjusted in shareholder's equity	9,872,096	—

VII. Equities in other entities

1. Equities in principal subsidiaries

Name	Place of Major operation activities	Place of registration	Nature of business	% of shareholding held directly	% of shareholding held indirectly	Acquisition method
Sinopec Oilfield Service Corporation	China	Beijing	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Shengli Oil Engineering Company Limited	China	Dongying, Shandong	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Zhongyuan Oil Engineering Company Limited	China	Puyagn, Henan	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Henan Oil Engineering Company Limited	China	Zhengzhou, Henan	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Jianghan Oil Engineering Company Limited	China	Qianjiang, Hubei	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Jiangsu Oil Engineering Company Limited	China	Yangzhou, Jiangsu	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec East China Oil Engineering Company Limited	China	Nanjing, Jiangsu	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec North China Oil Engineering Company Limited	China	Zhengzhou, Henan	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Southwest Oil Engineering Company Limited	China	Chengdu, Sichuan	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Oil Engineering Geophysical Company Limited	China	Beijing	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec Oil Engineering and Construction Corporation	China	Beijing	Construction	100.00		Business combination under common control
Sinopec Shanghai Offshore Oil Engineering Company Limited	China	Shanghai	Petroleum Engineering and technical services	100.00		Business combination under common control
Sinopec International Oil Engineering Company Limited	China	Beijing	Petroleum Engineering and technical services	100.00		Business combination under common control

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

Name	Place of major operational activities	Place of registration	Nature of business	% of shareholding held Directly	% of shareholding held Indirectly	Method of accounting
①Joint ventures						
SinoFTS Petroleum Services Ltd. (SinoFTS)	Beijing	Beijing	Petroleum technical service	55.00		Equity method
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	Beijing	Beijing	Oilfield technical Service	50.00		Equity method

The Group holds 55% shareholding of and 50% voting rights of SinoFTS. Both party to the joint venture must reach an agreement when an essential financial and operation decision is supposed to be made.

VII. Equities in other entities (Continued)

2. Equities in joint ventures and associates (Continued)

(2) Financial information of principal joint ventures

	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
Items	Closin balance	Opening balance	Closing balance	Opening balance
Current assets:	41,072	—	131,990	—
Cash and cash equivalents	39,838	—	95,106	—
Non-current assets	1,823	—	136	—
Total assets	42,895	—	132,126	—
Current liabilities	1,293	—	163	—
Non-current liabilities		—		—
Total liabilities	1,293	—	163	—
Net assets	41,602	—	131,963	—
Shareholder's equity	20,801	—	72,580	—
Carrying amount of equity investment in joint ventures	20,801	—	72,580	—

	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	For the year ended 31 December		For the year ended 31 December	
Items	2014	2013	2014	2013
Revenue	476	—	—	—
Finance costs	66	—	218	—
Income tax expense	—	—	—	—
Net profit	-4,219	—	-3,262	—
Other comprehensive income	—	—	—	—
Total comprehensive income	-4,219	—	-3,262	—
Dividend received from joint ventures	—	—	—	—

(3) Financial information of other joint ventures and associates

Items	For the current period and the closing balance	For the previous period and the opening balance
Joint ventures		
Total investment from the Group	14,489	599,336
Equity contributed to the Group		
Net profit	195	55
Other comprehensive income	—	—
Total comprehensive income	195	55
Associates:		
Total investment from the Group	128	128
Equity contributed to the Group:		
Net profit	—	—
Other comprehensive income	—	—
Total comprehensive income	—	—

(4) The Group has signed the investment contract and remains RMB240,685 thousand on 31 December 2014.

VIII. Financial instruments and risk management

The major financial instruments of the Group include cash at bank and on hand, accounts receivables, notes receivable, other receivables, other current assets, available-for-sale financial assets, accounts payable, interest payables, notes receivable, employee benefits payable, dividend payables, other payables, short-term borrowings, non-current liabilities within one year, long-term borrowings, long-term payables. The details of these financial instruments are disclosed in the respective notes. The financial risk of these financial instruments and financial management policies used by the Group to minimize the risk are disclosed as below. The management manages and monitors the exposure of these risks to ensure the above risks are controlled in the limited range.

1. Objectives and policies of financial risk management

The objective of the engagement of financial risk management is to reduce potential adverse effect on the Group's financial achievements, keep balance between risk and profit against the unpredictable financial market. Based on the objectives of financial risk management, certain policies are made to recognize and analyze risk and internal control is designed according to proper acceptable in order to monitor the risk position of the Group. Both the policies and internal control will be reviewed and revised regularly to adapt the changes of the market and business activities of the Group. The performance of internal control will be reviewed regularly or randomly in accordance with the financial management policies.

(1) Market risk

Market risk, includes interest rate risk and foreign currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market price.

(2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the floating rate. Interest rate risk arises from recognized interest-bearing financial instrument and unrecognized financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from short-term borrowings, long-term bank loans and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and monitors and maintains the combined financial instruments of fixed rate and floating rate.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's management will make decisions with reference to the latest market conditions. The Group may enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2014 and the year ended 31 December 2014, the Company did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not principal because the fixed term deposits are short-term deposits etc.

Interest-bearing financial instruments held by the Group:

Items	31 December 2014	31 December 2013
Fixed interest rate financial instruments		
Financial instruments		
Cash and cash equivalents	**1,612**	20,610
Financial liabilities		
Short-term borrowings	**4,350,000**	7,989,900
Long-term borrowings	**50,000**	50,000
Long-term payables	**85,310**	—
Floating interest rate financial instruments		
Financial assets		
Cash and cash equivalents	**1,196,649**	1,688,887
Financial liabilities		
Short-term borrowings	**7,539,709**	8,027,766
Long-term borrowings	**558,723**	730,000

For the year ended 31 December 2014, if the interest rate on the floating rate borrowings had risen/fallen 50 basis points while all the other variables had been held constant, the Group's net profit and shareholder's equity would have increased/decreased by approximately RMB30,369 thousand (31 December 2013: RMB34,476 thousand).

The financial instruments held by the Group at the date of balance sheet expose the Group to fair value interest rate risk. Under the hypothesis of a floating interest rate at the date of balance sheet, the effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the recalculation of these financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the date of balance sheet expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenues at the floating interest rate. The analysis of the previous period is based on the same hypothesis and method.

1. Objectives and policies of financial risk management (Continued)

(2) Interest rate risk (Continued)

Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Foreign currency risk arises from the functional currency denominated financial instrument measured at individual entity.

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars, Saudi riyals, Kuwait dinars and Brazil reals.

The foreign currency assets and foreign currency liabilities include the following assets and liabilities denominated in foreign currencies such as cash and cash equivalents, accounts receivable, prepayments, other receivables, account payables, other payables, advances from customers, short-term borrowings and long-term borrowings.

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at the balance sheet date:

	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
Items	As at 31 December 2014	As at 31 December 2013	As at 31 December 2014	As at 31 December 2013
USD	8,774,380	10,274,541	4,085,862	5,089,700
SAR	820,080	985,105	1,148,857	1,422,119
KWD	334,830	27,537	320,063	193,959
BRL	151,082	142,503	259,693	228,186
Others	185,797	75,502	759,752	773,139
Net exposure in RMB	10,266,169	11,505,188	6,574,227	7,707,103

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the Group's net profit to a possible change in floating interest rates while other variables were held constant:

Increase/decrease in net profits	As at 31 December 2014		As at 31 December 2013	
Appreciation in USD	5%	175,819	5%	194,431
Depreciation in USD	-5%	-175,819	-5%	-194,431
Appreciation in SAR	5%	-12,329	5%	-16,388
Depreciation in SAR	-5%	12,329	-5%	16,388
Appreciation in KWD	5%	554	5%	-6,241
Depreciation in KWD	-5%	-554	-5%	6,241
Appreciation in BRL	5%	-4,073	5%	-3,213
Depreciation in BRL	-5%	4,073	-5%	3,213

(3) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

Credit is managed on the grouping basis. Credit risk is mainly arises from cash at bank and accounts receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank and notes receivables since they are either deposited or will be accepted by the sate-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit risk exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on it customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

The highest credit risk exposed to the Group is limited to the carrying amount of each financial instrument illustrated in the balance sheet. The Group would not provide any guarantee that might cause credit risk to the Group.

VIII. Financial instruments and risk management (Continued)

1. Objectives and policies of financial risk management (Continued)

(4) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets .

Cash flow forecasting is performed by Group's finance department. The Group's finance management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The department monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institute to meet the short-term and long-term liquidity requirements.

The financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

	At 31 December 2014				
Items	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total amount**
Financial assets:					
Cash and cash equivalents	**1,213,897**	**—**	**—**	**—**	**1,213,897**
Notes receivable	**219,506**	**—**	**—**	**—**	**219,506**
Accounts receivable	**28,064,935**	**—**	**—**	**—**	**28,064,935**
Other receivables	**2,215,132**	**—**	**—**	**—**	**2,215,132**
Total assets	**31,713,470**	**—**	**—**	**—**	**31,713,470**
Financial liabilities:					
Short-term borrowings	**11,889,709**	**—**	**—**	**—**	**11,889,709**
Notes payable	**856,442**	**—**	**—**	**—**	**856,442**
Accounts payable	**30,057,165**	**—**	**—**	**—**	**30,057,165**
Employee benefits payable	**288,285**	**—**	**—**	**—**	**288,285**
Interest payables	**20,028**	**—**	**—**	**—**	**20,028**
Other payables	**7,327,469**	**—**	**—**	**—**	**7,327,469**
Non-current liabilities due within 1 year	**125,870**	**—**	**—**	**—**	**125,870**
Long-term borrowings	**—**	**70,000**	**—**	**428,723**	**498,723**
Long-term payables		**17,360**	**52,080**	**—**	**69,440**
Total liabilities	**50,564,968**	**87,360**	**52,080**	**428,723**	**51,133,131**

	At 31 December 2013				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	1,727,786	—	—	—	1,727,786
Notes receivable	2,744,179	—	—	—	2,744,179
Accounts receivable	25,681,568	—	—	—	25,681,568
Other receivables	2,686,338	—	—	—	2,686,338
Total assets	32,839,871	—	—	—	32,839,871
Financial liabilities:					
Short-term borrowings	16,017,666	—	—	—	16,017,666
Notes payable	1,141,591	—	—	—	1,141,591
Accounts payable	30,604,771	—	—	—	30,604,771
Employee benefits payable	487,456	—	—	—	487,456
Interest payables	33,907	—	—	—	33,907
Other payables	3,001,164	—	—	—	3,001,164
Non-current liabilities due within 1 year	200,000	—	—	—	200,000
Long-term borrowings	—	80,000	500,000	—	580,000
Long-term payables	—	—	—	—	—
Financial lease payables of unrecognized financial expenses	—	—	—	—	—
Total liabilities	51,486,555	80,000	500,000		52,066,555

VIII. Financial instruments and risk management (Continued)

2. Capital management

The capital management policies are made to keep the continuous operation of the Group, to enhance the return to shareholders, to benefit other related parties and to maintain the best capital structure to minimize the cost of capital.

For the maintenance or adjustment of the capital structure, the Group might adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or make an asset disposal to reduce the liabilities.

The Group monitors the performance of capital management with capital-to-debt ratio. The ratio is calculated as Net liabilities/Total capital. The Net liabilities are calculated as total borrowings – cash in Cash flow statement. Total borrowing includes short-term borrowings, long-term borrowings due within 1 year, bonds payables and long-term borrowings. Total assets equals to the sum of the shareholders' equity and net liabilities. The shareholders' equity includes minority interest and equity attributed to the parent company.

As at the date of balance sheet, the debt to equity ratio is as below:

Items	At 31 December 2014	At 31 December 2013
Short-term borrowings		
Long-term borrowings due within 1 year	11,889,709	16,017,666
Long-term payables due within 1 year	125,870	200,000
Long-term borrowings	498,723	580,000
Long-term payables	69,440	
Less: cash and cash equivalents	1,201,754	1,694,094
Net debt	11,381,988	15,103,572
Shareholder's equity	18,696,138	30,766,232
Total equity	30,078,126	45,869,804
Debt to equity ratio	37.84	32.93

IX. Fair value:

Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement.

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

As at 31 December 2014 and 31 December 2013, financial assets and liabilities of the Group measured at amortized cost mainly represent: cash and cash equivalents, accounts receivable, short-term borrowings, long-term borrowings and accounts payable. The carrying amounts of these financial assets and liabilities are not materially different from those measured at fair value.

X. Related parties and transaction

1. Particulars of parent company

Name Of parent company	Place of registration	Nature of business	Registered capital	Percentage of the Company shareholding held by parent company %	Percentage of the Company voting power held by parent company %
China Petrochemical Corporation	22 Chaoyangmen North Street, Chaoyang District Beijing	Exploring for, extracting and selling crude oil and natural gas; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information.	2,74.866 billion	72.01	72.01

The Company's ultimate controlling party is Sinopec Group.

Changes of registered capital of parent company during the reporting period:

At 1 January 2014	Increase in the year	Decrease in the year	At 31 December 2014
2,31.62 billion	43.246 billion		2,74.866 billion

X. Related parties and transaction (Continued)

2. Subsidiaries

Details of principal subsidiaries refer to Note VII.1.

3. Joint ventures and associates

Details of principal joint ventures and associates refer to Note VII.2.

Names of joint ventures or associates	Relationship with the Group
Sinopec Bayshore Petroleum Service Co., LTD	Joint venture
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	Joint venture

4. Other related parties

Names of other related parties	Relationships with the Group
China Petroleum & Chemical Corporation	Former controlling shareholder, controlled by Sinopec Group
Sinopec Shengli Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Zhongyuan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jianghan Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Henan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jiangsu Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Star Petroleum Company Limited	Controlled by Sinopec Group
Sinopec East China Petroleum Bureau	Controlled by Sinopec Group
Sinopec North China Petroleum Bureau	Controlled by Sinopec Group
Sinopec Southwest Petroleum Bureau	Controlled by Sinopec Group
Sinopec Northeast Petroleum Bureau	Controlled by Sinopec Group
Sinopec Pipeline Storage And Transportation Corporation	Controlled by Sinopec Group
Sinopec Shanghai Offshore Petroleum Bureau	Controlled by Sinopec Group
Sinopec International Petroleum Exploration And Production Company Limited	Controlled by Sinopec Group
Sinopec Finance Company Limited	Controlled by Sinopec Group
Sinopec Century Bright Capital International Company Limited	Controlled by Sinopec Group
Sinopec Assets Operating And Management Company Limited	Controlled by Sinopec Group
CITIC Group Corporation	Shareholder with 5% of voting rights
China CITIC Bank	Subsidiary of CITIC Group Corporation
Director, General Manager, Chief Financial Office And the Secretary of the Board of Directors	Key Managers

5. Transactions with related parties

(1) Details of related purchase and sales

Purchase of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Purchases of materials and equipments	Based on normal commercial terms or relevant agreements	**26,495,430**	29,805,786

Sales of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	**500,386**	386,822

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering services

Rendering of engineering services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Total		**50,878,618**	59,680,220
	Geophysics	Based on normal commercial terms or relevant agreements	**3,416,262**	5,091,447
	Drilling engineering	Based on normal commercial terms or relevant agreements	**26,550,235**	32,851,300
	Logging and mud-logging	Based on normal commercial terms or relevant agreements	**3,678,595**	4,373,304
	Special downhole operations	Based on normal commercial terms or relevant agreements	**6,425,577**	6,940,213
	Engineering construction	Based on normal commercial terms or relevant agreements	**9,866,461**	9,935,775
	Other services	Based on normal commercial terms or relevant agreements	**941,488**	488,181

Purchase of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Construction fees	Based on normal commercial terms or relevant agreements	**10,595**	48,230
Sinopec Corp. and its subsidiaries	Commission fees	Based on normal commercial terms or relevant agreements	**24,775**	47,084

(3) Details of related comprehensive services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Receiving of community services	Based on normal commercial terms or relevant agreements	**1,663,942**	1,596,836
	Receiving of integrated services	Based on normal commercial terms or relevant agreements	**170,623**	509,542

(4) Technology development service

Rendering of technology development service:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**Amount of the year ended 31 December 2014**	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries		Based on normal commercial terms or relevant agreements	**276,520**	160,800

(5) Details of related party leases

The Group as a lessee

Name of lessor	Type of leasing assets	Pricing policy and procedure for decision-making	**Leasing expense for the current period**	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Land and buildings	Based on normal commercial terms or relevant agreements	**111,469**	87,915

(6) Related party guarantee

Guarantor	Type of guarantee	Amount of guarantee	Beginning date	Maturity date	Status of Guarantee
Sinopec Group	Performance guarantee	USD210,000thousand	Jun-13	Nov-14	Incomplete

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(7) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2014	Amount of the year ended 31 December 2013
Subsidiaries of Sinopec Group	Deposit interest income	Based on normal commercial terms or relevant agreements	**1,786**	7,353
	Loan interest expense	Based on normal commercial terms or relevant agreements	**590,854**	795,007
	Borrowings obtained	Based on normal commercial terms or relevant agreements	**75,802,555**	52,119,326
	Borrowings repaid	Based on normal commercial terms or relevant agreements	**79,664,319**	55,331,896
Sinopec Group and its subsidiaries	Temporary borrowing	Based on normal commercial terms or relevant agreements	**800,000**	—
CITIC Bank	Deposit interest income	Based on normal commercial terms or relevant agreements	**683**	612

(8) Safety and insurance fund expenses

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2014	Amount of the year ended 31 December 2013
Sinopec Group	Safety and insurance fund expense	Based on normal commercial terms or relevant agreements	**141,221**	128,495
	Safety and insurance fund refund	Based on normal commercial terms or relevant agreements	**183,416**	134,508

(9) Others

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2014	Amount of the year ended 31 December 2013
Sinopec Group and its subsidiaries	Compensation received	Based on normal commercial terms or relevant agreements	**7,400**	128,495

(10) Material Asset Reorganization

On 12 September 2014, the resolution in relation to the execution of the Assets Disposal Agreement and the resolution in relation to the execution of the Share Repurchase Agreement are signed between the Company and its former controlling shareholder China Petroleum & Chemical Corporation, the resolution in relation to the Share Issuance and Assets Acquisition Agreement is signed between the Company and Sinopec Group. According to the resolutions, the Company will sell the entire assets and liabilities to Sinopec Corp. and repurchase 2,415,000,000 A shares from Sinopec Group. The difference between the selling price of the Group's assets and the consideration paid for the repurchased shares will be offset by cash consideration to be paid by Sinopec Corp. After the Share Issuance and Assets Acquisition, the Group will hold 100% of shareholding right of SOSC. The disposal assets refer to the entire assets and liabilities of the Group and the purchased assets refer to 100% of shareholding right of SOSC held by SINOPEC GROUP.

The consideration for the Disposal Assets is determined by Sinopec Corp. and the Group, with reference to the appraisal amount of RMB6,491,426.1 thousand illustrated in the Asset Valuation Report (Zhonglian Pin Bao Zi [2004] No. 742) prepared by Zhonglian Asset Appraisal Co., Ltd on 18 August 2014.The issue price of the Repurchased Shares is settled at the price of RMB2.61 per each share which is the average price of A Shares trading on the date which is 20 days before the date of Seventeenth Meetings of the Seventh Boarding Meeting. The total cost of the repurchase shares is RMB6,303,150 thousand. The difference between the consideration of the Disposal Assets and that of the repurchase shares of RMB 188,276.1 thousand will be offset by cash consideration to be paid by Sinopec Corp.

Pursuant to the Asset Valuation Report (Zhonghe Pin Bao Zi (2014) No. BJV2028) prepared by Zhonghe Assets Appraisal Co. ltd, the appraisal amount of repurchase assets purchase equals to RMB 2,407,5.4952 million, the report is approved by SASAC. On the basis of the appraisal amount, Sinopec Group. and the Company has agreed with the price of issuance shares and repurchase assets of RMB2,407,5.4952 million, and the consideration is paid by issuance of 9,224,327,662 A shares.

The Approval to the Material Asset Reorganization 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) from the CSRC is received on 18 December 2014.

The Disposal Agreement and Share Repurchase Agreement are signed separately with Sinopec Corp. and Sinopec Group separately on 22 December 2014 and the transactions are completed. The cancellation of the repurchased shares is produced on 30 December 2014. The issuance of 9,224,327,662 A shares to Sinopec Group is completed on 31 December 2014.

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(11) Remuneration of key management personnel

The Group has 21 key management personnel for the year ended 31 December 2014 and the year ended 31 December 2013

Items	For the year ended 31 December 2014	For the year ended 31 December 2013
Fee, salaries, allowances and bonus	2,525	2,656
Contribution to pension plans	258	265
Total	2,783	2,921

6. Related party transactions of parent company

(1) Details of related sale and purchase of goods

① Purchase of goods

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Corp. and its subsidiaries	Purchase of goods	Based on normal commercial termsor relevant agreements	12,942,422	11,026,614
Sinopec Group and its subsidiaries	Purchase of goods	Based on normal commercial terms or relevant agreements	5,608	26,640

① Sales of goods

Related party	Content of related party transaction	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Corp. and its subsidiaries	Sales of goods	437,356	356,891

(2) Details of related rendering services

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Corp. and its subsidiaries	Commission fees	Based on normal commercial terms or relevant agreements	24,775	47,084
Sinopec Group and its subsidiaries	Construction fees	Based on normal commercial terms or relevant agreements	10,595	48,230

(3) Related comprehensive service

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Group and its subsidiaries	Miscellaneous expenses	Based on normal commercial terms or relevant agreements	6,980	6,980

(4) Related financial service

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms or relevant agreements	730	942
	Loan interest expenses	Based on normal commercial terms or relevant agreements	31,989	29,562
	Borrowings obtained	Based on normal commercial terms or relevant agreements	3,700,000	1,800,000
	Borrowings repaid	Based on normal commercial terms or relevant agreements	4,400,000	1,400,000
	Temporary borrowings	Based on normal commercial terms or relevant agreements	800,000	
CITIC Bank	Deposit interest income	Based on normal commercial terms or relevant agreements	683	612

X. Related parties and transaction (Continued)

6. Related party transactions of parent company (Continued)

(5) Safety and insurance funs

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Group	Safety and insurance fund expenses	Based on normal commercial terms or relevant agreements	43,740	942
	Safety and insurance fund refund	Based on normal commercial terms or relevant agreements	86,826	—

(6) Others

Related party	Content of related party transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2014	For the year ended 31 December 2013
Sinopec Group and its subsidiaries	Compensation received	Based on normal commercial terms or relevant agreements	7,400	942

7. Receivables from and payables to related parties

(1) Amounts receivable of related parties

Items	Related party	As at 31 December 2014		As at 31 December 2013	
		Balance	Provision for bad debt	Balance	Provision for bad debt
Bank deposit	Sinopec Finance Company Limited	88,538	—	449,976	—
	Sinopec Shengjun International Company Limited	441,467	—	415,666	—
	CITIC Bank	65	—	21,885	—
Amounts receivable	Sinopec Group and its subsidiaries	19,519,440	—	15,794,920	—
	Joint ventures of the Group	31	—	—	—
	Joint ventures and associates of SINOPEC GROUP	110,437	—	3,445	—
Prepayments	Sinopec Group and its subsidiaries	59,842	—	107,172	—
Other receivables	Sinopec Group and its subsidiaries	133,714	—	1,164,909	—
	Joint ventures of the Group	396	—	411	—
	Joint ventures and associates of Sinopec Group	50,000	—	50	—

(2) Payables to related parties

Items	Related party	As at 31 December 2014	As at 31 December 2013
Amounts payable	Sinopec Group and its subsidiaries	2,096,826	4,180,248
	Joint ventures of the Group	505	—
	Joint ventures and associates of Sinopec Group	17,876	—
Advances from customers	Sinopec Group. and its subsidiaries	191,719	230,305
	Joint ventures and associates of Sinopec Group	143,462	
Other payables	Sinopec Group and its subsidiaries	5,546,881	721,043
Short-term borrowings	Sinopec Finance Co., LTD	4,350,000	4,589,900
	Sinopec Shengjun International Company Limited	7,502,995	6,424,859
	Sinopec Group	—	4,100,000
Interest payable	Sinopec Group and its subsidiaries	19,880	32,192
Long-term loan	Sinopec Group	—	500,000
	Sinopec Finance Co., LTD	180,000	280,000

XI. Commitments or contingencies

1. Principal commitments

(1) Capital commitments

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	As at 31 December 2014	As at 31 December 2013
Land and buildings, plant & machineries	1,658,430	1,410,250

(2) Operating lease commitments

As at the date of balance sheet, the future minimum lease payment due under the signed irrevocable operating leases contracts are summarized as follows:

	As at 31 December 2014	As at 31 December 2013
Within 1 year	66,864	32,860
1 and 2 yeas	19,315	36,958
2 to 3 years	18,299	18,808
Over 3 years	6,046	23,258
Total amount	110,524	111,885

(3) Investment commitments

The Group had outstanding commitments of RMB240,685 thousand in respect of its investment in FEYP as at 31 December 2013 not provided for in the financial statements (31 December 2013: USD8,000 thousand).

(4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2014.

2. Contingency

(1) Contingent liabilities due to pending actions

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group.

(2) Contingent liabilities guarantee provided for other entities and its financial effects

As at 31 December 2014, there is no contingent liability from guarantee provided for other entities.

(3) Tax penalties

Sinopec International Petroleum Service Corporation

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100 (equivalent to USD 33,524,600, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. Since the tax penalties are not predictable, SOSC Group did not provide the provision of such incident.

(4) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No. 644) issued by the State Administrative of Taxation in June 2007, the Company has been informed the relevant tax authority to settle the corporation income tax ("CIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional CIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2014. No provision has been made in the financial statements for this uncertainty for tax year prior to 2007 for the reason that management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

XII. Post balance sheet events

1. Non-public issuance of A shares

Approved by the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China PetrochemicalCorporation for asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No. 1370), the Group issues 1,333,333,333 A shares to Darry Asset Management (Hangzhou) Co., Ltd and other 6 investors and raises a net subscription amount of RMB 5,952,516,665.50. The shares registration under the Issuance and its related matters had been completed at Shanghai Branch of China Security Depository and Clearing Corporation Limited on 3 March 2015. The 1,333,333,333 A Shares under the Issuance are tradable shares subject to moratorium. All new Shares subscribed by the Subscribers are subject to a lockup period of 12 months starting from 4 March 2015.The Company will apply to the SSE on behalf of the Subscribers for the listing and trading of such Shares on 3 March 2016. SINOPEC GROUP remains as the controlling shareholder of the Group before and after the Issuance, the shareholding structure has not been changed before and after the Issuance. After the completion of the Issuance, the total assets and net assets of the Company will increase while the debt asset ratio will decrease. The risk bearing capacity of the Company has been enhanced.

2. Other post balance sheet events

As at 24 March 2015, there are no other events after balance sheet date to be disclosed in the Group.

XIII. Other significant events

1. Correction of errors

There is no correction of errors during the reporting period.

2. Significant debt restructuring

There is no significant debt restructuring during the reporting period.

3. The main contents and major changes of pension plan

The main contents of pension plan refer to Note.III. 23(3).

4. Discontinued operations

Items	2014	2013
Revenue of discontinued operations	**15,487,726**	17,677,171
Less :Cost and expense of discontinued operations	**16,606,532**	18,892,838
The profit of discontinued operations	**-1,118,806**	-1,215,667
Less: Income tax expense of discontinued operations	**73,783**	238,550
Net profit of discontinued operations	**-1,192,589**	-1,454,217
Including: The profit of discontinued operations attributable to shareholders of the parent company	**-1,192,589**	-1,454,217

The Company implemented the material asset reorganization in 2014. The Company sold all of its assets and liabilities (hereinafter referred to as the "Outgoing Business") to Sinopec Corp., in exchange, would repurchase A shares of the Company held by Sinopec Corp. for cancellation. The company executed the Confirmation on Completion of Outgoing Business with Sinopec Corp on 22 December 2014.According to the Confirmations; the Company transferred Outgoing Business to Sinopec Corp. On 30 December 2014, the Company repurchased the Repurchased Shares (a total of 2,415,000,000 A Shares) from Sinopec Corp. for cancellation. Since December 31, 2014, the Company's fiber business has terminated.

XIII. Other significant events (Continued)

5. Segment information

The Group has identified six reportable segments based on the internal structure, management requirements and internal reporting policy. The six reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, engineering construction, chemical fiber and chemical fiber raw materials. The segment information is prepared based on the financial information of the Company's daily management requirements. The Company's executive management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

Inter-segment transfers are measured by reference to market price. The assets are allocated based on the operations of the segment and the physical location of the asset.

The resources related to long-term equity investment and investment (loss)/income on joint venture, income tax expenses as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

The segment information is disclosed in accordance with the accounting policies and measurement standards reported to management by each segment. These accounting policies and measurement standards are consistent with the accounting policies and measurement standards of preparation of the financial statements.

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2014 and at 31 December 2014	Geophysics	Drilling engineering	logging and mud logging	Special downhole operations	Engineering construction	Fiber products and raw materials	Unallocated	Elimination	Total
Revenue	5,125,933	40,219,978	4,252,135	8,664,587	20,655,067	15,306,447	2,153,480	-1,896,586	94,481,041
Including:External customers	5,125,933	39,278,362	4,190,143	8,510,428	20,143,747	15,306,447	1,925,981	—	94,481,041
Including: Inter-segment income	—	941,616	61,992	154,159	511,320		227,499	-1,896,586	—
Including: Major business revenue	5,065,923	39,945,074	4,238,928	8,611,808	20,387,187	14,902,022	1,820,328	-1,896,586	93,074,684
Operating cost	4,443,742	34,980,770	3,355,084	7,744,832	19,516,482	15,217,037	1,899,740	-1,896,586	85,261,101
Including: Major business cost	4,411,524	34,706,397	3,352,348	7,703,963	19,197,822	14,848,968	1,727,732	-1,896,586	84,052,168
Operating expenses	481,441	2,945,525	515,983	488,673	1,613,505	2,180,011	377,756	—	8,602,894
Operating profit/(loss)	200,749	2,294,921	381,068	431,082	-474,106	-2,090,432	-127,894	—	615,388
Segment assets	6,801,486	47,609,063	4,021,903	8,740,517	21,924,709	—	2,835,912	-10,637,882	81,295,708
Segment liabilities	3,959,861	25,167,042	1,374,073	3,627,904	21,932,334	—	17,176,239	-10,637,882	62,599,571
Supplementary information:									
Capital expenditure	159,081	2,686,623	144,914	695,540	152,076	307,932	123,488	—	4,269,654
Depreciation and amortization	690,659	4,240,485	452,594	494,662	335,390	615,464	175,511	—	7,004,765
Impairment loss/(reversals) on assets	16,483	28,199	-72	458	48,922	1,037,361	4,060	—	1,135,411

For the year ended 31 December 2013 and at 31 December 2013	Geophysics	Drilling engineering	logging and mud logging	Special downhole operations	Engineering construction	Fiber products and raw materials	Unallocated	Elimination	Total
Revenue	6,708,143	43,608,908	5,222,662	9,605,324	25,040,913	17,677,171	3,533,423	-3,990,301	107,406,243
Including:External customers	6,707,817	41,615,888	5,129,436	9,507,791	24,646,595	17,677,171	2,121,545	—	107,406,243
Including: Inter-segment income	326	1,993,020	93,226	97,533	394,318	—	1,411,878	-3,990,301	—
Including: Major business revenue	6,642,305	43,445,702	5,212,807	9,520,691	24,867,579	17,276,802	2,313,419	-3,295,752	105,983,553
Operating cost	6,172,311	39,887,125	4,285,308	8,624,044	23,248,006	17,765,544	2,974,654	-3,990,301	98,966,691
Including: Major business cost	6,089,750	39,743,283	4,284,072	8,550,095	22,995,259	17,430,006	1,901,182	-3,295,752	97,697,895
Operating expenses	545,540	2,614,166	455,027	635,452	1,570,483	1,087,288	872,125	—	7,780,081
Operating profit/(loss)	-9,708	1,109,256	482,327	345,828	223,023	-1,175,631	-312,985	—	662,110
Segment assets	6,122,951	37,597,108	4,616,454	7,284,271	24,789,702	10,629,304	13,950,004	-12,253,125	92,736,669
Segment liabilities	4,392,478	14,199,191	1,652,573	2,962,349	23,453,543	3,532,816	24,030,612	-12,253,125	61,970,437
Supplementary information:									
Capital expenditure	398,776	4,249,366	755,317	718,133	357,421	488,650	109,366	—	7,077,029
Depreciation and amortization	821,491	4,500,511	473,121	426,766	299,902	478,456	270,614	—	7,270,861
Impairment loss on assets	2,388	33,459	347	14,065	81,649	6,787	4,353	—	143,048

XIII. Other significant events (Continued)

5. Segment information (Continued)

(2) Other Segment Information

① **External revenue of goods and services**

Items	2014	2013
Geophysics	5,125,933	6,707,817
Drilling engineering	39,278,362	41,615,888
logging and mud logging	4,190,143	5,129,436
Special downhole operations	8,510,428	9,507,791
Engineering construction	20,143,747	24,646,595
Chemical fiber and chemical fiber raw materials	15,306,447	17,677,171
Others	1,925,981	2,121,545
Total	94,481,041	107,406,243

② **Geographical information**

For the year ended 31 December 2014 and at 31 December 2014	The PRC	Other countries	Total
External revenue	77,496,189	16,984,852	94,481,041
Non-current assets	30,239,883	5,231,124	35,471,007

For the year ended 31 December 2013 and at 31 December 2013	The PRC	Other countries	Total
External revenue	88,057,762	19,348,481	107,406,243
Non-current assets	39,321,222	4,272,444	43,593,666

③ **The dependence of principal customers**

A single customer contributed over 50% of the total revenue of the Group.

XIV. Notes to parent company's financial statements

1. Cash at bank and on hand

Items	At 31 December 2014			At 31 December 2013		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	—	—	—	27
RMB	—	—	—	—	—	27
Cash at banks:	—	—	—	—	—	105,770
RMB	—	—	—	—	—	105,538
USD	—	—	—	38	6.0969	232
Total			—			105,797

The deposits in the related party of China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance") is 23,996 thousand. Interest is calculated based on market rate.

At 31 December 2014, there is no deposits pledged to banks for issuing bankers' acceptances(At 31 December 2013:RMB20,000 thousand).

2. Notes receivable

Category	At 31 December 2014	At 31 December 2013
Bank acceptance bills	—	2,558,598
Total	—	2,558,598

There is no pledged or overdue notes receivable at 31 December 2014 and 2013.

3. Accounts receivable

	At 31 December 2014	At 31 December 2013
Accounts receivable	—	140,540
Less: provision for bad debts	—	—
Net amount	—	140,540

(1) Accounts receivable disclosed by categories:

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	—	—	—	—	—
Subtotal	—	—	—	—	—
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	—	—	—	—	—

XIV. Notes to parent company's financial statements (Continued)

3. Accounts receivable (Continued)

(1) Accounts receivable disclosed by categories: (Continued)

Type	At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	140,540	100.00	—	—	140,540
Related party grouping					
Subtotal	140,540	100.00	—	—	140,540
Individually insignificant but provision for bad debts individually					
Total	140,540	100.00	—	—	140,540

① At 31 December 2014 and 2013, there is no accounts receivable that individually significant and provision for bad debts individually.

② Group of ageing accounts receivable made provision for bad debts by ageing analysis is as follows:

	At 31 December 2014					At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	—	—	—	—	—	140,540	100.00	—	—	140,540

(2) Provision, recovery or reversal of bad debt

During the reporting period, the Company did not have accounts receivable for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

4. Prepayments

	At 31 December 2014	At 31 December 2013
Prepayments	—	28,358
Less: provision for bad debts	—	—
Net amount	—	28,358

(1) The ageing analysis of prepayments is as follows:

Ageing	At 31 December 2014		At 31 December 2013	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	—	—	28,358	100.00

XIV. Notes to parent company's financial statements (Continued)

5. Other receivables

	At 31 December 2014	At 31 December 2013
Other receivables	—	9,107
Less: provision for bad debts	—	1,294
Net amount	—	7,813

(1) Other receivables disclosed by categories:

Type	At 31 December 2014 Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	—	—	—	—	—
Subtotal	—	—	—	—	—
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	—	—	—	—	—

Type	At 31 December 2013 Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad debts individually	—	—	—	—	—
Provision for bad debts collectively					
Including: Ageing groups	9,107	100	1,294	14.21	7,813
Related party grouping	—	—	—	—	—
Subtotal	9,107	100	1,294	14.21	7,813
Individually insignificant but provision for bad debts individually	—	—	—	—	—
Total	9,107	100	1,294	—	7,813

① At 31 December 2014 and 2013, there is no other receivables that individually significant and provision for bad debts individually.

② Group of ageing other receivables made provision for bad debts by ageing analysis is as follows:

	At 31 December 2014					At 31 December 2013				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	—	—	—	—	—	7,813	85.79	—	—	7,813
Over 3 years	—	—	—	—	—	1,294	14.21	1,294	100.00	—
Total	—	—	—	—	—	9,107	100.00	1,294		7,813

(2) During the reporting period, the Company did not have other receivables for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

XIV. Notes to parent company's financial statements (Continued)

6. Inventories

(1) Inventories by categories

Category	At 31 December 2014			At 31 December 2013		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	—	—	—	467,866	11,392	456,474
Work in progress	—	—	—	140,116		140,116
Finished goods	—	—	—	666,697	16,447	650,250
Turnover materials	—	—	—	91,654	17,850	73,804
Total	—	—	—	1,366,333	45,689	1,320,644

As at 31 December 2014 and 2013, no capitalised borrowing costs were included in the balance of inventories, and the above inventories were not pledged.

(2) Provision for decline in the value of inventories is analysed as follows:

Category	At 1 January 2014	Increase during the period		Written back during the period		At 31 December 2014
		Provision	Others	Reversal or Write-off	Others	
Raw materials	11,392	—	—	—	11,392	—
Finished goods	16,447	12,837	—	—	29,284	
Turnover materials	17,850	—	—	—	17,850	
Total	45,689	12,837			58,526	—

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

During the reporting period, provision for decline in the value of inventories decrease RMB58,526 thousand for selling all of the assets and liabilities of fiber business to Sinopec Group.

7. Other current assets

Items	At 31 December 2014	At 31 December 2013
Value Added Tax to be offset	—	151,124
Other taxes prepaid	—	7,341
Total	—	158,465

8. Long-term equity investments

Items	At 31 December 2014	At 31 December 2013
Investment of subsidiaries	20,215,327	
Joint ventures	—	584,850
Less: provision for impairment of long-term equity investment	—	—
Total	20,215,327	584,850

There is no restriction on sale of the long-term equity investments held by the Group.

XIV. Notes to parent company's financial statements (Continued)

8. Long-term equity investments (Continued)

(1) Investment to subsidiary

Investee	Opening balance	Increase during the period	Decrease during the period	Ending balance	Provision for impairment during the period	Ending balance of provision for impairment
Sinopec Oilfield Service Corporation		20,215,327		20,215,327		

	Accounting method	Investment cost	At 31 December 2013	Share of net profit/(loss) using the equity method	Transfer by selling all of the assets and liabilities	At 31 December 2014
Far Eastern Yihua Petrochemical (Yangzhou)Co., Ltd. ("FEYP")	Equity method	581,340	584,850	168	585,018	—

The Company and the other investor of FEYP agreed that the financial and operating decisions of FEYP need to be agreed by both parties, therefore, FEYP is accounted for as a joint venture.

9. Fixed assets

(1) Fixed assets by categories

Items	Buildings	Equipment and others	Total
Cost:			
1. At 31 December 2013	1,985,483	12,059,114	14,044,597
2. Increase in the year	44,442	1,039,505	1,083,947
(1) Transferred from construction in progress	44,442	1,039,505	1,083,947
3. Written back during the year	2,029,925	13,098,619	15,128,544
(1) Disposal/Write-off	43,406	59,842	103,248
(2) Selling fiber business (a)	1,986,519	13,038,777	15,025,296
4. At 31 December 2014	—	—	—
Accumulated depreciation:			
1. At 31 December 2013	983,889	8,452,578	9,436,467
2. Increase in the year	66,176	406,061	472,237
(1) Depreciation (b)	66,176	406,061	472,237
3. Written back during the year	1,050,065	8,858,639	9,908,704
(1) Disposal/Reversal of write-off	31,525	57,908	89,433
(2) Reversal upon disposal of Outgoing Business (a)	1,018,540	8,800,731	9,819,271
4. At 31 December 2014	—	—	—
Provision for impairment			
1. At 31 December 2013	8,253	636,006	644,259
2. Increase in the year		845,949	845,949
(1) Impairment loss(c)		845,949	845,949
3. Written back during the year	8,253	1,481,955	1,490,208
(1) Disposal/Reversal of write-off	737	6,079	6,816
(2) Reversal upon disposal of Outgoing Business (a)	7,516	1,475,876	1,483,392
4. At 31 December 2014	—	—	—
Net carrying amount			
1. At 31 December 2014	—	—	—
2. At 31 December 2013	993,341	2,970,530	3,963,871

As at 31 December 2014 and 2013, no fixed assets of the Company were pledged.

XIV. Notes to parent company's financial statements (Continued)

9. Fixed assets (Continued)

(1) Fixed assets by categories (Continued)

(a) The Company sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Group and Sinopec Corp. dated 12 September 2014.

(d) In 2014, the depreciation charges of fixed assets amounted to RMB 472,237 thousand (2013: RMB 436,330 thousand), of which RMB 451,490 thousand, 39 thousand and 20,708 thousand was charged in costs of goods sold, selling expenses and general and administrative expenses, respectively (2013: RMB 411,852 thousand, 45 thousand and 24,433 thousand).

(c) Due to the rapid increase of raw materials prices, the profit margin of polyester chip products shrinked sharply in the second quarter of 2014. The Company assessed the recoverable amount of assets group including fixed assets and intangible assets in relation to polyester chip production facilities as at 30 June 2014 and as a result the carrying amount of fixed assets was written down by 164,028 thousand. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 13%. In addition, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation.

Furthermore, in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of fierce competition with coal chemical products and severe over-capacity in the industry, and lack of competitiveness in terms of production cost of the Company's 1, 4-butanediol product in current market due to technological reason, the Company assessed the recoverable amount of maleic anhydride and 1, 4-butanediol production facilities as at 30 June 2014 and decided to shut down 1, 4-butanediol production facilities that does not result in economic benefits. Based on the assessment of the recoverable amount of assets group including fixed assets, intangible assets and long-term prepaid expenses, the carrying amount of fixed assets and intangible assets was written down by RMB681,921 thousand and 178,575 thousand, respectively. In addition, considering the manufacture of 1, 4-butanediol product will be shut down and the catalyst already in the production facilities will lose its activity as time passes, the Company expensed all of the net book value of the catalyst amounting to RMB135,503 thousand in the six months period ended 30 June 2014. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 13%. In addition, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation.

The costs of fixed assets transferred from construction in progress amounted to RMB 1,083,947 thousand in 2014 (2013:RMB 927,245 thousand).

10. Construction in progress

(1) Details of construction in progress

	At 31 December 2014			At 31 December 2013		
Items	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
100 thousand tonne/year 1,4-butanediol project	—	—	—	1,027,276	—	1,027,276
Improvements of existing plants and equipment	—	—	—	107,669	—	107,669
NCIC-YCFC hydrogen gas pipeline project	—	—	—	74,996	—	74,996
Thermal center denitration and dust removal retrofit project				59,998	—	59,998
Synthetic fiber processing and application center project (Yizheng)				10,000	—	10,000
Total	—	—	—	1,279,939		1,279,939

(2) The major construction projects in progress are set out as follows:

Project name	At 1 January 2014	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	Including current capitalized interest
	A	B	C	D	E	F=A+B-C-D-E
100 thousand tonne/year 1,4-butanediol project	1,027,276	42,902	891,603	178,575		—
Improvements of existing plants and equipment	107,669	137,751	192,344	—	53,076	—
NCIC-YCFC hydrogen gas pipeline project	59,998	108,951	—	—	168,949	—
Thermal center denitration and dust removal retrofit project	74,996	173	—	—	75,169	—
Synthetic fiber processing and application center project (Yizheng)	10,000	18,155	—	—	28,155	—
Total	1,279,939	307,932	1,083,947	178,575	325,349	

XIV. Notes to parent company's financial statements (Continued)

10. Construction in progress (Continued)

(2) The major construction projects in progress are set out as follows: (Continued)

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
100 thousand tonne/year 1,4-butanediol project	1,670,082	98	100	Self raised
Improvements of existing plants and equipment	631,115	89	—	Self raised
NCIC-YCFC hydrogen gas pipeline project	185,203	91	91	Self raised
Thermal center denitration and dust removal retrofit project	159,800	47	47	Self raised
Synthetic fiber processing and application center project (Yizheng)	42,930	66	66	Self raised
Total	—	--	--	--

11. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Patent rights	Computer software	Others
Cost:				
1. At 31 December 2013	406,123	208,893	152,435	767,451
2. Increase in the year	—	178,575	—	178,575
(1) Transferred from construction in progress	—	178,575	—	178,575
3. Written back during the year	406,123	387,468	152,435	946,026
(1) Disposal/Write-off(a)	144,190	—	—	144,190
(2) Disposal of Outgoing Business (b)	261,933	387,468	152,435	801,836
4. At 31 December 2014	—	—	—	—
Accumulated amortization:				
1. At 31 December 2013	142,861	208,893	144,554	496,308
2. Increase in the year	6,590		1,134	7,724
(1) Amorisation	6,590		1,134	7,724
(2) Other additions				
3. Written back during the year	149,451	208,893	145,688	504,032
(1) Disposal/Write-off(a)	38,563			38,563
(2) Reversal upon disposal of Outgoing Business (b)	110,888	208,893	145,688	465,469
4. At 31 December 2014				
Provision for impairment				
1. At 31 December 2013	—	—	—	—
2. Increase in the year	—	178,575	—	178,575
(1) Impairment loss(c)	—	178,575	—	178,575
3. Written back during the year	—	178,575	—	178,575
(1) Reversal upon disposal of Outgoing Business (b)	—	178,575	—	178,575
4. At 31 December 2014	—	—	—	—
Carrying amount				
1. At 31 December 2014	—	—	—	—
2. At 31 December 2013	263,262	—	7,881	271,143

XIV. Notes to parent company's financial statements (Continued)

11. Intangible assets (Continued)

(1) Classification of intangible assets (Continued)

(a) Due to the restriction by respective PRC land regulations, the transfer of land use right pursuant to an assets transfer plan entered into by the Company and Yihua Group in 2001 could not be finalised. By mutual agreement, the transfer of aforementioned land use right was canceled and those land use right with cost of RMB131,398 thousand was reclassified as receivables due from Yihua Group and Yihua Group agreed to pay a compensation amounted to RMB7,400 thousand to the Company.

(b) The Company sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Company and Sinopec Corp. dated 12 September 2014.

(c) As mentioned in Note V(11), in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of severe over-capacity in the industry and lack of competitiveness in terms of production cost of the Company's 1, 4-butanediol product in current market due to high price of raw materials, the Company assessed the recoverable amount of assets group of its 1, 4-butanediol business as at 30 June 2014 and made provision for assets impairment accordingly. Considering the production of 1, 4-butanediol will not be resumed in the foreseeable future, the Company made a full provision of RMB 178,575 thousand against the patents that are used in the production of 1, 4-butanediol.

As at 31 December 2014 and 31 December 2013, the above intangible assets were not pledged.

For the year ended 31 December 2014, amortisation of intangible assets amounted to RMB 7,724 thousand (2013: 25,282 thousand), were included in profit and loss.

12. Long-term deferred expenses

Items	At 31 December 2013	Increase in the year	Decrease in the year		At 31 December 2014
			Amortisation in the year	Other decreases	
Long-acting catalysts	135,503		135,503	—	—
Total	135,503	—	135,503	—	—

As at 31 December 2013, the long-term prepaid expenses represent the long-acting catalysts for production equipment and are amortized according to useful life specified in its technical specification.

As mentioned in Note V(11), in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of severe over-capacity in the industry and lack of competitiveness in terms of production cost of the Company's 1, 4-butanediol product in current market due to high price of raw materials, the Company assessed the recoverable amount of the assets group of its 1, 4-butanediol business assets group including fixed assets, intangible assets and long-term prepaid expenses as at 30 June 2014. Considering the production of 1, 4-butanediol product will not be resumed in the foreseeable future and the catalyst already in the production facilities will lose its activity as time passes, the Company expensed all of the net book value of the catalyst amounting to RMB135,503 thousand in the six months period ended 30 June 2014.

13. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities without offsetting

	At 31 December 2014		At 31 December 2014	
Items	Deductible/taxable temporary differences	Deferred income tax assets/liabilities	Deductible/taxable temporary differences	Deferred income tax assets/liabilities
Deferred income tax assets				
Provision for impairment on assets and influence on depreciation on depreciation	—	—	259,956	64,989
Deferred income	—	—	28,309	7,077
Accrued expenses	—	—	5,174	1,293
Others	—	—	1,695	424
Subtotal	—	—	295,134	73,783

XIV. Notes to parent company's financial statements (Continued)

13. Deferred income tax assets and deferred income tax liabilities (Continued)

(2) Details of unrecognised deferred income tax assets of deductible temporary differences and tax losses:

The tax losses of the Company can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Company, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future.

Considering the large losses incurred in 2012-2014 annual and uncertainty of future market, management of the Company assess it is significantly uncertain whether the Company can make sufficient taxable income to utilise those tax losses and thus determine to write off the deferred income tax assets amounted to RMB73,783 thousand.

Tax losses that are not recognized as deferred tax assets are analysed as follows:

Items	At 31 December 2014	At 31 December 2013
Deductible temporary differences	—	—
Tax losses	3,125,193	1,926,032
Total	3,125,193	1,926,032

(3) Tax losses that are not recognized as deferred tax assets will be expired as follows:

Years	At 31 December 2014	At 31 December 2013	Note
2017	847,115	847,115	
2018	1,078,917	1,078,917	
2019	1,199,161	—	
Total	3,125,193	1,926,032	

14. Short-term loans

Items	Currency	At 31 December 2014	At 31 December 2013
Unsecured borrowings from related parties	RMB	—	700,000
Unsecured borrowings from third parties	RMB	—	720,000
	USD	—	182,907
Total		—	1,602,907

As at 31 December 2013, the interest rate range of short-term borrowings is 1.30%-5.32%.

As at 31 December 2014, the Company had no overdue short-term borrowings.

As at 31 December 2014, the unused facility of short-term borrowings is RMB 0 (31 December 2013:RMB550,000 thousand).

15. Notes payable

Category	At 31 December 2014	At 31 December 2013
Commercial acceptance bills	—	—
Bank acceptance bills	—	400,000
Total	—	400,000

As at 31 December 2014 and 2013, a bank deposit of RMB 0 and 20,000 thousand was pledged as collateral for the bills payable .

16. Accounts payable

Items	At 31 December 2014	At 31 December 2013
Accounts payable to related parties	—	488,661
Accounts payable to third parties	—	312,097
Total	—	800,758

As at 31 December 2014, no accounts payable with aging over 1 year with significant amount are included in the balance.

XIV. Notes to parent company's financial statements (Continued)

17. Advances from customers

Items	At 31 December 2014	At 31 December 2013
Payment for goods	—	310,086
Total	—	310,086

18. Employee benefits payable

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Short term employee benefits	2,246	915,338	917,584	—
Post-employment benefits		158,891	158,891	—
Termination benefits	—	—	—	—
Total	2,246	1,074,229	1,076,475	—

(1) Short term employee benefits

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Wages or salaries, bonuses, allowances and subsidies	—	625,014	625,014	—
Staff welfare	—	110,667	110,667	—
Social security contributions	—	72,472	72,472	—
Including: 1. Basic medical insurance	—	49,991	49,991	—
2. Supplementary medical insurance		17,770	17,770	—
3. Work-related injury insurance	—	4,710	4,710	—
4. Birth insurance	—	1	1	—
5. Other insurance	—	—	—	—
Housing funds	—	75,352	75,352	—
Labor union and employee education funds	2,184	20,839	23,023	—
Labour and service costs	—	—	—	—
Others	62	10,994	11,056	—
Total	2,246	915,338	917,584	—

(2) Post-employment benefits

Items	At 31 December 2013	Increase in the year	Decrease in the year	At 31 December 2014
Basic pension insurance	—	119,085	119,085	—
Unemployment insurance	—	30,875	30,875	—
Annuity	—	8,931	8,931	—
Total	—	158,891	158,891	—

The in-service employees of the Group are subject to basic pension and medical insurance, which are extracted and paid according to regulated rates and set up and governed by local government. In addition, the Company provides a supplementary defined contribution retirement plan for its employees at rates not exceeding 5% of their salaries. Employees who have served the Company for more than one year may participate in this plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Company has no other material obligation for the payment of pension benefits associated with the basic and supplementary pension plans beyond the annual contributions described above.

XIV. Notes to parent company's financial statements (Continued)

19. Tax payables

Items	At 31 December 2014	At 31 December 2013
Individual income tax	—	3,817
Land use tax payable	—	4,266
Property tax payable	—	3,468
Business tax	—	19
Total	—	11,570

20. Interest payable

Items	At 31 December 2014	At 31 December 2013
Interest payable of short term loan	—	2,793
Total	—	2,793

21. Other payables

Items	At 31 December 2014	At 31 December 2013
Payables for construction and equipment	—	311,699
The net profit or loss during the reorganization	1,479,207	—
Others	39,000	62,448
Total	1,518,207	374,147

As at 31 December 2014, other payables with aging over 1 year with a carrying amount of RMB 0 (31 December 2012: RMB 74,764 thousand) are mainly payables for construction projects within guarantee period, which are unsettled.

22. Deferred income

Items	At 31 December 2013	Increase for the period	Decrease by transferring to income	Decrease by selling of a business	At 31 December 2014
Government grants related to assets	26,309	1,000	1,945	25,364	—
Government grants related to income	2,000	—	—	2,000	—
Total	28,309	1,000	1,945	27,364	—

Including: Details of deferred income – Government grants

Government grants projects	At 31 December 2013	Increase in current year	Recognised in non-operating income in current year	Decrease by selling of a business	At 31 December 2014	Related to assets/income
Environmental protection projects funding	6,584	—	611	5,973	—	Related to assets
Special equipment asset allocation	10,625	1,000	1,183	10,442	—	Related to assets
Research and development projects funding	6,000	—	—	6,000	—	Related to assets
Other government grants	3,100	—	151	2,949	—	Related to assets
Technology development funding	2,000	—	—	2,000	—	Related to income
Total	28,309	1,000	1,945	27,364	—	

XIV. Notes to parent company's financial statements (Continued)

23. Share capital(Unit: thousand shares)

At 31 December 2014

Items	At 1 January 2014	Changes in current(+、-) Issued shares	Write off Repurchase of shares	Subtotal	At 31 December 2014
Domestic non-public legal person shares	3,450,000	9,224,328	-2,415,000	6,809,328	10,259,328
Social public A shares	450,000	—	—	—	450,000
H share	2,100,000	—	—	—	2,100,000
Total	6,000,000	9,224,328	-2,415,000	6,809,328	12,809,328

As mentioned in Note I, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those no circulating shares without trading and transferring within 12 months since they obtains the circulating right. After the maturity of the restriction period, Sinopec Corp. and CITIC Limited can trade those non-circulating shares up to 5% of the Company's total shares within 12 months and 10% within 24 months. As at 31 December 2014, all shares held by original non-circulating shareholders have not been available for trading.

Pursuant to the resolution of the Company's First Extraordinary General Meeting and 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) issued by China Securities Regulatory Committee, the company would sell all of the assets and liabilities to Sinopec Corp. and repurchase the Repurchased Shares(a total of 2,415,000,000 A Shares)form Sinopec Corp. for cancellation. On the even date, the Company would issue the Consideration Shares (a total of 9,224,327,662 A Shares) to Sinopec Group in order to acquire 100% equity interest of held by Sinopec Group. The registration of shares change was completed on 31 December 2014 and has been verified by Grant Thornton China pursuant to the capital verification report (GT Yan Zi (2014) No.110ZC0383).

At 31 December 2013:

Items	At 1 January 2013	Changes in current(+、-) Convert capital reserve into share capital	Others	Subtotal	At 31 December 2013
Domestic non-public legal person shares	2,400,000	1,050,000	—	—	3,450,000
Social public A shares	200,000	250,000	—	—	450,000
H share	1,400,000	700,000	—	—	2,100,000
Total	4,000,000	2,000,000	—	—	6,000,000

Pursuant to approved A Share Reform Scheme, the Company is allowed to convert 5 shares for each 10 shares from capital surplus into share capital. The conversion of 2,000,000,000 share was completed on 22 November 2013 and has been verified by PricewaterhouseCoopers Zhong Tian LLP pursuant to the capital verification report (PwC ZT Yan Zi (2014) No. 138).

XIV. Notes to parent company's financial statements (Continued)

24. Capital reserve

At 31 December 2014:

Items	At 1 January 2014	Increase for the period	Decrease for the period	At 31 December 2014
Share premium	1,078,825	5,985,340	—	7,064,165
Other capital reserve	67,969	—	—	67,969
Total	1,146,794	5,985,340	—	7,132,134

The company sold all of the assets and liabilities to Sinopec Corp., repurchased the Repurchased Shares(a total of 2,415,000,000 A Shares)form Sinopec Corp. for cancellation and issued the Consideration Shares to Sinopec Group in order to acquire 100% equity interest of (details of the acquisition refer to NoteVI.1).

According to the business combination under common control acquired 100% share of, the initial investment cost is recognized as the carrying amount of acquiree's net assets at acquisition date. The share premium increased 9,872,096 thousand due to the difference between the payment of shares and initial investment cost, decreased 3,886,756 thousand due to the difference between repurchase of shares and payment of the price. The net increase in share premium is 5,985,340 thousand.

At 31 December 2013:

Items	At 1 January 2014	Increase for the period	Decrease for the period	At 31 December 2014
Share premium	3,078,825	—	2,000,000	1,078,825
Other capital reserve	67,969	—	—	67,969
Total	3,146,794	—	2,000,000	1,146,794

25. Special reserve

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014
Special reserve	1,447	917	2,364	—
Total	1,447	917	2,364	—

In accordance with PRC regulations, the Company appropriated production safety fund of RMB 917 thousand to specific reserve for the year ended 31 December 2014 (2013: RMB1,728 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2014, the Company utilised production safety fund amounting to RMB 970 thousand (2013: RMB 361 thousand) which was of expenditure nature. The special reserve decrease by 1,394 thousand at 31 December 2014 due to the assets and liabilities sold.

26. Surplus reserve

Items	At 31 December 2013	Increase for the period	Decrease for the period	At 31 December 2014
Statutory surplus reserve	200,383	—	—	200,383
Total	200,383	—	—	200,383

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities

XIV. Notes to parent company's financial statements (Continued)

27. Retained earnings

Items	2014	2013	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	-252,136	1,202,081	—
Add: Net profit attributable to parent company	-1,192,589	-1,454,217	--
Less: Withdrawal of statutory surplus reserves	—	—	10%
Retained earnings at the end of the year	-1,444,725	-252,136	—

28. Revenue and Operating cost

	2014		2013	
Items	Revenue	Cost	Revenue	Cost
Major business	15,083,301	15,189,058	17,276,802	17,430,006
Other business	404,425	368,069	400,369	335,538
Total	15,487,726	15,557,127	17,677,171	17,765,544

The Company is engaged in chemical fibre. Analysis by products is as follows:

(1) Major business

	2014		2013	
Industry	Revenue	Cost	Revenue	Cost
PET chip	5,594,940	5,669,555	6,254,560	6,339,728
Bottle-grade polyester chips	2,875,749	2,849,471	3,676,645	3,629,612
Staple fibre and hollow fibre	6,268,957	6,106,781	6,419,934	6,353,812
Filament	162,376	223,161	673,583	825,982
Others	181,279	340,090	252,080	280,872
Total	15,083,301	15,189,058	17,276,802	17,430,006

(2) Business revenue (Classified by area)

Area	2014	2013
Mainland China	14,607,141	16,666,460
Hong Kong, Macao, Taiwan and other countries	476,160	610,342
Total	15,083,301	17,276,802

29.Business tax and surcharges

Items	2014	2013
Business tax	466	77
Urban maintenance and construction tax	8,295	42
Education surtax	5,926	31
Total	14,687	150

Notes: The provision and payment standards of business tax and surcharges refer to Note IV.Taxation.

30. Selling expenses

Items	2014	2013
Freight	182,318	168,939
Commission fee	22,330	31,736
Others	25,534	25,986
Total	230,182	226,661

XIV. Notes to parent company's financial statements (Continued)

31. General and administrative expenses

Items	2014	2013
Repair and maintenance	255,739	328,704
Staff costs	308,631	288,874
Community service fee	41,126	41,058
Taxes	39,254	37,156
Research and development expenses	33,572	37,258
Depreciation and amortization	28,432	27,297
Others	154,224	88,108
Total	860,978	848,455

32. Finance costs

Items	2014	2013
Interest expenses	85,115	60,043
Less: Interest income	51,078	47,059
Exchange losses/(gains) - net	363	-10,096
Bank and other charges	2,403	2,348
Total	36,803	5,236

The Company's interest expenses are bank loan interest repayable within five years.

33. Impairment losses on assets

Items	2014	2013
(1) Provision for bad debts	—	-67
(2) Provision for decline in the value of inventories	12,837	6,854
(3) Impairment losses on fixed assets	845,949	—
(4) Impairment losses on intangible assets	178,575	—
Total	1,037,361	6,787

34. Investment income

Items	2014	2013
Investment income from long-term equity investments under equity method	168	31

35. Non-operating income

(1) Breakdown of non-operating income

Items	2014	2013	Recognised as non-recurring income
Total gains from disposal of non-current assets	1,145,989	782	1,145,989
Including:Gains from disposal of fixed assets	848	782	848
Others(a)	1,145,141	—	1,145,141
Government grants	2,466	3,770	2,466
Others	10,557	3,998	10,557
Total	1,159,012	8,550	1,159,012

(a) The Company sold all the assets and liabilities of the fiber business to Sinopec Corp. in 2014 December in accordance with the assets disposal agreement between the Company and Sinopec Corp. dated 12 September 2014.The non-operating income increased 1,145,141 thousand according to the difference between transfer price and carrying amount of net assets.

XIV. Notes to parent company's financial statements (Continued)

35. Non-operating income (Continued)

(2) Breakdown of government grants

Items	2014	2013	Related to assets/income
Environmental protection projects funding	611	395	Related to assets
Special equipment asset allocation	1,183	929	Related to assets
Other government grants related to assets	151	—	Related to assets
National research	—	2,228	Related to income
Other government grants related to income	521	218	Related to income
Total	2,466	3,770	

36. Non-operating expenses

Items	2014	2013	Recognised as non-recurring income
Loss on disposal of non-current assets	6,477	22,766	6,477
Including:Loss on disposal of fixed assets	6,477	22,766	6,477
Others	22,097	25,820	22,097
Total	28,574	48,586	28,574

37. Income tax expense

(1) Details of income taxes expenses

Items	2014	2013
Current tax in accordance with tax laws and related regulations	—	294
Deferred income tax	73,783	238,256
Total	73,783	238,550

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Items	2014	2013
Profit before income tax	-1,118,806	-1,215,667
Taxation calculated at the statutory tax rate	-279,702	-303,917
Adjustments of current tax in previous years	—	294
Equity method accounting for the joint venture and associates' profit or loss	-42	—
Non-deductible expenses	864	63,207
Effect of utilization of unrecognised tax losses and deductible temporary differences	73,783	209,237
Effect of unrecognised tax losses and deductible temporary differences	281,878	269,729
Others	-2,998	—
Income tax expense	73,783	238,550

XIV. Notes to parent company's financial statements (Continued)

38. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	2014	2013
Return of prepaid corporate income tax	—	141,376
Others	14,022	22,048
Total	14,022	163,424

(2) Cash paid for other operating activities

Items	2014	2013
Freight	182,318	169,332
Commission fee	22,330	31,736
Community service fee	41,126	41,058
Technology development fee	33,572	37,258
Others	114,601	152,875
Total	393,947	432,259

(3) Cash received from other investing activities

Items	2014	2013
Interest of bank deposits	2,656	3,163
Collection of time deposits	20,000	20,000
Others	8,457	11,653
Total	31,113	34,816

(4) Cash paid for other investing activities

Items	2014	2013
Payment of time deposit	—	40,000
Disposal of Outgoing Business	71,933	—
Total	71,933	40,000

(5) Cash received from other financing activities

Items	2014	2013
Temporary borrowings	800,000	—

XIV. Notes to parent company's financial statements (Continued)

39. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information		2014	2013
1.	Reconciliation of net profits to cash flows from operating activities:		
	Net profit	-1,192,588	-1,454,219
	Add: Provision for impairment losses on assets	1,037,361	6,787
	Depreciation of fixed assets	472,236	436,330
	Amortization of intangible assets	7,723	25,282
	Amortization of long-term deferred expenses	135,503	16,844
	Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	5,628	21,984
	Losses on retirement of fixed assets (Gain as in "-")	—	—
	Fair value losses (Gain as in "-")	—	—
	Finance costs (Income as in "-")	73,228	55,554
	Investment losses(Income as in "-")	-168	-31
	Decrease in deferred tax income assets (Increase as in "-")	73,783	238,256
	Increase in deferred income tax liabilities (Decrease as in "-")	—	—
	Decrease in inventories (Increase as in "-")	225,108	408,237
	Decrease in operating receivables (Increase as in "-")	413,611	-604,840
	Increase in operating payables (Decrease as in "-")	-1,449,989	-224,836
	Others	-1,446	1,367
	Net cash flows from operating activities	-200,010	-1,073,285
2.	Significant investment or finance activities not involving cash:		
	Transfer of assets to Sinopec Group	—	—
	Revaluation gains	—	—
	Fixed assets acquired under finance leases	—	—
3.	Net changes in cash and cash equivalents:		
	Closing balance of cash	—	85,797
	Less: Opening balance of cash	85,797	162,027
	Add: Closing balance of cash equivalents	—	—
	Less: Opening balance of cash equivalents	—	—
	Net decrease/(increase) in cash and cash equivalents	-85,797	-76,230

(2) Composition of cash and cash equivalents

Items		2014	2013
1.	Cash	—	—
	Including: Cash in hand	—	27
	Cash at bank	—	85,770
	Other monetary funds	—	85,797
2.	Restricted cash	—	20,000
3.	Closing balance of cash and cash equivalents	—	105,797

XV. Supplementary information

1. Details of non-recurring gains or losses

Items	2014	Note
Gain or loss on disposal of non-current assets	1,139,513	Note(1)
Government grants recognised in profit or loss for the year/period	2,466	—
the net profit or loss of subsidiaries formed by business combination under common control from the beginning of the year to the acquisition date	2,424,556	Note(2)
Non-operating income/(expenses) except the above	-11,540	—
Total non-recurring gains or losses	3,554,995	—
Less: Effects of income tax on non-recurring gains or losses	—	—
Net non-recurring gains or losses	3,554,995	—
Less: Effects of non-recurring gains or losses attributable to the minority shareholders of the Company (after tax)	2,215	—
Non-recurring gains or losses attributable to the shareholders of the Company	3,552,780	—

Notes:
(1) The gain or loss on disposal of non-current assets mostly generated by selling all of the assets and liabilities of fiber business to Sinopec Corp.
(2) It is the 's net profit or loss from the beginning of the year to the acquisition date purchased by issuing A shares to Sinopec Group.

2. Return on net assets and earnings/(loss) per share

Profit of reporting period	Weighted average return on net assets%	Earnings/(loss) per share	
		Basic earnings/(loss)	Diluted earnings/(loss)
		(Yuan/share)	(Yuan/share)
Net loss attributable to the Company's ordinary equity shareholders	4.98	0.08	0.08
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-39.06	-0.39	-0.39

Earnings per share	2014	2013
Net loss attributable to the Company's ordinary equity shareholders	**1,229,753**	61,216
Including: Net profit of continuing operations	**2,383,343**	1,515,433
Net profit of discontinued operations	**-1,153,590**	-1,454,217
Basic earnings per share	**0.08**	0.004
Including: Basic earnings per share of continuing operations	**0.16**	0.10
Basic earnings per share of discontinued operations	**-0.08**	-0.096
Diluted earnings per share	—	—
Including: Diluted earnings per share of continuing operations	—	—
Diluted earnings per share of discontinued operations	—	—

The situation of discontinued operations refer to Note XIII.4

3. Differences between local and overseas accounting standards

(1) Reconciliation of differences between CASBE and IFRS financial statements

	Net profit		Net assets	
	2014	2013	2014	2013
Based on CASBE	**1,231,967**	88,875	**18,696,138**	30,766,232
Adjusted items and amounts in accordance with IFRS:	—	—	—	—
Government grants	**33,023**	2,831	—	-33,023
Specific reserve	**-5,469**	-49,079	—	—
Based on IFRS	**1,259,522**	42,627	**18,696,138**	30,733,209

XV. Supplementary information (Continued)

3. Differences between local and overseas accounting standards (Continued)

(2) Note:

(a) Government grants

Under PRC GAAP, grants from government that are credited to capital reserve according to relevant regulation cannot be included in deferred income. Under IFRS, the government grants related to assets are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the assets.

This variance makes net income in financial statement prepared under IFRS an increase of 2831 thousand yuan than the net income in financial statement prepared under CASBE;At assets closing date, outgoing business's net assets in financial statement prepared in accordance with CASBE has a difference in amount of 30,193 thousand yuan with the net assets in financial statement prepared compliance with IFRS, as all the assets and liabilities of outgoing business transferred to Sinopec corp., the unamortized government grants forms 30,193 thousand yuan transfer income according to IFRS.

(b) Specific reserve

In accordance to CASBE, provision of safety fund according to the PRC regulation is recognised to the profit or loss in the current period and at the same time included in the "special reserve" account. When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognised as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods. According to IFRSs, expenditure in cost nature is recognised in the profit or loss and expenditure in capital nature is recognised as fixed assets when incurred and depreciate in the corresponding depreciation method.

4. Supplementary information of changes in accounting policies

The related accounting policies are changed and the comparative statements are retrospective restated according to the eight revised accounting standards of "CASBE 2-Long-term equity investments", etc issued by the MOF in 2014.The restatement balance sheets at 1 January 2013, 31 December 2013 and 31 December 2014 are as follows:

Items	At 1 January 2013	At 31 December 2013	At 31 December 2014
Current assets:			
Cash at bank and on hand	3,938,770	1,727,786	1,213,897
Notes receivable	2,143,269	2,744,179	219,506
Accounts receivable	14,568,000	25,681,568	28,064,935
Prepayments	595,721	776,419	660,271
Other receivables	6,024,841	2,686,338	2,215,132
Inventories	15,689,253	13,869,328	11,932,142
Non-current assets due within one year	1,446,550	1,317,592	1,350,742
Other current assets	390,136	339,793	168,076
Total current assets	44,796,540	49,143,003	45,824,701
Non-current assets:			
Available-for-sale financial assets	44,494	41,494	40,494
Long-term equity investments	599,430	599,464	107,999
Fixed assets	32,009,197	34,903,818	29,693,146
Construction in progress	3,546,608	3,683,066	1,387,284
Disposal of fixed assets	1,867	1,520	3,175
Intangible assets	401,357	378,074	92,351
Research and development expenditure	—	1,085	—
Long-term deferred expenses	4,269,571	3,764,770	3,989,879
Deferred income tax assets	420,266	220,375	156,679
Other non-current assets	—	—	—
Total non-current assets	41,292,790	43,593,666	35,471,007
Total assets	86,089,330	92,736,669	81,295,708

XV. Supplementary information (Continued)

4. Supplementary information of changes in accounting policies (Continued)

Items	At 1 January 2013	At 31 December 2013	At 31 December 2014
Current liabilities:			
Short-term loans	18,562,330	16,017,666	11,889,709
Notes payable	—	1,141,591	856,442
Accounts payable	22,914,737	30,604,771	30,057,165
Advances from customers	6,488,288	7,257,997	8,417,168
Employee benefits payable	943,198	487,456	288,285
Tax payables	1,622,413	2,564,065	2,955,778
Interest payables	733	33,907	20,028
Other payables	4,457,343	3,001,164	7,327,469
Non-current liabilities due within one year	—	200,000	125,870
Other current liabilities	54,989,042	61,308,617	61,937,914
Non-current liabilities:			
Long-term loans	650,000	580,000	498,723
Long-term payables	—	—	69,440
Specific payable	6,821	7,380	2,647
Deferred income tax liabilities	69,286	69,588	43,951
Other non-current liabilities	—	4,852	46,895
Total non-current liabilities	726,107	661,820	661,656
Total liabilities	55,715,149	61,970,437	62,599,570
Share capital	4,000,000	6,000,000	12,809,328
Capital reserve	24,207,486	23,318,202	4,275,032
Special reserve	351,511	302,429	295,568
Surplus reserve	200,383	200,383	200,383
Retained earnings	1,537,086	860,280	1,116,809
Equity attributable to the owners of parent company	30,296,466	30,681,294	18,697,120
Minority interests	77,715	84,938	-982
Total equity	30,374,181	30,766,232	18,696,138
Total liabilities and equity	86,089,330	92,736,669	81,295,708

Sinopec Oilfield Service Corporation

24 March, 2015

Grant Thornton
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Independent Auditor's Report

To the Shareholders of Sinopec Oilfield Service Corporation

(Formerly known as Sinopec Yizheng Chemical Fibre Company Limited)

(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (Formerly known as Sinopec Yizheng Chemical Fibre Company Limited) (the "Company") and its subsidiaries (together the "Group") set out on pages 165 and 225, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of the Group's financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

24 March 2015

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000 Restated
Continuing operations:			
Revenue	4	78,993,315	89,729,072
Operating cost and business taxes		(70,675,350)	(82,396,884)
Gross profit		8,317,965	7,332,188
Selling expenses		(82,198)	(94,717)
General and administrative expenses		(4,506,911)	(4,493,485)
Finance income/(expenses) - net	6	(769,762)	(822,696)
Impairment losses on assets	7	(98,050)	(136,261)
Investment income	8	2,050	2,240
Share of (loss)/profit from joint ventures	21(a)	(3,877)	24
Operating profit		2,859,217	1,787,293
Other income	9	551,036	455,158
Other expenses	10	(90,181)	(62,455)
Profit before income tax	11	3,320,072	2,179,996
Income tax expense	12	(900,930)	(687,350)
Profit for the year from continuing operations		2,419,142	1,492,646
Discontinued operations:			
Loss for the year from discontinued operations	13	(1,159,620)	(1,450,019)
Profit for the year		1,259,522	42,627
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		1,259,522	42,627
Total comprehensive income for the year attributable to :			
Owners of the Company			
– Continuing operations		2,416,928	1,464,987
– Discontinued operations		(1,159,620)	(1,450,019)
		1,257,308	14,968
Non-controlling interests			
– Continuing operations		2,214	27,659
– Discontinued operations		—	—
		2,214	27,659
Total comprehensive income for the year		1,259,522	42,627
		RMB	RMB Restated
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company (presented in RMB per share)	14		
Basic and diluted			
– Continuing operations		0.159	0.096
– Discontinued operations		(0.076)	(0.095)
		0.083	0.001

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000 Restated	As at 1 January 2013 RMB'000 Restated
Assets				
Non-current assets				
Property, plant and equipment	18	31,080,430	38,730,269	35,580,486
Other non-current assets		5,285,204	4,922,244	5,688,792
Prepaid land leases	19	51,107	339,238	342,786
Intangible assets	20	41,243	30,956	33,889
Interests in joint ventures	21(a)	107,871	599,337	599,303
Interests in associates	21(b)	128	128	128
Available-for-sale financial assets	22	40,494	41,494	44,494
Deferred income tax assets	37	156,679	220,375	420,266
Total non-current assets		36,763,156	44,884,041	42,710,144
Current assets				
Inventories	26	1,950,590	3,220,574	3,642,280
Notes and trade receivables	23	28,284,441	28,425,747	16,711,268
Prepayment and other receivables	24	3,102,072	3,829,767	7,039,894
Amounts due from customers for contract works	25	9,981,552	10,648,754	12,046,972
Restricted cash	27	12,143	33,692	18,402
Cash and cash equivalents	28	1,201,754	1,694,094	3,920,368
Total current assets		44,532,552	47,852,628	43,379,184
Total assets		81,295,708	92,736,669	86,089,328
Equity				
Share capital	29	12,809,328	6,000,000	4,000,000
Reserves	31	5,887,792	24,648,271	26,260,608
Equity attributable to owners of the Company		18,697,120	30,648,271	30,260,608
Non-controlling interests		(982)	84,938	77,715
Total equity		18,696,138	30,733,209	30,338,323
Liabilities				
Non-current liabilities				
Long term borrowings	36	568,163	580,000	650,000
Deferred income	32	43,951	102,612	105,141
Special payables	33	2,647	7,380	6,821
Deferred income tax liabilities	37	46,895	4,852	—
Total non-current liabilities		661,656	694,844	761,962
Current liabilities				
Notes and trade payables	34	30,913,607	31,746,363	22,914,737
Deposits received and other payables	35	12,012,183	8,064,011	9,734,603
Amounts due to customers for contract works	25	6,564,119	5,130,579	3,667,431
Short term borrowings	36	12,015,579	16,217,666	18,562,330
Current income tax payable		432,426	149,997	109,942
Total current liabilities		61,937,914	61,308,616	54,989,043
Total liabilities		62,599,570	62,003,460	55,751,005
Total equity and liabilities		81,295,708	92,736,669	86,089,328
Net current liabilities		(17,405,362)	(13,455,988)	(11,609,859)
Total assets less current liabilities		19,357,794	31,428,053	31,100,285

The accompanying consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 March 2015.

Chairman of the Board:
JIAO Fangzheng

Vice Chairman and General Manager:
ZHU Ping

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 (Note 29)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013, as previously reported	4,000,000	2,518,833	28,339	200,383	80	1,765,848	8,513,483	—	8,513,483
Business combinations under common control (Note 1.3)	—	21,620,684	39,630	—	351,431	(264,620)	21,747,125	77,715	21,824,840
Balance at 1 January 2013, restated	4,000,000	24,139,517	67,969	200,383	351,511	1,501,228	30,260,608	77,715	30,338,323
Total comprehensive income	—	—	—	—	—	14,968	14,968	27,659	42,627
Transactions with owners:									
Share premium converted into share capital	2,000,000	(2,000,000)	—	—	—	—	—	—	—
Acquisition of non-controlling interests of subsidiaries	—	485	—	—	—	—	485	—	485
Capital contribution from Sinopec Group	—	1,110,231	—	—	—	—	1,110, 231	—	1,110, 231
Distributions to Sinopec Group and non-controlling interests	—	—	—	—	—	(738,021)	(738,021)	(20,436)	(758,457)
Appropriation of specific reserve	—	—	—	—	1,453,719	(1,453,719)	—	—	—
Utilisation of specific reserve	—	—	—	—	(1,502,801)	1,502,801	—	—	—
Total transactions with owners	2,000,000	(889,284)	—	—	(49,082)	(688,939)	372,695	(20,436)	352,259
Balance at 31 December 2013	6,000,000	23,250,233	67,969	200,383	302,429	827,257	30,648,271	84,938	30,733,209
Balance at 1 January 2014, as previously reported	**6,000,000**	**518,833**	**28,339**	**200,383**	**1,447**	**314,462**	**7,063,464**	**—**	**7,063,464**
Business combinations under common control (Note 1.3)	**—**	**22,731,400**	**39,630**	**—**	**300,982**	**512,795**	**23,584,807**	**84,938**	**23,669,745**
Balance at 1 January 2014, restated	**6,000,000**	**23,250,233**	**67,969**	**200,383**	**302,429**	**827,257**	**30,648,271**	**84,938**	**30,733,209**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**1,257,308**	**1,257,308**	**2,214**	**1,259,522**
Transactions with owners:									
Assets injection from Sinopec Group	**—**	**163,556**	**—**	**—**	**—**	**—**	**163,556**	**—**	**163,556**
Distributions to Sinopec Group and non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(17,081)**	**(17,081)**	**(88,134)**	**(105,215)**
Equity adjustment of subsidiaries upon transformation	**—**	**956,144**	**—**	**—**	**—**	**(956,144)**	**—**	**—**	**—**
Return of capital to Sinopec Group	**—**	**(5,932,883)**	**—**	**—**	**—**	**—**	**(5,932,883)**	**—**	**(5,932,883)**
Repurchases of share capital (Note 47)	**(2,415,000)**	**(3,886,756)**	**—**	**—**	**(1,392)**	**—**	**(6,303,148)**	**—**	**(6,303,148)**
Issued of share capital (Note 45)	**9,224,328**	**10,990,999**	**—**	**—**	**—**	**—**	**20,215,327**	**—**	**20, 215,327**
Payment to Sinopec Group for the increment of net carrying amounts of SOSC (Note 45)	**—**	**(1,118,903)**	**—**	**—**	**—**	**—**	**(1,118,903)**	**—**	**(1,118,903)**
Adjustment for business combination under common control	**—**	**(20,215,327)**	**—**	**—**	**—**	**—**	**(20,215,327)**	**—**	**(20,215,317)**
Appropriation of specific reserve	**—**	**—**	**—**	**—**	**1,251,650**	**(1,251,650)**	**—**	**—**	**—**
Utilisation of specific reserve	**—**	**—**	**—**	**—**	**(1,257,119)**	**1,257,119**	**—**	**—**	**—**
Total transactions with owners	**6,809,328**	**(19,043,170)**	**—**	**—**	**(6,861)**	**(967,756)**	**(13,208,459)**	**(88,134)**	**(13,296,593)**
Balance at 31 December 2014	**12,809,328**	**4,207,063**	**67,969**	**200,383**	**295,568**	**1,116,809**	**18,697,120**	**(982)**	**18,696,138**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000 Restated
Cash flows from operating activities			
Cash flows from operations	39	5,136,021	1,857,708
Income tax paid		(634,661)	(685,954)
Net cash generated from operating activities		4,501,360	1,171,754
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,467,629)	(7,264,930)
Purchases of prepaid land leases		—	(7,728)
Purchases of intangible assets		(22,760)	—
Addition investments in joint ventures		(97,254)	—
Disposal of Outgoing Business	46	(71,933)	—
Dividends received from joint ventures		24	21
Borrowings received		168,651	135,000
Interests received		12,542	18,404
Investments income received from the available-for-sale financial assets		2,050	2,240
Acquisitions of non-controlling interests of subsidiaries		(52,512)	485
Net cash used in investing activities		(2,528,821)	(7,116,508)
Cash flows from financing activities			
Repayments of borrowings		(2,383,924)	(2,414,664)
Interests paid		(543,535)	(765,446)
Capital contributions from Sinopec Group		—	1,110,231
Receipt of funds from restructuring and business combinations		503,683	6,546,816
Distributions to Sinopec Group and non-controlling interests		(41,103)	(758,457)
Net cash (used in)/generated from financing activities		(2,464,879)	3,718,480
Net decrease in cash and cash equivalents		(492,340)	(2,226,274)
Cash and cash equivalents at beginning of year		1,694,094	3,920,368
Cash and cash equivalents at ending of year	28	1,201,754	1,694,094

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1 General information, the Reorganisation and basis of presentation

1.1 General information and the Reorganisation

Sinopec Oilfield Service Corporation (the "Company") is a joint stock company with limited liability established in the People's Republic of China (the ''PRC''). The headquarter registered address is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation with effect from 20 March 2015.

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the 'Sinopec Group'').

Originally, the Company and its subsidiaries (hereinafter referred to as the 'Group'') are principally engaged in the production and sale of chemical fiber and chemical fiber raw materials in the PRC (the "Fibre Business").

At the end of December 2014, the Company completed the material assets reorganisation by using of all its assets and liabilities at that time (hereinafter referred to as the "Outgoing Business") as consideration, to repurchase and then cancel the shares held by China Petroleum & Chemical Corporation ("Sinopec Corp."). At the same time, the Company acquired 100% equity interest of 中石化石油工程技術服務有限公司 ("SOSC") from Sinopec Group, which was satisfied by the issuance of shares to Sinopec Group (hereinafter collectively referred to as the "Reorganisation").

Upon completion of the Reorganisation, the principal activities of the Group changed to the provision of onshore and offshore oil, natural gas and other mineral prospecting, exploration, drilling and exploitation and provision of general contracting, design and construction services for the oil and gas and other types of construction projects (the "Oilfield Business").

1.2 General information of SOSC and SOSC Specialisation Restructuring

SOSC's predecessor is the petroleum engineering business of Sinopec Group. In May 2012, Sinopec Group founded SOSC and transferred to SOSC, at nil consideration, the assets, debts and rights to debts of Oil Engineering Administration Division (excluding field administrative functions and staff), Sinopec International Petroleum Service Corporation, Sinopec Shanghai Offshore Petroleum Bureau and oil engineering businesses as organisationally self-contained level II entities under its oilfield subsidiaries, as well as the oil engineering-related assets of Sinopec Corp. (hereinafter referred to as ''SOSC Specialisation Restructuring''). SOSC was founded on 28 June 2012 with a registered capital of RMB 1 billion and Sinopec Group as its sole shareholder.

In November 2012, SOSC increased its registered capital to RMB 4 billion.

At the end of 2012, SOSC formed eight regional petroleum engineering and technical services companies (including Shengli Oil Development Co., Ltd.), three professional companies (including Sinopec Geophysical Corporation), and changed the investor of Sinopec International Petroleum Service Corporation and Sinopec Shanghai Offshore Petroleum Bureau from Sinopec Group to SOSC.

In 2014, Sinopec Group transferred to Sinopec Ocean Exploration Corporation, at nil consideration, the marine engineering business, assets and debts of Sinopec Shanghai Offshore Petroleum Bureau, which was transformed to a one-person company with limited liability ''Sinopec Offshore Oil Engineering Co., Ltd.'' with its appraised net asset value as registered capital, and the investor of which was changed from Sinopec Group to SOSC.

1.3 Basis of presentation

Immediate before the Reorganisation and SOSC Specialisation Restructuring, SOSC is a wholly-owned subsidiary of Sinopec Group. Immediate before and after the Reorganisation, the ultimate holding company of the Company is Sinopec Group. Since immediate before and after the Reorganisation, both of the Company and SOSC are under common control of Sinopec Group and the control is not transitory, the Reorganisation is accounted for as a business combination under common control.

The operating results of SOSC have been included in the consolidated statement of comprehensive income as set out in the financial statements, as if SOSC existed in the Group since 1 January 2013 and remains unchanged throughout the period. Comparative information as set in the financial statements including the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for year 2013 has been restated accordingly.

As the Reorganisation has been completed on 30 December 2014, the consolidated statement of financial position as at 31 December 2014 as set out in the financial statements has included the financial position of SOSC and excluded the Outgoing Business.

Comparative information in consolidated statement of financial position as at 31 December 2013 has been restated to reflect as if SOSC existed in the Group at that date.

In the consolidated statement of comprehensive income, the Oilfield Business was classified as "continuing operations" and the Fibre Business was classified as "discontinued operations".

As at 31 December 2014, the Group's has net current liabilities of approximately RMB 17,405,362,000 (2013: RMB 13,455,988,000). Having taken into account of historical operating cash inflows over the past years, expected operating cash inflows in the next twelve months, and most of the Group's borrowings were sourced from Sinopec Group and its subsidiaries, where the Group ongoing maintained good relationship with these companies, which enable the Group to secure sufficient financial support from these companies. After the Reorganisation, in order to obtain sufficient credits facilities, the Company will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. On 13 February 2015, the Company issued 1,333,333,333 A shares to seven nominated investors and raised net funds of approximately RMB 5,952,517,000. After the issuance, the Group's total assets and net assets increased and the liability-asset ratio, decreased which also enhanced the Group's risk resistance capacity. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

1 General information, the Reorganisation and basis of presentation (Continued)

1.4 Financial statements

These financial statements are presented in RMB, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

2.1 Basis of preparation

The financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) for this financial year and the comparative period, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 below.

(a) New and revised IFRS and interpretation ("New Standards") effective on 1 January 2014 and has been adopted by the Group

The IASB has issued a number of new and revised IFRS and interpretation. The Group has been adopted all these New Standards, which are first effective for the accounting periods beginning on or after 1 January 2014:

IFRIC 21	Levies
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets

The applications of above New Standards have no material impact on the amounts recognised in the Group's consolidated financial statements.

(b) New Standards not yet effective on 1 January 2014 and have not been adopted by the Group

A number of New Standards which are effective for annual periods beginning after 1 January 2014, have not been applied in preparing these consolidated financial statements.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
IAS 27 (2011 revised)	Separate Financial Statements - Equity Method[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
IFRS 9 (2014)	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[4]
IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
IFRS 10, 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[2]
IAS 1	Disclosure Initiative[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2017

There are no other IFRSs and IFRIC-Interpretation which are not yet effective expected to have significant impact to the Group.

2.2 Accounting for business combinations under common control and not under common control

(1) Business combination involving entities under common control

Presented in Note 1 for the disclosure of the Reorganisation and SOSC Specialisation Restructuring and the basis for presentation in Notes 1.3, for the business combinations involving entities under common control, the assets and liabilities that are obtained in a business combination shall be measured at their original carrying amounts at the date of combination as recorded by the party being combined, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination shall be adjusted to capital reserve/share premium, if the capital reserve/share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting for business combinations under common control and not under common control (Continued)

(2) Business combination involving entities not under common control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree are measured at their fair value.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and subsequently measured at costs less any accumulative impairment losses. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control through step acquisition

In the consolidation financial statements, the combination cost is the sum of consideration paid at acquisition date and fair value of the acquiree's equity investment held prior to acquisition date; the cost of equity of the acquiree held prior to acquisition date shall be re-measured at the fair value at acquisition date, the difference between the fair value and the carrying amount shall be recognised as investment income or loss for the current period. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

(3) Transaction fees attributed during the business combination

The intermediary and other relevant administrative expenses such as audit, legal and valuation advisory for business combinations are recognised in profit or loss when incurred. Transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amounts.

2.3 Basis of preparation of the consolidated financial statements

(1) Scope of consolidation

The scope of consolidation financial statements is on the basis of control. Control refers to the power over investee of the Group, exposure or rights to variable returns in participating in the investee's related activities and the ability to use the power to affect those variable returns. A subsidiary is the entity controlled by the Group (including severable part of the investee and the enterprise, structured body controlled by the enterprise, etc.)

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. The group's joint arrangement is divided into joint operation and joint venture.

(1) Joint operations

A joint operation is a joint arrangement whereby the group that has joint control of the arrangement has rights to the assets, and obligations for the liabilities.

A joint operator shall recognise in relation to its interest in a joint operation:

A. its assets, including its share of any assets held jointly;

B. its liabilities, including its share of any liabilities incurred jointly;

C. its revenue from the sale of its share of the output arising from the joint operation;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements (Continued)

(1) Scope of consolidation (Continued)

(1) Joint operations (Continued)

D. its share of the revenue from the sale of the output by the joint operation;

E. its expenses, including its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the group that has joint control of the arrangement has rights to the net assets of the arrangement.

The accounting treatment is in accordance with the provisions of long-term investment under equity method.

(2) Method of preparation of consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

A subsidiary acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation from the beginning of the combination date, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date.

Where a subsidiary has been acquired through a business combination involving entities not under common control, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date to the end of the reporting date.

The portion of a subsidiary's equity that is not attributable to the parent is treated as non-controlling interests and presented in the consolidated statement of financial position within shareholders' equity. The portion of a subsidiary's profit or loss that is attributable to the non-controlling interests presented in the consolidated statement of comprehensive income as "non-controlling interests". The portion of a subsidiary's losses that exceeds to the beginning non-controlling interests in the shareholders' equity, the remaining balance still reduces the non-controlling interests.

Transactions that acquire the non-controlling interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and non-controlling interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of non-controlling interests and the fair value of consideration paid/received shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

(3) Treatment of loss of control of subsidiaries

When there is a loss of control over investee because of disposing part of equity investment or other reasons, the remaining part of the equity investment should be re-measured at fair value at the date when losing control over the investee; the cash received in disposal of the equity investment and the fair value of remaining part of the equity investment, deducting net assets proportion calculated by original share percentage since the acquisition date should be recorded in profit or loss for current period of disposal.

Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

2.4 Segment reporting

The Group has identified several reportable segments based on the internal structure, management requirements and internal reporting policy. The segment information is prepared based on the financial information of the Company's daily management requirements, which are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's executive management reviews reportable segments' financial information regularly for the purposes of resources allocation and performance assessment.

2.5 Foreign currency transactions and translation of foreign currency statements

(1) Foreign currency transactions

When foreign currency transactions occur, they are translated into the reporting currency at spot exchange rate at the dates of the transactions.

At the reporting date, foreign currency monetary items are translated using the spot exchange rate at the reporting date. Exchange differences arising from the differences between the spot exchange rate prevailing at the reporting date and those spot rates used on initial recognition or at the previous reporting date are recognised in profit or loss in current period; foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translation using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are included in profit or loss in current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency transactions and translation of foreign currency statements (Continued)

(2) Translation of foreign currency statements

At the reporting date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the statement of financial position are translated using the spot exchange rate at the reporting date; all items except "retained earnings" of the shareholders' equity are translated at the spot exchange rate.

The revenue and expenses in the statement of profit or loss are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates.

All items in the statement of cash flows are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates. As an adjustment item, the impact of exchange rate changes on cash amount is reflected separately in the cash flow as "Effect of exchange rate changes on cash and cash equivalents".

Differences arising from the translation of financial statements are separately reflected in the "other comprehensive income" in the shareholders' equity of the statement of financial position.

When there is a loss of control in overseas operations, the exchange reserve related to overseas operations presented in the shareholders' equity in the statement of financial position shall be transferred to profit or loss in current period wholly or based on the percentage of overseas operations.

2.6 Property, plant and equipment

(1) Recognition and initial measurement of property, plant and equipment

The Group's property, plant and equipment are tangible assets that are held for use in production, render of services, rentals, or administrative purposes and have useful lives of more than one accounting year.

Property, plant and equipment shall be recognised only when it is probable that economic benefits associated with the asset will flow into the entity and the cost of the asset can be measured reliably.

Property, plant and equipment of the Group are initially stated at cost less accumulated depreciation and accumulated impairment loss.

(2) Depreciation methods of property, plant and equipment

The Group uses the straight line method for depreciation. Depreciation of the property, plant and equipment begins when they achieved the condition for their intended use, and stop being depreciated when derecognised or classified as held for sale under non-current assets. For those property, plant and equipment without considering impairment provision, the Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Buildings	12 – 50 years
Oil engineering equipment and others	4 – 30 years

Among these, property, plant and equipment which have been impaired should deduct the cumulative amount of impairment provision to determine the depreciation rate.

The method of impairment test and impairment provision of property, plant and equipment set out in note 2.9.

(3) Recognition and measurement of assets under finance leases

The leased property, plant and equipment of the Group shall be recognised as assets under finance lease if they meet the following one or more criteria:

– The ownership of leased assets can be transferred to the Group at the end of the lease period.

– The Group has the option to buy the leased assets at a purchase price estimated to be far below the fair value of leased assets when exercising the option. Thus, at the beginning date of lease period, it is reasonably determined that the Group will exercise the option.

– Even if the ownership of assets is not transferred, lease period accounts for most of the leased assets' useful life.

– The present value of minimum lease payment almost equals to the fair value of leased asset of the beginning date of lease period.

– Leased assets have special characteristics and they can be used by the Group only if they are not reconstructed.

At the beginning date of lease period, the Group will recognise the lower of the fair value of leased asset of the beginning date of lease period and the present value of minimum lease payment as the recorded value of the leased asset, their difference is recorded as unrecognised financing charges. Initial direct costs such as charges, legal fee, travelling expenses and stamp duty of the lease incurred during leasing negotiation and signing leasing contracts are recognised in leased assets' value. Unrecognised financing charges are measured at amortised cost using the effective interest method in the periods of leasing.

Assets financed by leasing are depreciated according to the policy of owned assets. If it can be reasonably determined that the ownership of the leased assets can be obtained at the end of the lease period, the leased assets are depreciated over their useful lives; otherwise, the leased assets are depreciated over the shorter of the lease terms and the useful lives of the leased assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

(4) Estimated useful lives, residual value and depreciation methods

The Group reviews the useful life and estimated net residual value of a property, plant and equipment and the depreciation method applied annually at each of the period end.

The useful lives of property, plant and equipment are adjusted if their expected useful lives are different from the original estimates; the estimated net residual values are adjusted if they are different from the original estimates.

(5) Overhaul costs

The overhaul costs occurred in regular inspection of property, plant and equipment are recognised in the cost of property, plant and equipment if there is undoubted evidence to confirm that they meet the recognition criteria of fixed assets, otherwise, the overhaul costs are recognised in profit or loss for the current period. Property, plant and equipment are depreciated during the intervals of the regular overhaul.

(6) Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditures incurred during the construction period, borrowing costs that shall be capitalised before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to property, plant and equipment when the assets are ready for their intended use.

For provision for impairment of construction in progress, refer to note 2.9.

2.7 Prepaid land leases

Prepaid land leases represent the prepayment of land use rights. Prepaid land leases are carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated on straight line basis over the respective periods of the rights.

2.8 Intangible assets

Intangible assets include software, etc.

The Group initially measures the intangible asset at cost, and analyses and judges its useful life when it is acquired. An intangible asset with a finite useful life is amortised using the method which can reflect the expected realisation of economic benefits related to the asset over its expected useful life since the asset is available for use; an intangible asset which expected realisation cannot be reliably measured is amortised using straight-line method; an intangible asset with an indefinite useful life is not amortised.

Amortisation of an intangible asset with finite useful life is as follows:

Software	5 years
Others	10 years

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each financial year, if it is different from the previous estimate, adjustment is made at previous estimates and accounted for according to changes in accounting estimates.

The carrying amount of an intangible asset should be transferred to profit or loss in current period when it is estimated that no further economic benefits can be brought to the Group as at the reporting date.

For the impairment method of intangible assets, refer to note 2.9.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment of non-financial assets such as subsidiaries, associates, joint arrangements, property, plant and equipment, construction in progress, intangible assets are determined as follows:

At the reporting date, the Group determines whether there may be evidence of impairment, the Group will estimate the recoverable amount for impairment and then perform impairment test if there is any such evidence. For goodwill arising from business combination, intangible assets with indefinite useful life and the intangible assets that have not yet ready for use are tested for impairment annually regardless of whether such evidence exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets (Continued)

The recoverable amount of an asset is determined by the higher amount of fair value deducting disposal costs and net present value of future cash flows expected from the assets. The Group estimates the recoverable amount based on individual asset; for the recoverable amount of individual asset which is difficult to estimate, the recoverable amount of the asset group is determined based on the asset group which involved in the asset. The identification of the asset group is based on whether the cash flow generated from the asset group is independent of the major cash inflows from other assets or asset groups.

When the asset or asset group's recoverable amount is lower than its carrying amount, the Group reduces its carrying amount to its recoverable amount. The reduced amount is included in profit or loss, while the provision for impairment of assets is recognised.

In terms of impairment test of the goodwill, the carrying amount of the goodwill, arising from business combination shall be reasonably allocated to the related asset group at acquisition date. Those that are difficult to be allocated to related assets shall be allocated to related asset group. Related assets or assets group refer to those that can benefit from the synergies of business combination and are not larger than the group's recognised reporting segment.

When there is an indication of impairment in the asset and asset group, the group should test for impairment for the asset and asset group except goodwill and calculate the recoverable amount and recognise the impairment loss accordingly. The group should test for impairment for asset or the asset group including goodwill and compare its recoverable amount with its carrying amount, provision for impairment of assets shall be recognised when the recoverable amount of assets is lower than its carrying amount.

Once impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

2.10 Financial instruments

Financial instruments refer to contractual arrangement forming entity's financial assets and other entities' financial liabilities or equity instruments.

(1) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised when the Group becomes a party of financial instrument contracts.

The financial assets or financial liabilities are derecognised when one of the following conditions is met:

– The contractual right to receive the cash flows of that financial assets expired;

– The financial asset has been transferred, and meet the conditions of derecognition as below.

If the obligations of financial liability have been partly or wholly discharged, derecognise all or part of it. If the Group (debtor) has an agreement with creditors to replace the current financial liability and the new financial liability which contract clauses are substantially different, derecognise the current financial liability and recognise new financial liability.

If the financial assets are traded in regular basis, they are recognised and derecognised at the transaction date.

(2) Classification and measurement of financial assets

Financial assets are, upon initial recognition, classified into the following four categories: financial assets at fair value through profit or loss ("FVTPL" financial assets), held-to-maturity investments, loans and receivables, available-for-sale financial assets ("AFS" financial assets). Financial assets are initially recognised at fair value. In the case of FVTPL financial assets the related transaction costs are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in the cost at initial recognition.

Financial assets at fair value through profit or loss

FVTPL financial assets include financial assets held for trading and those designated upon initial recognition as at fair value through profit or loss and subsequently accounted for changes in fair value through profit or loss. For these kind of financial assets subsequently measured at fair value, all gains or losses on fair value changes and relevant dividend and interest income are recognised in profit or loss for the current period.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method; gains and losses arising from derecognition, impairment or amortisation is recognised in profit or loss in current period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including account receivables and other receivables. Receivables are subsequently measured at amortised cost using the effective interest method; gains and losses arising from derecognition, impairment or amortisation is recognised in profit or loss in current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

Available-for-sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those not classified as above mentioned. AFS financial assets are subsequently measured at fair value, the discount or premium are amortised using the effective interest method and recognised as interest income. The gains or losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets translation which are recognised in profit or loss for the current period) are recognised in other comprehensive income under capital reserve, until the financial assets are derecognised, are transferred to profit or loss for the current period. Interest income and dividends related to the AFS financial assets are recognised as profit or loss in current period.

The equity investment that is not quoted in an active market and the fair value cannot be measured reliably and the derivative financial instruments that are linked with and settled by such equity instruments shall be measured at cost.

(3) Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified as: financial liabilities at fair value through profit or loss (FVTPL) or other financial liabilities. For financial liabilities not classified as fair value through profit or loss financial liabilities, the transaction costs are recognised in the initially recognised amount.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities in trading nature and financial liabilities designated as fair value through profit or loss at initial recognition. Such financial liabilities are subsequently measured at fair value, all gains or losses arising from changes in fair value are recognised in profit or loss in current period.

Other financial liabilities

Derivative financial liabilities which are linked to equity instrument that is not quoted in active market and its fair value cannot be reliably measured and settled by delivering the equity instrument are subsequently measured at cost. Other financial liabilities that are subsequently measured at amortised cost using the effective interest method, the gains and losses arising from derecognition or amortisation are recognised in profit or loss in current period.

(4) Fair value of financial instruments

The recognition of financial assets and liabilities at fair value are set out in note 2.11.

(5) Impairment of financial assets

The Group determines the amount of impairment loss by assessing the carrying amount of financial assets other than financial assets at fair value through profit or loss at each reporting date, if there is objective evidence that the financial assets are impaired. Objective evidence of impairment of financial assets are the matters that occurred after the initial recognition of financial assets which has impact on the expected future cash flows of financial assets, and can be reliably measured by the Group.

The objective evidence of impairment of the financial assets is including but not limited to:

1. significant financial difficulty of the debtor or issuer;
2. a breach of contract by the debtor, such as a default or delay in interest or principal payments;
3. the Group has economic or legal consideration relating to the debtor, granting a concession to the debtor who has financial difficulty;
4. it is probable that the debtor will enter into bankruptcy or other financial restructuring;
5. the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
6. upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot be identified by the individual financial assets in the group. Such observable data includes:
   – Adverse effects in the repayment of debtor in the group of financial assets;
   – Economic conditions of the country or region that the debtor located may lead to a failure of repayment of the financial assets;
7. significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, indicating that the cost of investment in an equity instrument may not be recovered by the investor;
8. a significant decline in the fair value of an investment in an equity instrument below its cost or a prolonged decline (i.e., fair value decline lasting 12 months);

   Prolonged decline represented the monthly average fair value of the equity instruments is lower than the initial investment cost continuously for 12 months;
9. other objective evidence that indicate any impairment of a financial asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(5) Impairment of financial assets (Continued)

Financial assets measured at amortised cost

If there's objective evidence that the financial assets are impaired, then the carrying amount of financial assets shall be reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred), with the reduced amount recognised in profit or loss in current period. The present value of estimated future cash flows using the financial asset's original effective interest rate, and considers the value of collateral.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, if there is objective evidence that it has been impaired, the impairment loss is recognised in profit or loss for the current period. For a financial asset that is not individually significant, the Group assesses the asset by including the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), the Group again includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Asset for which an impairment loss is individually recognised is not included in a collective assessment of impairment.

If, after an impairment loss has been recognised on financial assets measured at amortised cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss to the extent that will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised previously.

Available-for-sale financial assets

If there's objective evidence that AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and transferred to profit or loss in current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortised, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the fair value of previously impaired financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed and charged to profit or loss for the current period. The impairment losses of AFS equity instruments shall not be reversed through profit or loss.

Financial assets measured at cost

For equity instruments that do not have an active market and their fair value cannot be measured reliably, or derivative financial assets which are linked to equity instrument that is settled by delivering such equity instrument. If there's objective evidence that the financial assets are impaired, the difference between the carrying amount and the present value discounted at the market rate of return on future cash flows of the similar financial assets shall be recognised as impairment loss in profit or loss in current period. The impairment loss recognised shall no longer be reversed.

(6) Transfer of financial assets

Transfer of financial assets refers to the transfer or delivery of financial assets to the other party (the transferee) other than the issuer of financial assets.

The Group derecognises a financial asset only if it transfers substantially all the risks and rewards of ownership of the financial asset to the transferee. The Group should not derecognise a financial asset if it retains substantially all the risks and rewards of ownership of the financial asset.

The Group neither transfers nor retains substantially all the risks and rewards of ownership are shown as following circumstances: if the Group has forgone control over the financial assets, derecognise the financial assets and verify the assets and liabilities; if the Group retains its control of the financial asset, the financial asset is recognised to the extent of its continuing involvement in the transferred financial asset and an associated liability is recognised.

(7) Offsetting financial assets and financial liabilities

When the Group has the legal rights to offset the recognised financial assets and financial liabilities and is capable to carry it out, the Group plans to net settlement or realise the financial assets and pay off the financial liabilities, the financial assets and financial liabilities shall be listed separately with the neutralised amount in statement of financial position and are not allowed to be offset.

2.11 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The Group shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an active market exists for the financial assets or financial liabilities, the Group uses the quotation on the active market at its fair value. For those in the absence of active market, the Group uses valuation technique to recognise its fair value.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Fair value measurement (Continued)

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, in priority to use relevant observable inputs and only use unobservable inputs when observable inputs cannot be obtained.

The fair value measurement of the assets and liabilities measured at fair value is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

At each reporting date, the Group reassesses the assets and liabilities measured at fair value to ensure any transfer between the levels of the fair value hierarchy.

2.12 Inventories

(1) Classification

Inventories include raw materials, work in progress, consumables, finished goods and issuing goods, etc.

(2) Determination of cost

Inventories are recognised at its actual cost when acquired. Costs of raw materials, work in progress, finished goods, spare parts are calculated by weighted average method when issued.

(3) Recognition of the net realisable value and provision for impairment of inventories

Net realisable value is based on the estimated selling price deducting the estimated costs to be, the estimated selling expenses and related taxes amount incurred when it is completed. Recognition of the net realisable value is based on the verified evidences and considers the purpose of holding inventories and the effect of post balance sheet events.

At the reporting date, if the cost of inventory of the Group exceeds its net realisable value, provision for impairment of inventories is recognised. The Group normally recognises provision for impairment of inventories individually, if the factors caused the inventory previously written-down have disappeared, provision for impairment of inventories in the amount originally provided is reversed.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortisation methods of consumables

Consumables include low-value consumables that are amortised in full when used.

2.13 Construction contracts

Construction contracts are measured at actual costs incurred, which includes all direct and indirect cost incurred from the date of contract to the date of completion. Costs incurred for construction contracts plus recognised gross profit/gross loss less progress billings are presented in the statement of financial position on a net basis. For contracts whose costs incurred to date plus recognised profits (less recognised losses) exceeds progress billings, the balance is presented as the gross amount due from customers for contract work. For contracts whose progress billings exceeds costs incurred to date plus recognised profits (less recognised losses), the balance is presented as the gross amount due to customers for contract work in advance from customers.

Other costs such as travelling and tender fees incurred for the contracts that can be separately disclosed and reasonably measured, and it is highly possible that the relevant contract will be entered are capitalised as cost of contracts upon relevant contract has been entered, otherwise, recognised in the profit or loss when incurred.

2.14 Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily drawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2.15 Share capital

Ordinary Shares are reclassified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Borrowing costs

(1) Recognition principle of capitalisation of borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, they shall be capitalised and included in the cost of related assets; other borrowing costs are recognised as expenses and included in profit or loss when incurred. Capitalisation of such borrowing costs can commence only when all of the following conditions are satisfied:

1) Capital expenditures for the asset are being incurred, which includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalisation;

2) Borrowing costs are being incurred; and

3) Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Capitalisation period of borrowing costs

Capitalisation of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The borrowing cost incurred after that is recognised as an expense in the period in which they are incurred and included in profit or loss for the period incurred.

Capitalisation of borrowing costs is suspended during the periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months; the borrowing costs in the normally interrupted period continue to capitalise.

(3) Calculation of rate and amount of borrowing costs to be capitalised

Interest expenses for specific borrowings incurred in the period, less interest income of unused specific borrowings deposited with bank or investment income arising from temporary investment are capitalised. The capitalisation rate of the general borrowing is determined by reference to the weighted average effective interest rate of general borrowings. The amount of capitalisation of general borrowings is determined by reference to the weighted average of the excess of the amount of cumulative expenditures of the asset over the amount of specific borrowings and the capitalisation rate of general borrowings.

During the capitalisation period, any exchange differences arising from specific foreign currency borrowings are capitalised; exchange differences arising from general foreign currency borrowings are recognised in the profit or loss.

2.17 Deferred tax assets and deferred tax liabilities

Tax expense comprises current tax expense and deferred tax expense. Current tax and deferred tax are included in profit or loss for the current period as tax expense, except for deferred tax related to transactions or events that are directly recognised in shareholders' equity which are recognised directly in shareholders' equity, and deferred tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognised as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognised as deferred tax liabilities except for those incurred in the following transactions:

(1) The initial recognition of goodwill, and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;

(2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognised deductible temporary differences, deductible tax losses as deferred tax assets to the extent that they are available for set-off future taxable income unless such timing difference was arised from the following transactions:

(1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;

(2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognised when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future, it is probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

At the reporting date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their tax effect is reflected.

At the reporting date, the Group reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilised, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee Benefits

(1) Scope of employee benefits

Employee benefits are all forms of consideration and compensation given by the Group in exchange for service rendered by employees or the termination of employment. Employee benefits include short term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Employee benefits include benefits provided to employees' spouses, children, other dependants, survivors of the deceased employees or to other beneficiaries.

(2) Short term employee benefits

Wages, bonuses, contribution to the social welfares (including medical insurance, injury insurance, birth insurance, etc.) and house funding are recognised as liability and to the profit of loss or cost of related assets in the period of relevant costs being incurred. If related liabilities in which the employees render their services are not expected to be wholly payable within twelve months after the financial period of relevant expenses being incurred and the financial impact is significant, relevant liabilities will be measured at discounted values.

(3) Post employment benefits

Post-employment comprised of defined contribution plan. The Group's obligations under the defined contribution plan are limited to the fixed amount of contribution to the independent trustee.

Defined contribution plans

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity scheme.

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group has no other significant commitments of social security of employees.

The Group recognised the contribution payable under the defined contribution plan as liabilities with corresponding amount recognised in the profit or loss of the financial period of services rendered by employees.

(4) Termination benefits

The Group recognises termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The Group cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or (ii) The Group recognises the payment of the termination benefits costs and expenses.

For the early retirement schemes, compensations related to the period from the date of cease of render of services to the actual retirement date were classified as termination benefits, relevant wages and contribution to social insurance are recognised to profit or loss in the period of actual incurred. Post employment financial supports, such as superannuation are treated as post employment benefits.

(5) Other long-term employee benefits

Other long-term employee benefits provided by the Group to its employees who meet with the conditions of defined contribution plan were treated in accordance with the relevant provisions of defined contribution plans as set out above.

2.19 Provision

An obligation for additional losses of investees related to a contingency is recognised as a provision when all of the following conditions are satisfied:

1. The obligation is a present obligation of the Group;
2. It is probable that an outflow of economic benefits will be required to settle the obligation;
3. The amount of the obligation can be measured reliably.

Provisions are initially measured at the best estimate of the payment to settle the associated obligations and consider the relevant risk, uncertainty and time value of money. If the impact of time value of money is significant, the best estimate is determined as its present value of future cash outflow. The Group reviews the carrying amount of provisions at the reporting date and adjusts the carrying amount to reflect the best estimate.

If the expenses for clearing of predictive liability is fully or partially compensated by a third party, and the compensated amount can be definitely received, it is recognised separated as asset. The compensated amount shall not be greater than the carrying amount of the predictive liability.

2.20 Research and development expenditure

Expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognised in profit or loss when incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Research and development expenditure (Continued)

Expenditure on the development phase is capitalised only when the Group can satisfy all of the following conditions: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset is to use or sell it; how the intangible asset will generate economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development phase. Otherwise, it is charged to profit or loss.

The research and development projects of the Group will enter into the development stage after meeting the above conditions and passing through the technical feasibility and economic feasibility studies and the formation of the project.

Capitalised expenditure on the development phase is presented as “development costs” in the statement of financial position and shall be transferred to intangible assets when the project is completed to its intended use state.

2.21 Government grants

Grants from the government are recognised only when there is a reasonable assurance that the grant will be received and the Group can comply with the attached conditions.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where there is undoubted evidence that the grants can meet the relevant conditions of financial support policy and is expected that the financial support fund is receivable, they can be measured in accordance with the receivable amount, otherwise, they shall be measured according to the amount actually received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value. When fair value is not reliably determinable, the item is measured at nominal amount.

Government grant related to assets represents the government grant received for acquisition, construction and other ways of form of long term assets. Except for these, all are government grant related to income.

Regarding to the government grant not clearly defined in the official documents and can form long term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and then recognised in profit or loss over the periods in which the costs are recognised. Government grants measured at nominal amounts are directly recognised in through profit or loss.

When recognised government grants need to be returned, the balance of deferred income is offset against book balance of deferred income and the excess is recognised in profit or loss for the current period; if there is no related deferred income, it is directly recognised in profit or loss for the current period.

2.22 Revenue recognition

(1) Sales of goods

Revenue from the sale of goods is recognised only when all of the following conditions are satisfied: the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement nor effective control over the goods sold, and related income has been achieved or evidences of receivable have been obtained, and the associated costs can be measured reliably.

(2) Rendering of services

Where the outcome of a transaction involving the providing of services can be estimated reliably, at the end of the period, revenue associated with the transaction is recognised using the percentage of completion method.

The percentage of completion for rendering of services is determined according to proportion of accumulated actual costs incurred to the estimated total cost and the stage of completion.

The outcome of rendering of services can be measured reliably and satisfied with:

1. Revenue can be measured reliably;
2. The associated economic benefits are likely to flow to the enterprise;
3. The progress of relevant contract can reliably measured;
4. The cost to be incurred can be measured reliably.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(3) Transfer of rights to use assets

The Group will recognise revenue when the economic benefits related to transfer of the right to use assets can flow in and the amount of revenue can be measured reliably.

(4) Construction contract

Where the outcome of a construction contract can be estimated reliably at the reporting date, revenues and expenses associated are recognised using the percentage of completion method. Where the outcome of a construction contract cannot be estimated reliably, it should be treated distinctively; if contract costs can be recovered, then the contract revenues is recognised according to the actual contract costs that can be recovered, the contract costs are identified as expenses in the current period; otherwise, contract costs are identified as expenses and revenues shall not be recognised.

If the estimated total costs exceed contract revenue, the Group recognises estimated loss in profit or loss for the current period.

The stage of completion is determined according to the proportion of accumulated actual contract costs to the estimated total costs and the stage of completion.

The outcome of a construction contract can be measured reliably and satisfied with:

1. The contract revenue can be measured reliably;
2. The associated economic benefits are likely to flow to the enterprise;
3. The actual contract costs incurred can be distinguished clearly and measured reliably;
4. The stage of completion of the contract and the costs need to be incurred to complete the contract can be measured reliably.

2.23 Operating leases and finance leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(1) As lessor

In finance leases, at the beginning date of lease period, the Group will recognise the sum of minimum lease collection and initial direct costs as the recorded value of finance leases receivable and meanwhile is recorded as unguaranteed residual value; the difference between the sum of minimum lease collection, initial direct costs and unguaranteed residual value and their present value is recorded as unrecognised financing income. Unrecognised financing income are measured at amortised cost using the effective interest method in the periods of leasing and recognised in financing income for the current period.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term.

(2) As lessee

In finance leases, at the beginning date of lease period, the Group will recognise the lower of the fair value of leased asset of the beginning date of lease period and the present value of minimum lease payment as the recorded value of the leased asset, their difference is recorded as unrecognised financing charges. Initial direct costs are recognised in leased assets' value. Unrecognised financing charges are measured at amortised cost using the effective interest method in the periods of leasing and recognised in financing charges for the current period. The Group depreciates the leased assets by adopting the depreciation policy consistent with self-owned fixed assets.

Lease from operating leases is recognised in the cost of relevant assets or profit or loss on a straight-line basis over the lease term. The initial direct costs incurred are recognised in profit or loss for the current period.

2.24 Shares repurchase

Prior to the cancellation or transfer of repurchased shares, the repurchased shares were classified as treasury shares. Costs of treasury shares comprised of cost incurred for the repurchase of shares. Costs incurred for repurchase of shares were deducted from equity and no profit or loss will be recognise upon repurchase or cancellation of shares.

Upon transfer of treasury shares, the differences between the considerations received and the nominal value of treasury shares were deducted from capital reserve and share premium, any differences will be deducted from surplus reserves and retained earnings. Upon cancellation of treasury shares, share capital will be deducted by reference to number of shares and its nominal value, any difference between the nominal value of treasury shares will be deducted from the capital reserve and share premium, any differences will be deducted from surplus reserves and retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Discontinued Operations

Discontinued operations is part of the Group's business activities, its operations and cash flows were separately disclosed from the Group's other business activities, which represents an independent business activities classified in accordance with the business nature or geographical location, or a business activities or geographical location that form part of a disposal plan, or a subsidiary which is acquired for resale.

Business activities were classified as discontinued operation when which is disposed of or meet with the criteria of held-for-sale, whichever the earlier. The business activities also will be classified as discontinued operations upon cessation of relevant business activities.

When the business activities were classified as discontinued operation, the following information will be presented separately in the statement of comprehensive income:

– Profit or loss after tax of the discontinued operations; and

– Profit or loss after tax arising from the disposal of discontinued operation.

2.26 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.27 Other non-current assets

Cost of other non-current assets, such as specific drilling equipment, logging equipment and tools and cables etc., were amortised over their estimated useful life or unit of production. Non-current assets that cannot generate future benefits are recognised in the profit or loss in the period of relevant cost being incurred.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Group continually evaluates the critical accounting estimates and key assumptions based on its historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that are likely to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as below:

(1) Impairment of receivables

The Group regularly reviews the receivables that are measured at amortisation cost to determine whether there is evidence of impairment. If any such evidence exists, impairment loss is estimated and provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtors. If there is evidence that the amount of receivables has been recovered and it is objectively related to an event occurred after the impairment was recognised, the previously recognised impairment loss will be reversed. The carrying amount of receivables is set out in note 23.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(2) Provision for decline in value of inventories

The Group regularly reviews the net realisable value of inventories and the provision for decline in value of inventories is recognised at the excess of the carrying amounts of inventories over their net realisable value. When making estimation of the net realisable value of inventories, the Group considers the purpose of the inventories held on hand and other information available to form the underlying assumptions, including the market prices of inventories and the Group's historical operating costs. The actual selling price, costs of completion, selling expenses and taxes may vary according to the changes in market conditions, manufacturing technology or the actual use of the inventories, resulting in the changes in provision for decline in value of inventories. The profit or loss for the period will be affected by the adjustment of the provision for decline in value of inventories. The carrying amount of inventories is set out in note 26.

(3) Impairment of non-financial assets

As at the reporting date, the Group assess the impairment of non-financial assets to ensure whether the asset's carrying amount exceeds its recoverable amount. In circumstances indicate that the carrying amount may not be recoverable, relevant assets will be impaired and relatively recognised to impairment loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and estimated future cash flow. The Group cannot estimate the accurate fair value since no reliable open market value of the assets can be obtained. The Group determines critical judgements on the product quantity, selling price, gross profit, related operating cost and the discount rate in assessing the present value of estimated future cash flow.

The Group assesses the recoverable value in reference to the relevant information including the estimates according to reasonable assumptions on the production quantity, selling price, gross profit and related operating cost. The Group will increase the provision of impairment on the non-financial assets if there is material adverse effect on the related assumptions and estimates. Carrying amount of non financial assets is set out in notes 18, 19, 20 and 21.

(4) Depreciation and amortisation of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated and amortised over their useful lives after taking into account of the residual value. The useful lives and years of amortisation of the relevant assets are regularly reviewed by the Group to determine the depreciation and amortisation expenses recorded in each reporting period. The useful lives of the assets are determined based on historical experience of similar assets and the expected technical changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes in previous estimates. Carrying amounts of property, plant and equipment and intangible assets are set out in notes 18 and 20.

(5) Construction contracts

Contract revenue is recognised by the Group according to individual contracts under the percentage of completion method. The contract revenue and percentage of completion of the construction are estimated by the management according to actual cost incurred in the budget costs. The execution and completion date of the construction are normally included in different accounting period due to the nature of activities carried out in the construction contract. The Group would review and revise the estimated contract revenue and costs during the progress of the contract. (If actual contract revenue does not exceed the estimated or actual contract cost, provision of estimated contract loss will be recognised). Carrying amount of construction contracts is set out in note 25.

(6) Provision for litigation claims

For the legal proceedings and claims, the Group derives the best estimate of committed losses to the related current obligations based on the legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change according to the progress of the legal proceedings.

(7) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses when the Group is likely to have sufficient taxable profits to offset losses. The management needs significant judgment to estimate the time in relation to the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. If the tax payable in future accounting period is lower than the expected amount or the actual tax rate is higher than the expected tax rate, the deferred tax assets recognised will be reversed and included in the statements of profit or loss. The related information is set out in note 37.

(8) Taxation

There are various uncertainties on interpretation of the complicated tax jurisdictions (including related tax incentive regulations) and time and extent of the future taxable revenue. Regarding to various international business relationship and complexity of current contract, there may be adjustment to the recognised taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities in the countries where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretations may be resulted from various events. Relevant information is set out in note 12.

4 REVENUE

The Group's revenue is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Geophysics	**5,125,933**	6,707,817
Drilling engineering	**39,278,362**	41,615,888
Logging and mud logging	**4,190,143**	5,129,436
Special downhole operations	**8,510,428**	9,507,791
Engineering construction	**20,143,747**	24,646,595
Others	**1,744,702**	2,121,545
	78,993,315	89,729,072

5 SEGMENT INFORMATION

The Group identifies operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group's has identified six operating segments including geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and fibre products and raw materials. These operating segments are identified based on the regular internal financial information reported to the senior executive management. Senior executive management of the Company regularly reviews the segment information for their decision about the resources allocation and performance assessment.

Six reportable operating segments are as follows:

Continuing operations:

– Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;

– Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;

– Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;

– Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and

– Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects, oil and gas transporting process projects, storage and transportation projects, petrochemical supporting projects, building construction, water resources and hydropower, ports and waterways, electricity transmission and distribution projects, manufacturing of pressure vessels, LNG projects, coal chemical engineering, geothermal utilisation, energy saving and municipal roads and bridges.

Discontinued operations:

– Fibre products and raw materials, with production and sales of polyester chips and polyester fibre, and production of its raw material purified terephthalic acid (Note 13).

Inter-segment transfers are measured by reference to market price. The assets are allocated based on the operations of the segment and the physical location of the asset.

The resources related to interest income, interest expenses, interests in joint venture, (loss)/gain on investment, income tax expense as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

Segment information of each reportable segment were reported and disclosed to the senior executive management in accordance with the accounting policies and the respective measurement bases. These accounting policies and measurement bases were the same as those used in for the preparation of the financial statements.

5 SEGMENT INFORMATION (Continued)

Information regarding each reportable segment provided to the senior executive management was as follows:

(a) Segment results, assets and liabilities

For the year ended 31 December 2014 and as at that date, the segment results, assets and liabilities were as follows:

	Continuing operations					Discontinued operations			
	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Fibre products and raw materials	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014									
Segment revenue and results									
Revenue from external customers	5,125,933	39,278,362	4,190,143	8,510,428	20,143,747	15,306,447	1,925,981	—	94,481,041
Inter-segment income	—	941,616	61,992	154,159	511,320	—	227,499	(1,896,586)	—
Segment revenue	5,125,933	40,219,978	4,252,135	8,664,587	20,655,067	15,306,447	2,153,480	(1,896,586)	94,481,041
Reportable segment profit/(loss)	195,747	2,299,260	381,068	431,082	(478,857)	(2,090,485)	(127,896)	—	609,919
Other income	23,533	323,829	26,738	68,471	52,680	16,702	55,785	—	567,738
Other expenses	(14,564)	(36,772)	(6,209)	(8,639)	(21,758)	(28,574)	(2,239)	—	(118,755)
Profit/(loss) before income tax	204,716	2,586,317	401,597	490,914	(447,935)	(2,102,357)	(74,350)	—	1,058,902
Discontinued operations									2,261,170
Profit before income tax and discontinued operations									3,320,072
Income tax expense									(900,930)
Profit for the year from continuing operations									2,419,142
Loss for the year from discontinued operations									(1,159,620)
Profit for the year									1,259,522

	Continuing operations					Discontinued operations			
	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Fibre products and raw materials	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014									
Supplementary information									
Depreciation and amortisation									
– Property, plant and equipment	542,240	2,189,743	306,729	386,557	290,649	473,370	172,081	—	4,361,369
– Prepaid land leases	—	536	416	11	621	6,590	—	—	8,174
– Intangible assets	1,534	1,206	2,082	1,148	3,396	—	3,430	—	12,796
Capital expenditure									
– Property, plant and equipment	158,904	2,677,124	143,162	695,241	100,258	307,932	18,380	—	4,101,001
– Intangible assets	177	342	1,752	299	8,463	—	11,727	—	22,760
– Long-term investment	—	9,157	—	—	43,355	—	93,381	—	145,893
Impairment loss/(reversals) on assets	16,483	28,199	(72)	458	48,922	1,037,361	4,060	—	1,135,411
As at 31 December 2014									
Assets									
Segment assets	6,801,486	47,609,063	4,021,903	8,740,517	21,924,709	—	2,835,912	(10,637,882)	81,295,708
Liabilities									
Segment liabilities	3,959,861	25,167,042	1,374,073	3,627,904	21,932,334	—	17,176,238	(10,637,882)	62,599,570

5 SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities (Continued)

For the year ended 31 December 2013 and as at that date, the segment results, assets and liabilities were as follows:

	Continuing operations					Discontinued operations			
	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Fibre products and raw materials	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2013									
Segment revenue and results									
Revenue from external customers	6,707,817	41,615,888	5,129,436	9,507,791	24,646,595	17,677,171	2,121,545	—	107,406,243
Inter-segment income	326	1,993,020	93,226	97,533	394,318	—	1,411,878	(3,990,301)	—
Segment revenue	6,708,143	43,608,908	5,222,662	9,605,324	25,040,913	17,677,171	3,533,423	(3,990,301)	107,406,243
Reportable segment profit/(loss)	(13,673)	1,071,215	482,327	345,828	214,581	(1,174,264)	(312,985)	—	613,029
Other income	16,405	282,857	7,490	30,935	53,043	11,381	64,428	—	466,539
Other expenses	(1,843)	(24,581)	(6,210)	(5,665)	(11,784)	(48,586)	(12,372)	—	(111,041)
Profit/(loss) before income tax	889	1,329,491	483,607	371,098	255,840	(1,211,469)	(260,929)	—	968,527
Discontinued operations									1,211,469
Profit before income tax and discontinued operations									2,179,996
Income tax expense									(687,350)
Profit for the year from continuing operations									1,492,646
Loss for the year from discontinued operations									(1,450,019)
Profit for the year									42,627

	Continuing operations					Discontinued operations			
	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Fibre products and raw materials	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2013									
Supplementary information									
Depreciation and amortisation									
– Property, plant and equipment	465,047	1,954,381	283,723	339,790	288,235	469,975	270,290	—	4,071,441
– Prepaid land leases	—	596	411	11	773	8,481	1,004	—	11,276
– Intangible assets	105	3,037	2,591	804	4,744	—	1,661	—	12,942
Capital expenditure									
– Property, plant and equipment	396,214	4,249,366	754,623	717,971	349,313	488,650	109,300	—	7,065,437
– Intangible assets	2,562	—	694	162	8,108	—	66	—	11,592
Impairment loss on assets	2,388	33,459	347	14,065	81,649	6,787	4,353	—	143,048
As at 31 December 2013									
Assets									
Segment assets	6,122,951	37,597,108	4,616,454	7,284,271	24,789,702	10,629,304	13,950,004	(12,253,125)	92,736,669
Liabilities									
Segment liabilities	4,392,478	14,199,191	1,652,573	2,962,349	23,453,543	3,565,840	24,030,611	(12,253,125)	62,003,460

5 SEGMENT INFORMATION (Continued)

(b) Geographical information

The following table presents the geographical information. Revenue is based on the location at which revenue were derived. Specified non-current assets include property, plant and equipment, other non-current assets, prepaid land leases, intangible assets, interests in joint ventures and interests in associates, which are based on the physical location of the assets.

	Revenue from external customers		Specified non-current assets	
	2014	2013	**2014**	2013
	RMB'000	RMB'000 Restated	**RMB'000**	RMB'000 Restated
The PRC	**62,484,623**	70,990,933	**31,339,091**	39,876,415
Other counties	**16,508,692**	18,738,139	**5,226,892**	4,745,757
	78,993,315	89,729,072	**36,565,983**	44,622,172

(c) Information about major customer

For the year ended 31 December 2014 and 2013, revenue from customers accounted for over 10% of the Group's revenue and its related income were as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Customer A	**51,655,524**	60,227,842

Revenue from this customer were derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and accounted for more than 50% of the Group's revenue.

6 FINANCE INCOME/(EXPENSES) - NET

	2014	2013
	RMB'000	RMB'000 Restated
Finance income		
Interest income from entrusted investment and financing	**—**	345
Interest income		
– Sinopec Group and its subsidiaries	**1,056**	6,411
– Third-party banks and other financial institutions	**11,486**	11,648
	12,542	18,404
Finance expenses		
Interest expenses on bank loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	**(558,865)**	(765,445)
– Third-party banks and other financial institutions	**(2,578)**	(21,584)
Capitalisation of interest expenses for qualifying assets (i)	**17,908**	21,583
Exchange losses, net	**(151,670)**	(11,227)
Bank and other charges	**(87,099)**	(64,427)
	(782,304)	(841,100)
	(769,762)	(822,696)

Note:

(i) Qualifying assets represents property, plant and equipment, its related interest has been capitalised at a rate of 2.89% to 6.0% (2013: 2.89% and 6.0%) per annum.

7 IMPAIRMENT LOSSES ON ASSETS

	2014 RMB'000	2013 RMB'000 Restated
Impairment losses on property, plant and equipment	—	3,025
Expected losses on contracts work-in-progress	28,158	—
Provision for bad debts	69,892	133,236
	98,050	136,261

8 INVESTMENT INCOME

	2014 RMB'000	2013 RMB'000 Restated
Gain from disposal of available-for-sale financial assets	2,050	2,240

9 OTHER INCOME

	2014 RMB'000	2013 RMB'000 Restated
Gain on disposal of property, plant and equipment	26,562	14,703
Government grants	437,596	399,783
Waived payables	68,551	24,701
Penalty income	4,596	1,901
Compensation received	276	301
Asset inventory surplus	1,460	8,545
Others	11,995	5,224
	551,036	455,158

10 OTHER EXPENSES

	2014 RMB'000	2013 RMB'000 Restated
Loss on disposal of property, plant and equipment	25,577	24,834
Loss on assets write-off	4,096	5,894
Penalty	18,028	16,679
Donation	356	881
Compensation	17,286	12,484
Others	24,838	1,683
	90,181	62,455

11 PROFIT BEFORE INCOME TAX

Profit before income tax from continuing operations is stated after charging/(crediting) the followings:

	2014 RMB'000	2013 RMB'000 Restated
Staff costs, including directors and supervisors emoluments	16,544,212	16,372,743
Retirement benefit plan contribution (including the above mentioned staff costs)		
– Municipal retirement scheme costs	1,263,764	1,196,840
– Supplementary retirement scheme costs	341,750	335,815
Cost of goods sold	20,874,350	25,755,862
Depreciation and amortisation		
– Property, plant and equipment	3,887,999	3,601,466
– Prepaid land leases	1,584	2,795
– Intangible assets	12,796	12,942
Operating lease expenses		
– Property, plant and equipment	1,703,161	1,684,773
Impairment losses		
– Property, plant and equipment	—	3,025
– Trade and other receivables	69,892	133,236
– Expected loss on contracts work-in-progress	28,158	—
Rental income from property, plant and equipment after relevant expenses	8,297	63,697
Research and development expenses	491,307	447,248
(Gains)/Losses on disposal/write-off of property, plant and equipment	(985)	10,131
Auditors' remuneration	11,250	6,285
Exchange losses, net	151,670	11,227

12 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000 Restated
Current tax		
PRC enterprise income tax	671,916	591,484
Overseas income tax	245,174	134,231
	917,090	725,715
Deferred income tax		
Accelerated timing difference	(16,160)	(38,365)
Income tax expense	900,930	687,350

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended December 31, 2014 and 2013 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and China's western development project can enjoy 15% preferential tax rate during different period in the related period. For the years ended December 31, 2014 and 2013, the majority of the member of the Group is subject to 25% income tax rate.

The tax of other countries (mainly Saudi Arabia, the Republic of Kazakhstan, The Republic of Ecuador, Federal Republic of Nigeria and Columbia) is based on the nation's tax laws, where the relevant company of the Group operates in.

12 INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expenses and profit before income tax calculated at the statutory tax rate is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Profit before income tax	**3,320,072**	2,179,996
Taxation calculated at the statutory tax rate	**830,018**	544,999
Income tax effects of:		
Difference in overseas profits tax rates	**(89,144)**	24,647
Non-deductible expenses	**63,043**	96,013
Effect of utilisation of unrecognised tax losses and deductible temporary differences	**(43,374)**	—
Effect of unrecognised tax losses and deductible temporary differences	**134,823**	24,349
Adjustments of current tax in previous years	**47,615**	36,510
Equity method accounting for the joint venture and associates' profit or loss	**969**	(6)
Tax effect on research and development expenses	**(43,020)**	(39,162)
Income tax expense	**900,930**	687,350

13 DISCONTINUED OPERATIONS

As set out the Reorganisation in note 1.1 and the bases of presentation in note 1.3, for the purposes of the consolidated statement of comprehensive income, the Fibre Business were classified as "discontinued operations".

(a) Result of the discontinued operations is as follows:

	Note	2014 RMB'000	2013 RMB'000 Restated
Revenue		**15,487,726**	17,677,171
Operating cost and business taxes		**(15,827,606)**	(18,093,098)
Gross loss		**(339,880)**	(415,927)
Selling expenses		**(230,182)**	(226,661)
General and administrative expenses		**(605,240)**	(519,684)
Finance income/(expenses) - net		**(36,803)**	(5,236)
Impairment losses on assets		**(1,037,361)**	(6,787)
Share of profit from joint ventures		**168**	31
Operating loss		**(2,249,298)**	(1,174,264)
Other income		**16,702**	11,381
Other expenses		**(28,574)**	(48,586)
Loss before income tax		**(2,261,170)**	(1,211,469)
Income tax expense		**(73,783)**	(238,550)
Gain on disposal of Outgoing Business	46	**1,175,333**	—
Loss for the year from discontinued operations		**(1,159,620)**	(1,450,019)

(b) Cashflows of the discontinued operations is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Net cash used in operating activities	**(200,011)**	(1,129,599)
Net cash generated from/(used in) investing activities	**46,522**	(151,997)
Net cash generated from financing activities	**140,964**	1,201,656
Net cash used in the discontinued operations	**(12,525)**	(79,940)

14 EARNINGS/(LOSS) PER SHARE

(a) Basic

For the year ended 31 December 2014 and 2013, the basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company, and as if the 9,224,327,662 shares issued under the Reorganisation for acquisition of SOSC and the 2,000,000,000 new shares converted from capital reserve under the 5 shares for each 10 shares were in issue since 1 January 2013.

	2014 RMB'000	2013 RMB'000 Restated
Profit/(loss) for the year attributable to owners of the Company (RMB'000)		
– Continuing operations	2,416,928	1,464,987
– Discontinued operations	(1,159,620)	(1,450,019)
	1,257,308	14,968
Weighted average number of ordinary shares in issue	15,224,327,662	15,224,327,662
Basic earnings/(loss) per share (RMB)		
– Continuing operations	0.159	0.096
– Discontinued operations	(0.076)	(0.095)
	0.083	0.001

(b) Diluted

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2014 and 2013, and therefore the diluted earnings per share for the year ended 31 December 2014 and 2013 were the same as the basic earnings per share.

15 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividends for the year ended 31 December 2014 (2013: Nil).

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

(i) For the year ended 31 December 2014

	Fee	Salary, allowance and bonus	Retirement	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Directors:				
LU Liyong	—	318	31	349
SUN Zhihong	—	—	—	—
XIAO Weizhen (i)	—	153	8	161
LONG Xingping	—	—	—	—
ZHANG Hong	—	—	—	—
GUAN Diaosheng	—	—	—	—
SUN Yuguo	—	—	—	—
SHEN Xijun	—	306	31	337
LI Jianping (ii)	—	273	35	308
Independent directors:				
SHI Zhenhua	50	—	—	50
QIAO Xu	50	—	—	50
YANG Xiongsheng	50	—	—	50
CHEN Fangzheng	50	—	—	50
	200	1,050	105	1,355
Supervisors:				
CAO Yong	—	273	31	304
SUN Shaobo	—	188	31	219
SHAO Bin	40	—	—	40
CHU Bing	40	—	—	40
	80	461	62	603
	280	1,511	167	1,958

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows: (Continued)

(ii) For the year ended 31 December 2013

	Fee	Salary, allowance and bonus	Retirement	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Directors:				
LU Liyong	—	318	29	347
SUN Zhihong	—	—	—	—
XIAO Weizhen (i)	—	318	29	347
LONG Xingping	—	—	—	—
ZHANG Hong	—	—	—	—
GUAN Diaosheng	—	—	—	—
SUN Yuguo	—	—	—	—
SHEN Xijun	—	272	29	301
Independent directors:				
SHI Zhenhua	50	—	—	50
QIAO Xu	50	—	—	50
YANG Xiongsheng	50	—	—	50
CHEN Fangzheng	50	—	—	50
	200	908	87	1,195
Supervisors:				
CAO Yong	—	272	29	301
SUN Shaobo	—	188	29	217
SHAO Bin	40	—	—	40
CHU Bing	40	—	—	40
	80	460	58	598
	280	1,368	145	1,793

Note:
(i) Resigned on 3 April 2014.
(ii) Appointed on 18 June 2014.

16 DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
		Restated
Director or supervisor	—	—
Non-director or supervisor	5	5
	5	5

The aggregate of the emoluments in respect of the highest paid non-director or supervisor are as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Salaries, allowances and bonus	2,904	3,187
Contributions to pensions plans	257	258
	3,161	3,445

The emoluments of the five (2013: five) highest paid individuals who are non-director or supervisor are within the following bands:

	2014	2013
		Restated
Nil to HK$1,000,000	5	5

17 EMPLOYMENT BENEFITS

	2014	2013
	RMB'000	RMB'000 Restated
Salaries, wages and other benefits	14,938,698	14,840,088
Retirement benefit plan contribution (a)		
– Municipal retirement scheme costs	1,263,764	1,196,840
– Supplementary retirement scheme costs	341,750	335,815
	16,544,212	16,372,743

Note:
(a) Retirement benefits
As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 31 December 2014, the Group and the employees pay 20% and 8% (31 December 2013: 20% and 8%) of salary respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 5% of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

Those employees who involved supplementary retirement scheme are entitled to receive the pension in accordance with a certain percentage of the pre-retirement salary after retirement. The Group has no other material obligation for the payment of retirement benefits associated with these plans beyond Municipal retirement scheme and Supplementary retirement scheme.

18 PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2013

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Balance at 1 January 2013, as previously reported	1,916,360	11,827,163	1,870,881	15,614,404
Business combinations under common control (Note 1.3)	2,544,128	47,959,353	1,770,992	52,274,473
Balance at 1 January 2013, restated	4,460,488	59,786,516	3,641,873	67,888,877
Additions	154,886	4,355,643	2,856,167	7,366,696
Disposals/Write-off	(77,817)	(807,152)	—	(884,969)
Transferred from construction in progress	233,884	2,485,825	(2,719,709)	—
At 31 December 2013	4,771,441	65,820,832	3,778,331	74,370,604
Accumulated depreciation				
Balance at 1 January 2013, as previously reported	919,624	8,652,962	—	9,572,586
Business combinations under common control (Note 1.3)	840,774	20,758,328	—	21,599,102
Balance at 1 January 2013, restated	1,760,398	29,411,290	—	31,171,688
Depreciation	170,170	3,901,271	—	4,071,441
Disposals/Write-off	(66,178)	(664,484)	—	(730,662)
At 31 December 2013	1,864,390	32,648,077	—	34,512,467
Accumulated impairment loss				
Balance at 1 January 2013, as previously reported	8,286	642,419	—	650,705
Business combinations under common control (Note 1.3)	68,503	322,229	95,264	485,996
Balance at 1 January 2013, restated	76,789	964,648	95,264	1,136,701
Impairment losses	—	3,025	—	3,025
Disposals/Write-off	(330)	(11,528)	—	(11,858)
At 31 December 2013	76,459	956,145	95,264	1,127,868
Carrying amounts				
At 31 December 2013	2,830,592	32,216,610	3,683,067	38,730,269

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2014

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Balance at 1 January 2014, as previously reported	1,985,483	12,572,789	1,279,939	15,838,211
Business combinations under common control (Note 1.3)	2,785,958	53,248,043	2,498,392	58,532,393
Balance at 1 January 2014, restated	4,771,441	65,820,832	3,778,331	74,370,604
Additions	59,061	1,949,828	2,320,596	4,329,485
Disposals/Write-off	(70,180)	(979,298)	(569,690)	(1,619,168)
Transferred from construction in progress	93,060	3,628,280	(3,721,340)	—
Disposal of Outgoing Business	(1,986,517)	(13,578,681)	(325,349)	(15,890,547)
Transfer	(1,745,085)	(1,566,257)	—	(3,311,342)
At 31 December 2014	1,121,780	55,274,704	1,482,548	57,879,032
Accumulated depreciation				
Balance at 1 January 2014, as previously reported	983,889	8,822,869	—	9,806,758
Business combinations under common control (Note 1.3)	880,501	23,825,208	—	24,705,709
Balance at 1 January 2014, restated	1,864,390	32,648,077	—	34,512,467
Depreciation	143,410	4,217,959	—	4,361,369
Disposals/Reversal of write-off	(45,981)	(866,504)	—	(912,485)
Reversal upon disposal of Outgoing Business	(1,018,540)	(9,155,313)	—	(10,173,853)
Transfer	(604,391)	(769,050)	—	(1,373,441)
At 31 December 2014	338,888	26,075,169	—	26,414,057
Accumulated impairment loss				
Balance at 1 January 2014, as previously reported	8,253	636,006	—	644,259
Business combinations under common control (Note 1.3)	68,206	320,139	95,264	483,609
Balance at 1 January 2014, restated	76,459	956,145	95,264	1,127,868
Impairment losses	—	1,024,524	—	1,024,524
Disposals/Reversal of write-off	(12,063)	(39,829)	—	(51,892)
Reversal upon disposal of Outgoing Business	(7,516)	(1,654,452)	—	(1,661,968)
Transfer	(48,256)	(5,731)	—	(53,987)
At 31 December 2014	8,624	280,657	95,264	384,545
Carrying amounts				
At 31 December 2014	774,268	28,918,878	1,387,284	31,080,430

Recognised depreciation is analysed as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Continuing operations:		
Operating cost	3,839,813	3,564,539
Selling expenses	637	631
General and administrative expenses	47,549	36,296
	3,887,999	3,601,466
Discontinued operations:		
Operating cost	451,489	425,351
Selling expenses	39	45
General and administrative expenses	21,842	44,579
	473,370	469,975
	4,361,369	4,071,441

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2014, the property, plant and equipment under operating leases are "Oil engineering equipment and others" and its carrying amounts are RMB 74,550,000 (2013: Nil).

For the discontinued operations of fibre products and raw materials, due to the rapid increase of raw materials prices, the profit margin of polyester chip products shrinked sharply in the second quarter of 2014. Furthermore, in light of the significant and continuous drop of the price of 1, 4-butanediol product since April 2014 as a result of fierce competition with coal chemical products and severe over-capacity in the industry, and lack of competitiveness in terms of production cost of the Group's 1, 4-butanediol product in current market due to technological reason. Based on the assessment of the assets group including property, plant and equipment on 30 June 2014, the recoverable amount of those assets group was RMB921,327,000. The estimate of recoverable amount was based on the value in use of these facilities. In assessing value in use, the discount rate used to calculate the present value of estimated future cash flows is 13%. In addition, the impairment losses were also determined by reference to a revaluation on these facilities performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation.

19 PREPAID LAND LEASES

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	263,262	271,743
Business combinations under common control (Note 1.3)	75,976	71,043
Balance at 1 January, restated	339,238	342,786
Additions	—	7,728
Amortisation	(8,174)	(11,276)
Write-off	(105,627)	—
Transfer to Sinopec Group and its subsidiaries	(23,283)	—
Disposal of Outgoing Business	(151,047)	—
Balance at 31 December	51,107	339,238

Prepaid land leases represent prepayments made by the Group for the prepaid land leases located in the PRC which are held on leases term between 20 years to 50 years.

Leasehold interest in land is analysed as follows:

	2014 RMB'000	2013 RMB'000 Restated
Leasehold interest in land inside PRC:		
– Leases term of between 10 to 50 years	51,107	339,238

Recognised amortisation is analysed as follows:

	2014 RMB'000	2013 RMB'000 Restated
Continuing operations:		
Operating cost	8	1,052
General and administrative expenses	1,576	1,743
	1,584	2,795
Discontinued operations:		
General and administrative expenses	6,590	8,481
	8,174	11,276

20 INTANGIBLE ASSETS

As at 31 December 2013

	Computer softwares RMB'000	Others RMB'000	Total RMB'000
Cost			
Balance at 1 January 2013, as previously reported	—	—	—
Business combinations under common control (Note 1.3)	82,176	13,519	95,695
Balance at 1 January 2013, restated	82,176	13,519	95,695
Additions	9,904	1,688	11,592
Write-off	(3,375)	—	(3,375)
Balance at 31 December 2013, restated	88,705	15,207	103,912
Accumulated amortisation			
Balance at 1 January 2013, as previously reported	—	—	—
Business combinations under common control (Note 1.3)	49,044	12,762	61,806
Balance at 1 January 2013, restated	49,044	12,762	61,806
Amortisation	12,472	470	12,942
Reversal of write-off	(1,792)	—	(1,792)
At 31 December 2013	59,724	13,232	72,956
Carrying amounts			
At 31 December 2013	28,981	1,975	30,956

As at 31 December 2014

	Computer softwares RMB'000	Others RMB'000	Total RMB'000
Cost			
Balance at 1 January 2014, as previously reported	—	—	—
Business combinations under common control (Note 1.3)	88,705	15,207	103,912
Balance at 1 January 2014, restated	88,705	15,207	103,912
Additions	22,766	317	23,083
Balance at 31 December 2014	111,471	15,524	126,995
Accumulated amortisation			
Balance at 1 January 2014, as previously reported	—	—	—
Business combinations under common control (Note 1.3)	59,724	13,232	72,956
Balance at 1 January 2014, restated	59,724	13,232	72,956
Amortisation	12,567	229	12,796
At 31 December 2014	72,291	13,461	85,752
Carrying amounts			
At 31 December 2014	39,180	2,063	41,243

Recognised amortisation is analysed as follows:

	2014 RMB'000	2013 RMB'000 Restated
Continuing operations:		
Operating cost	6,552	8,412
General and administrative expenses	6,244	4.530
	12,796	12,942

21 INTERESTS IN JOINT VENTURES, ASSOCIATES AND INVESTMENTS IN SUBSIDIARIES

(a) Interests in joint ventures

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	584,850	584,819
Business combinations under common control (Note 1.3)	14,487	14,483
Balance at 1 January, restated	599,337	599,302
Increase in investment	97,285	—
Disposal of Outgoing Business	(585,018)	—
Share of total comprehensive (loss)/income	(3,709)	55
Dividend paid	(24)	(20)
Balance at 31 December	107,871	599,337

The interests in each joint venture are as follows:

	2014 RMB'000	2013 RMB'000 Restated
Far Eastern Yihua Petrochemical (Yangzhou) Corporation	—	584,850
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,108	1,105
Sinopec Gulf Petroleum Engineering Services, LLC	13,382	13,382
Zhong Wei Energy Service Co. Limited	20,801	—
SinoFTS Petroleum Services Limited	72,580	—
	107,871	599,337

The details of joint ventures of the Group are as follows:

Name of the company	Place of incorporation/ registration	Registered capital		Actaul interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Far Eastern Yihua Petrochemical (Yangzhou) Corporation	China	—	230,000	40.00%	Manufacturing and distribution of crude terephthalic acid and pure terephthalic acid/China
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	China	2,100	—	49.10%	Transportation services/China
Sinopec Gulf Petroleum Engineering Services, LLC	Kuwait	27,312	—	49.00%	Oilfield service/Kuwait
Zhong Wei Energy Service Co. Limited	China	305,000	—	50.00%	Oilfield technical service/China
SinoFTS Petroleum Services Limited	China	—	55,000	55.00%	Petroleum technical service/ China

The above joint ventures are unlisted and established as limited companies. The above joint ventures are accounted for using equity method.

Note:

(i) The decision of financial and operating strategies requires unanimous consent from the Company and other venturers as stated in the contracts signed by the both parties. The equities of joint ventures are measured by the joint ventures.

(ii) Commitments and contingent liabilities of the joint ventures
As at 31 December 2014, there is no material contingent liability and commitment between the Group with its joint ventures or joint ventures itself.

As at 31 December 2013, the Group has a commitment, which is not reflected in the financial statements, of USD 8,000,000 investment in Far Eastern Yihua Petrochemical (Yangzhou) Corporation ("FEYP"). The Group also provided a loan guarantee to FEYP with a maximum of USD 140,000,000 for 5 years. There is no other contingent liability in joint ventures.

21 INTERESTS IN JOINT VENTURES, ASSOCIATES AND INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Interests in joint ventures (Continued)

The detailed financial information of the material joint venture (SinoFTS Petroleum Services Limited) of the Group is as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Cash and cash equivalents	95,106	—
Current financial assets	131,990	—
Non-current financial assets	136	—
Total assets	132,126	—
Current liabilities	(163)	—
Non-current liabilities	—	—
Total liabilities	(163)	—
Net assets	131,963	—
Share of equity by the Group (55.00%) (2013: Nil)	72,580	—

	2014	2013
	RMB'000	RMB'000 Restated
Revenue	—	—
Depreciation and amortisation	3	—
Interest income	52	—
Total comprehensive loss for the year	(3,262)	—
Share of total comprehensive loss (55.00%) (2013: Nil)	(1,794)	—

The financial information of other immaterial joint ventures of the Group is as follows:

	2014	2013
	RMB'000	RMB'000 Restated
(Loss)/Profit for the year and total comprehensive (loss)/income	(4,024)	55

(b) Interests in associates

	2014	2013
	RMB'000	RMB'000 Restated
Balance at 1 January, as previously reported	—	—
Business combinations under common control (Note 1.3)	128	128
Balance at 1 January, restated	128	128
Balance at 31 December	128	128

21 INTERESTS IN JOINT VENTURES, ASSOCIATES AND INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Interests in associates (Continued)

The details of associate of the Group are as follows:

Name of the company	Place of incorporation/ registration	Registered capital	Actaul interest held indirectly	Principal activities and place of operation
		USD'000		
Sinopec International Trading (Nigeria) Company Limited	Nigeria	100	20.00%	Oil exploration/Nigeria

The above associate is unlisted and established as limited company. The above associate is accounted for using equity method.

Note:

(i) Commitments and contingent liabilities of the associate
As at 31 December 2014, there is no material contingent liability and commitment between the Group with its associate or associate itself.

(ii) There is no actual operating activity since its incorporation.

(c) Investments in subsidiaries

The Company

	2014	2013
	RMB'000	RMB'000 Restated
Unlisted investment, stated at cost (i)	**20,215,327**	—

(i) Particulars of principal subsidiaries as at 31 December 2014 are set out in note 49.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014	2013
	RMB'000	RMB'000 Restated
Balance at 1 January, as previously reported	—	—
Business combinations under common control (Note 1.3)	**41,494**	44,494
Balance at 1 January, restated	**41,494**	44,494
Transfer	**(1,000)**	—
Disposals	—	(3,000)
Balance at 31 December	**40,494**	41,494

Available-for-sale financial assets include the following:

	2014	2013
	RMB'000	RMB'000 Restated
Unlisted securities:		
Equity securities - PRC	**40,494**	41,494

Unlisted investments represent the Groups' equity interests of the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The unlisted equity securities are carried at cost less impairment. As the investments do not have quoted market price and its range of reasonable fair value estimation is very large so that the directors of the Company are of the opinion that its fair value cannot be measured reliably. All available-for-sale financial assets are denominated in RMB.

According to the "Approval of free equity transfer of Henan Oilfield Petroleum Technology Service Company Limited"《關於河南油田石油科技服務有限公司股權無償劃轉有關事項的批覆》(中國石化資[2014]390號), the long-term equity investment of Henan Oilfield Oil Technology Service Company Limited held by Sinopec Henan Oil Engineering Design Company Limited has been transferred to Henan Petroleum Exploration Bureau with nil consideration. Thus, there was a reduction of RMB 1,000,000 of the carrying amount of available-for-sale financial assets.

23 NOTES AND TRADE RECEIVABLES

	2014 RMB'000	2013 RMB'000 Restated
Trade receivables		
– Sinopec Group and its subsidiaries	19,519,440	15,794,920
– Joint ventures	31	—
– Sinopec Group and its associates and joint ventures	110,437	3,445
– Third parties	8,864,442	10,268,296
	28,494,350	26,066,661
Less: Provision for impairment	(429,415)	(385,093)
Trade receivables - net	28,064,935	25,681,568
Notes receivables	219,506	2,744,179
Notes and trade receivables - net	28,284,441	28,425,747

As at 31 December 2014 and 2013, the Group's notes and trade receivables were approximately their fair value.

All notes receivables of the Group are bank's acceptance notes and usually collected within six months from the date of issue.

As at 31 December 2014 and 2013, none of the Group's notes receivables were pledged as collateral or overdue.

The Group usually provides customers with a credit term between 90 to 180 days. For the settlement of trade receivables from provision of services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. The Group and the Company do not hold any collateral as security.

Ageing analysis of impaired notes and trade receivables based on invoice date is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Within 1 year	26,429,277	27,257,839
1 to 2 years	1,459,465	846,119
2 to 3 years	159,149	100,269
Over 3 years	236,550	221,520
	28,284,441	28,425,747

The movements of provision for impairment on trade receivables are as follows:

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	—	—
Business combinations under common control (Note 1.3)	385,093	254,777
Balance at 1 January, restated	385,093	254,777
Provisions	133,494	160,936
Reversal	(83,868)	(29,780)
Receivables write-off as uncollectible	(2,517)	(840)
Transfer	(2,787)	—
Balance at 31 December	429,415	385,093

24 PREPAYMENT AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000 Restated
Prepayments (i)	675,042	783,885
Other receivables (ii)		
Petty cash funds	125,405	142,916
Guarantee deposits	718,477	492,336
Disbursement of funds	755,768	409,189
Temporary payment	358,245	261,174
Escrow payments	16,559	15,624
Loans	10,000	1,013,120
Deposits	64,015	56,733
Export tax refund receivables	2,839	6,430
Value Added Tax to be offset	168,076	332,452
Other prepaid taxes	—	7,341
Others	584,120	667,715
	3,478,546	4,188,915
Less: Provision for impairment	(376,474)	(359,148)
Prepayments and other receivables - net	3,102,072	3,829,767

Note:

(i) As at 31 December 2014, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB 59,842,000 (2013: RMB 107,172,000).

(ii) As at 31 December 2014, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB 133,714,000 (2013: RMB 1,164,909,000), the joint ventures of the Group amounting at RMB 396,000 (2013: RMB 411,000) and the associates and joint ventures of Sinopec Group amounting at RMB 50,000,000 (2013: RMB 50,000).

(iii) The amounts due from related parties are unsecured, interest free and repayable on demand.

(iv) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2014 and 2013 approximate their fair value.

The movements of provision for impairment on prepayments and other receivables are as follows:

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	1,294	1,361
Business combinations under common control (Note 1.3)	357,854	356,615
Balance at 1 January, restated	359,148	357,976
Provisions	38,926	20,439
Reversal	(18,661)	(18,426)
Reversal upon disposal of Outgoing Business	(1,294)	—
Other receivables write-off as uncollectible	(312)	(841)
Transfer	(1,333)	—
Balance at 31 December	376,474	359,148

25 CONTRACT WORK-IN-PROGRESS

	2014 RMB'000	2013 RMB'000 Restated
Contract cost incurred plus recognised profit less recognised losses	51,989,462	51,747,700
Less: Expected loss on contracts	(28,158)	—
Less: Progress billings	(48,543,871)	(46,229,525)
Contract work-in-progress	3,417,433	5,518,175
Representing:		
Amounts due from customers for contract works	10,009,710	10,648,754
Less: Expected loss on contracts	(28,158)	—
Net amounts due from customers for contract works	9,981,552	10,648,754
Amounts due to customers for contract works	(6,564,119)	(5,130,579)
	3,417,433	5,518,175

	2014 RMB'000	2013 RMB'000 Restated
Contract revenue recognised as revenue during the year	60,377,611	70,311,933

26 INVENTORIES

	2014 RMB'000	2013 RMB'000 Restated
Raw materials	1,743,628	2,088,257
Finished goods	99,015	807,599
Work in progress	89,322	245,878
Turnover materials	24,917	124,413
Others	1,432	7,840
	1,958,314	3,273,987
Less: Provision for impairment	(7,724)	(53,413)
	1,950,590	3,220,574

For the year ended 31 December 2014 and 2013, the cost of inventories recognised as expenses and included in the "Operating cost" of continuing operations and discontinued operations amounted to RMB 34,355,091,000 (2013: RMB 42,194,445,000).

27 RESTRICTED CASH

	2014 RMB'000	2013 RMB'000 Restated
Letter of credit guarantee deposits	3,201	3,194
Guarantee deposits	8,942	10,498
Bank's acceptance notes guarantee deposits	—	20,000
	12,143	33,692

As at 31 December 2014 and 2013, restricted cash represents the deposits in banks with initial maturity due for six months which are letter of credit guarantee deposits, guarantee deposits and pledged for issuance of bank acceptance notes.

As at 31 December 2014 and 2013, the annual interest rates on restricted cash range from one to six months and are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash.

28 CASH AND CASH EQUIVALENTS

	2014 RMB'000	2013 RMB'000 Restated
Cash on hand	15,635	18,289
An initial term less than three months:		
– Sinopec Finance Company Limited	88,538	449,976
– Sinopec Century Bright Capital Investment Company Limited	441,467	415,666
– China CITIC Bank	65	21,885
– Third party banks and other financial institutions	656,049	788,278
	1,201,754	1,694,094

As at 31 December 2014 and 2013, the annual interest rates on cash at bank are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates the carrying amounts of cash and cash equivalents.

29 SHARE CAPITAL

	2014		2013	
	Number of shares Share	Share capital RMB'000	Number of shares Share	Share capital RMB'000
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1 each	10,259,327,662	10,259,328	3,450,000,000	3,450,000
– Social public A shares of RMB1 each	450,000,000	450,000	450,000,000	450,000
– H shares of RMB1 each	2,100,000,000	2,100,000	2,100,000,000	2,100,000
	12,809,327,662	12,809,328	6,000,000,000	6,000,000

The Company issued 1,000,000,000 H shares, 200,000,000 A shares and 400,000,000 new H shares in March 1994, January 1995 and April 1995 respectively. The Company's H shares and new H shares were listed and commenced trading on the Stock Exchange of Hong Kong Limited on 29 March 1994 and 26 April 1995 respectively. The Company's A shares were listed and commenced trading on the Shanghai Stock Exchange on 11 April 1995.

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Guo Zi Chan Quan [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. and CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25% respectively. From 16 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 31 December 2014, all shares held by Sinopec Corp. and CITIC Limited have not been available for trading.

29 SHARE CAPITAL (Continued)

	Number of shares Share	Share capital RMB'000
At 1 January 2013	4,000,000,000	4,000,000
Share premium converted into share capital (i)	2,000,000,000	2,000,000
At 31 December 2013 and 1 January 2014	6,000,000,000	6,000,000
Repurchase of share capital (ii)	(2,415,000,000)	(2,415,000)
Issued share capital (ii)	9,224,327,662	9,224,328
At 31 December 2014	12,809,327,662	12,809,328

Note:

(i) The Company converted 5 shares for each 10 shares from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

(ii) Pursuant to the resolution of the Company's First Extraordinary General Meeting and amendment of Articles 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) issued by China Securities Regulatory Committee, the Company would sell all of the assets and liabilities to Sinopec Corp. and repurchase shares (a total of 2,415,000,000 A Shares) form Sinopec Corp. for cancellation. On the even date, the Company would issue the Consideration Shares (a total of 9,224,327,662 A Shares) to Sinopec Group in order to acquire 100% equity interest held by Sinopec Group. The registration of shares change was completed on 31 December 2014 and has been verified by Grant Thornton China pursuant to the capital verification report (GT Yan Zi (2014) No.110ZC0383).

30 DISTRIBUTABLE PROFITS

The distributable profits of the Company are as follows:

	2014 RMB'000	2013 RMB'000 Restated
Distributable profits	—	—

Loss attributable to the equity holders of the Company are recognised in the financial statements of the Group:

	2014 RMB'000	2013 RMB'000 Restated
Loss for the year	1,159,620	1,450,019

The statement of changes in equity of the Company is as follows:

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Specific reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2013	4,000,000	2,518,833	28,339	200,383	80	1,765,848	8,513,483
Total comprehensive loss	—	—	—	—	—	(1,450,019)	(1,450,019)
Total transactions with owners:							
– Share premium converted into share capital	2,000,000	(2,000,000)	—	—	—	—	—
– Appropriation of safety fund	—	—	—	—	1,367	(1,367)	—
At 31 December 2013	6,000,000	518,833	28,339	200,383	1,447	314,462	7,063,464
At 1 January 2014	6,000,000	518,833	28,339	200,383	1,447	314,462	7,063,464
Total comprehensive loss	—	—	—	—	—	(1,159,620)	(1,159,620)
Total transactions with owners:							
– Issued of share capital	9,224,328	9,872,096	—	—	—	—	19,096,424
– Repurchases of share capital	(2,415,000)	(3,886,755)	—	—	(1,394)	—	(6,303,149)
– Appropriation of safety fund	—	—	—	—	(53)	53	—
At 31 December 2014	12,809,328	6,504,174	28,339	200,383	—	(845,105)	18,697,119

31 RESERVES

(i) Share premium and other capital reserve

In accordance with the relevant laws and regulations of the PRC, on this restructuring, the surplus of related asset revaluation, transaction with Sinopec Group, issue of share capital and share repurchases are reflected in this reserves.

(ii) Surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The statutory surplus reserve can be used to offset losses, if any, and may be converted into share capital by issuing new shares.

(iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its oil construction business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

32 DEFERRED INCOME

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	61,333	55,103
Business combinations under common control (Note 1.3)	41,279	50,038
Balance at 1 January, restated	102,612	105,141
Government grants received during the year	441,789	13,018
Recognised in the statement of comprehensive income for the year	(442,893)	(15,547)
Disposal of Outgoing Business	(57,557)	—
Balance at 31 December	43,951	102,612

The government grants received related to assets were recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the related assets when they were ready for use.

The government grants related to income were recognised in profit or loss for the compensation of the related expenses or losses in the current period. The government grants received were recognised as deferred income and recognised to profit or loss for the compensation of related expenses or loss in the subsequent period.

33 SPECIAL PAYABLES

	2014 RMB'000	2013 RMB'000 Restated
Balance at 1 January, as previously reported	—	—
Business combinations under common control (Note 1.3)	7,380	6,821
Balance at 1 January, restated	7,380	6,821
Increase during the year	—	5,384
Decrease during the year	(4,733)	(4,825)
Balance at 31 December	2,647	7,380

The Group received the compensation of relocation due to public interest of urban planning, reservoir construction, shantytowns, subsidence governance relocation.

34 NOTES AND TRADE PAYABLES

	2014 RMB'000	2013 RMB'000 Restated
Trade payables		
– Sinopec Group and its subsidiaries	2,096,826	4,180,248
– Joint ventures	505	—
– Sinopec Group and its associates and joint ventures	17,876	—
– Third parties	27,941,958	26,424,524
	30,057,165	30,604,772
Notes payables	856,442	1,141,591
	30,913,607	31,746,363

As at 31 December 2014 and 2013, the carrying amount of Group's notes and trade payables were approximately their fair value.

Ageing analysis of notes and trade payables based on invoice date is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Within 1 year	23,843,263	27,071,810
1 and 2 years	5,054,013	3,140,180
2 and 3 years	1,141,614	767,716
Over 3 years	874,717	766,657
	30,913,607	31,746,363

35 DEPOSITS RECEIVED AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000 Restated
Deposits received (i)		
Payment for goods	—	310,086
Advances for construction and service	1,853,049	1,817,330
Salaries payables	288,285	487,456
Other tax payables	2,523,352	2,414,068
Interest payables (ii)	20,028	33,907
Other payables (iii)		
Guarantee deposits	409,207	480,158
Deposits	161,140	143,858
Disbursement of funds	339,054	865,583
Temporary receipts	369,576	910,703
Escrow payments	28,437	36,805
Withheld payments	169,590	96,985
Sinopec Group capital restructuring funds	4,000,000	—
Net profit of Material Assets Reorganisation	1,479,207	—
Others	371,258	467,072
Total deposits received and other payables	12,012,183	8,064,011

35 DEPOSITS RECEIVED AND OTHER PAYABLES (Continued)

Note:

(i) As at 31 December 2014, the deposits received include related party balances: Sinopec Group and its subsidiaries amounting at RMB 191,719,000 (2013: RMB 230,305,000) and the associates and joint ventures of Sinopec Group amounting at RMB 143,462,000 (2013: Nil).

(ii) As at 31 December 2014, the interest payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB 19,880,000 (2013: RMB 32,192,000).

(iii) As at 31 December 2014, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB 5,546,881,000 (2013: RMB 721,043,000).

(iv) Amounts due to related parties are unsecured, interest free and repayable on demand.

36 BORROWINGS

	2014	2013
	RMB'000	RMB'000 Restated
Current liabilities		
Bank loans (i)	36,714	902,907
Loans from immediate and ultimate holding company (ii)	—	4,300,000
Loans from Sinopec Finance Company Limited (iii)	4,460,000	4,589,900
Loans from Sinopec Century Bright Capital Investment Company Limited (iii)	7,502,995	6,424,859
Finance lease liabilities (iv)	15,870	—
	12,015,579	16,217,666
Non-current liabilities		
Bank loans (i)	428,723	—
Loans from immediate and ultimate holding company (ii)	—	300,000
Loans from Sinopec Finance Company Limited (iii)	70,000	280,000
Finance lease liabilities (iv)	69,440	—
	568,163	580,000
	12,583,742	16,797,666

(i) Bank loans

The bank loans of the Group are repayable as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Within 1 year	36,714	902,907
Over 5 years	428,723	—
	465,437	902,907

As at 31 December 2014, the annual interest rates for the above bank loans range from 2.42% to 5.60% (2013: 2.14% to 5.04%).

(ii) Loans from immediate and ultimate holding company

The loans from immediate and ultimate holding company of the Group are repayable as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Within 1 year	—	4,300,000
2 to 5 years	—	300,000
	—	4,600,000

Loans from immediate and ultimate holding company are unsecured and repayable on or before 31 December 2014. The annual interest rates range from 3.78% to 4.49% (2013: 3.78% to 4.49%).

36 BORROWINGS (Continued)

(iii) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	2014 RMB'000	2013 RMB'000 Restated
Within 1 year	11,962,995	11,014,759
1 to 2 years	70,000	80,000
2 to 5 years	—	200,000
	12,032,995	11,294,759

Loans from related parties are unsecured and repayable on or before 30 June 2016. The annual interest rates range from 1.55% to 6.15% (2013: 1.30% to 5.60%).

(iv) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	2014 RMB'000	2013 RMB'000 Restated
Total minimum lease payments		
– Within 1 year	20,264	—
– 1 to 2 years	22,080	—
– 2 to 5 years	58,427	—
	100,771	—
Future finance charges on finance leases	(15,461)	—
Present value of finance lease liabilities	85,310	—

	2014 RMB'000	2013 RMB'000 Restated
Present value of minimum lease payments:		
– Within 1 year	15,870	—
– 1 to 2 years	17,360	—
– 2 to 5 years	52,080	—
	85,310	—
Less: Portion due within one year included under current liabilities	(15,870)	—
Portion due after one year included under non-current liabilities	69,440	—

37 DEFERRED INCOME TAX

Deferred income tax assets and liabilities recognised:

The analysis of deferred income tax assets and liabilities is as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Deferred income tax assets	156,679	220,375
Deferred income tax liabilities	(46,895)	(4,852)
Deferred income tax assets, net	109,784	215,523

The movement of the deferred income tax account is as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Balance at 1 January, as previously reported	73,783	312,039
Business combinations under common control (Note 1.3)	141,740	108,227
Balance at 1 January, restated	215,523	420,266
Tax charged to profit for the year (Note 12)	(57,623)	(199,891)
Charged to equity for fair value change of assets	(48,116)	(4,852)
Balance at 31 December	109,784	215,523

The movement of deferred income tax assets/(liabilities) during the years ended 31 December 2014 and 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses	Deferred income	Provision for impairment on assets	Accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013, as previously reported	211,779	4,812	78,112	17,336	312,039
Business combinations under common control (Note 1.3)	—	18,278	89,949	—	108,227
Balance at 1 January 2013, restated	211,779	23,090	168,061	17,336	420,266
(Charged)/Credited to:					
Profit for the year	(211,779)	(7,120)	34,626	(15,618)	(199,891)
Equity	—	—	—	—	—
Balance at 31 December 2013	—	15,970	202,687	1,718	220,375
Balance at 1 January 2014, as previously reported	—	7,077	64,988	1,718	73,783
Business combinations under common control (Note 1.3)	—	8,893	137,699	—	146,592
Balance at 1 January 2014, restated	—	15,970	202,687	1,718	220,375
Charged to:					
Profit for the year	—	(7,980)	(53,998)	(1,718)	(63,696)
Equity	—	—	—	—	—
Balance at 31 December 2014	—	7,990	148,689	—	156,679

37 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Revaluation on assets	Total
	RMB'000	RMB'000
Balance at 1 January 2013, as previously reported	—	—
Business combinations under common control (Note 1.3)	—	—
Balance at 1 January 2013, restated	—	—
Charged to:		
Profit for the year	—	—
Equity	4,852	4,852
Balance at 31 December 2013	4,852	4,852
Balance at 1 January, 2014, as previously reported	—	—
Business combinations under common control (Note 1.3)	**4,852**	**4,852**
Balance at 1 January 2014, restated	**4,852**	**4,852**
(Credited)/Charged to:		
Profit for the year	**(6,073)**	**(6,073)**
Equity	**48,116**	**48,116**
Balance at 31 December 2014	**46,895**	**46,895**

Deferred income tax assets represent the recognised tax losses carried-forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax losses not recognised as deferred income tax assets in the Group is as follow:

	2014	2013
	RMB'000	RMB'000 Restated
Tax losses not recognised as deferred income tax assets	**4,015,385**	2,589,628

The Group did not recognise the above tax losses as deferred income tax assets as the management believes that it is less likely such tax losses would be realised before its expiry date. The said tax losses not recognised as deferred income tax assets would be expired within five years.

38 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2014 and 2013 not provided for in the financial statements are as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Contracted but not provided for	**1,658,430**	1,410,250

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2014 and 2013 are as follows:

	2014	2013
	RMB'000	RMB'000 Restated
Within 1 year	**66,864**	32,860
1 to 2 years	**19,315**	36,958
2 to 3 years	**18,299**	18,808
Over 3 years	**6,046**	23,258
Total	**110,524**	111,884

38 COMMITMENTS (Continued)

(c) Investment commitments

As at 31 December 2014, the Group has outstanding commitments of RMB 240,685,000 in respect of its investment in SinoFTS Petroleum Services Limited and Zhong Wai Energy Service Co. Limited. (2013: YiZheng investment commitment in Far Eastern Yihua Petrochemical (Yangzhou) Co., Limited USD 8,000,000).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2014.

39 Cash generated from operations

	2014 RMB'000	2013 RMB'000 Restated
Profit/(Loss) before income tax		
– Continuing operations	3,320,072	2,179,996
– Discontinued operations	(2,261,170)	(1,211,469)
	1,058,902	968,527
Adjustment for:		
– Depreciation of property, plant and equipment	4,361,369	4,071,441
– Losses on disposal/write-off of property, plant and equipment	4,644	32,114
– Amortisation of prepaid land leases	8,174	11,276
– Losses on disposal/write-off of prepaid land leases	105,627	—
– Amortisation of intangible assets	12,796	12,942
– Losses on disposal/write-off of intangible assets	—	1,583
– Losses on disposal of available-for-sale financial assets	—	3,000
– Interest income	(12,542)	(18,404)
– Interest expense	543,535	765,446
– Share of profit/(loss) from joint ventures	3,709	(55)
– Provision for impairment on trade and other receivables	49,626	131,156
– Provision for impairment on prepayment and other receivables	20,265	2,013
– Reversal of inventories	(45,689)	—
– Expected loss on contracts work-in-progress	28,158	—
– Gain from disposal of available-for-sale financial assets	(2,050)	(2,240)
Cash flows from operating activities before changes in working capital	6,136,524	5,978,799
Changes in working capital:		
– Other non-current assets	(362,960)	766,548
– Inventories	232,334	421,706
– Notes and trade receivables	(2,049,353)	(11,845,635)
– Prepayment and other receivables	37,723	(3,473,702)
– Restricted cash	21,549	(15,290)
– Contract work-in-progress	2,072,584	2,861,366
– Deferred income	(1,104)	(2,529)
– Specific payables	(4,733)	559
– Notes and trade payables	1,406,127	8,836,478
– Deposits received and other payables	(2,352,670)	(1,670,592)
Cash generated from operations	5,136,021	1,857,708

40 SIGNIFICANT NON-CASH TRANSACTION

For the business combinations under common control (Note 45), disposal of Outgoing Business (Note 46) and share repurchase (Note 47) under the Reorganisation, the settlement between the Company, Sinopec Group and Sinopec Corp. are paid in net cash consideration.

41 CONTINGENCIES

(a) Contingent liabilities and financial impacts due to pending litigation

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group.

(b) Contingent liabilities and financial impacts from guarantee provided for other entities

As at 31 December 2014, there is no material contingency from guarantee provided for other entities.

(c) Foreign tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100 (equivalent to USD 33,524,600, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, on 10 March 2014, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the accountant's report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. Since the tax penalties are not predictable, SOSC Group did not provide the provision of such incident.

(d) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular [2007] No.664) issued by the State Administrative of Taxation in June 2007, the Group has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33%. Up to date, the Group has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2014. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, which might exist.

42 SIGNIFICANT RELATED PARTY TRANSACTIONS

Sinopec Group, Sinopec Corp. and CITIC Group Corporation (formerly known as "China International Trust and Investment Corporation") are considered to be related parties as they have the ability to control and exercise their significant influence over the Group's financial and operating decisions.

Sinopec Finance Company Limited, China CITIC Bank, other subsidiaries of Sinopec Group and Sinopec Corp. and other subsidiaries and joint ventures of CITIC Group Corporation are considered to be related parties as they are subject to the common control or significant influences by Sinopec Group, Sinopec Corp. or CITIC Group Corporation.

The transactions with related parties are carried out on normal commercial terms or relevant agreements with counter parties in the ordinary course of business.

(a) Significant related party transactions arising with Sinopec Group, Sinopec Corp. and its subsidiaries and fellow subsidiaries:

	2014	2013
	RMB'000	RMB'000 Restated
Continuing operations		
Purchases of materials		
– Sinopec Corp. and its subsidiaries	12,770,291	18,134,618
– Sinopec Group and its subsidiaries	777,109	617,914
	13,547,400	18,752,532
Sales of products		
– Sinopec Corp. and its subsidiaries	54,558	7,675
– Sinopec Group and its subsidiaries	8,472	22,256
	63,030	29,931
Rendering of engineering services		
– Sinopec Corp. and its subsidiaries	48,198,496	56,036,020
– Sinopec Group and its subsidiaries	2,680,122	3,644,200
	50,878,618	59,680,220
Receiving of community services		
– Sinopec Group and its subsidiaries	1,663,942	1,596,836
Receiving of integrated services		
– Sinopec Group and its subsidiaries	163,643	502,562
Rendering of technology development services		
– Sinopec Group and its subsidiaries	276,520	160,800
Rental expenses		
– Sinopec Corp. and its subsidiaries	65,571	68,113
– Sinopec Group and its subsidiaries	45,898	19,802
	111,469	87,915
Deposits interest income		
– Sinopec Group and its subsidiaries	1,056	6,411
Loans interest expenses		
– Sinopec Group and its subsidiaries	558,865	765,445
Borrowings obtained		
– Sinopec Group and its subsidiaries	72,102,555	50,319,326
Borrowings repaid		
– Sinopec Group and its subsidiaries	75,264,319	53,931,896
Safety and insurance fund expenses		
– Sinopec Group	97,481	88,015
Safety and insurance fund refund		
– Sinopec Group	96,590	134,508

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group, Sinopec Corp. and its subsidiaries and fellow subsidiaries: (Continued)

	2014	2013
	RMB'000	RMB'000 Restated
Discontinued operations:		
Purchases of materials		
– Sinopec Corp. and its subsidiaries	12,942,422	11,026,614
– Sinopec Group and its subsidiaries	5,608	26,640
	12,948,030	11,053,254
Sales of products		
– Sinopec Group and its subsidiaries	437,356	356,891
Commission fees		
– Sinopec Corp. and its subsidiaries	24,775	47,084
Construction fees		
– Sinopec Group and its subsidiaries	10,595	48,230
Miscellaneous expenses		
– Sinopec Group and its subsidiaries	6,980	6,980
Deposits interest income		
– Sinopec Group and its subsidiaries	730	942
– China CITIC Bank	683	612
	1,413	1,554
Loans interest expenses		
– Sinopec Group and its subsidiaries	31,989	29,562
Safety and insurance fund expenses		
– Sinopec Group	43,740	40,480
Safety and insurance fund refund		
– Sinopec Group	86,826	—
Borrowings obtained		
– Sinopec Group and its subsidiaries	3,700,000	1,800,000
Borrowings repaid		
– Sinopec Group and its subsidiaries	4,400,000	1,400,000
Temporary borrowings		
– Sinopec Group and its subsidiaries	800,000	—
Compensation received		
– Sinopec Group and its subsidiaries	7,400	—

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration of key management personnel

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

	2014	2013
	RMB'000	RMB'000 Restated
Fee	280	280
Salaries, allowances and bonus	2,245	2,376
Contributions to pension plans	258	265
	2,783	2,921

(c) Related party guarantee

Sinopec Group provides performance guarantee to the Group amounting at USD 210,000,000. The guarantee period is from June 2013 to November 2015.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group established certain risk management policies to recognise and analyse the potential risk of the Group. The Group designed an internal control procedure according to proper acceptable risk level in order to monitor the risk position of the Group. Both risk management policies and related internal control system will be reviewed regularly to adapt the market condition or changes in operating activities of the Group. The implementation of internal control system will be reviewed regularly or randomly by the internal audit department in accordance to the risk management policies.

43.1 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

(i) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalent, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Company. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Company's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Company's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2014 and 2013, the Group did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not significant because the fixed term deposits are short-term deposits.

Interest-bearing financial instruments held by the Group are as below:

	2014		2013	
	%	RMB'000	% Restated	RMB'000 Restated
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 27 and 28)	3%	1,612	2.8%	20,610
Borrowings (Note 36)	1.55% - 7.5%	4,485,310	1.55% - 7.5%	8,039,900
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 27 and 28)	0.35%	1,196,649	0.35%	1,688,860
Borrowings (Note 36)	1.3% - 5.6%	8,098,432	1.3% - 5.6%	8,757,766

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

As at 31 December 2014, it is estimated that a general increase/decrease of 50 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit and shareholder's equity for the year by approximately RMB 30,369,000 (31 December 2013: RMB 34,476,000).

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at the reporting date and arised from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for 2013.

(ii) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily denominated in US Dollars, Saudi Riyals, Kuwait Dinars and Brazil Reals.

The foreign currency assets and liabilities include restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings which are denominated in foreign currencies.

The following table details the assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

As at 31 December 2014	**USD**	**SAR**	**KWD**	**BRL**	**Others**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Restricted cash and cash and cash equivalents	**616,685**	**139,304**	**36,934**	**9,477**	**143,595**
Trade and other receivables	**3,469,177**	**1,009,553**	**283,129**	**250,216**	**616,157**
Trade and other payables	**(805,948)**	**(820,080)**	**(334,830)**	**(151,082)**	**(185,797)**
Borrowings	**(7,968,432)**	**—**	**—**	**—**	**—**
Net exposure in RMB	**(4,688,518)**	**328,777**	**(14,767)**	**108,611**	**573,955**

As at 31 December 2013	USD	SAR	KWD	BRL	Others
	RMB'000 Restated	RMB'000 Restated	RMB'000 Restated	RMB'000 Restated	RMB'000 Restated
Restricted cash and cash and cash equivalents	738,427	173,309	28,436	63,674	211,627
Trade and other receivables	4,351,273	1,248,810	165,523	164,512	561,512
Trade and other payables	(3,669,658)	(985,105)	(27,537)	(142,503)	(75,502)
Borrowings	(6,604,883)	—	—	—	—
Net exposure in RMB	(5,184,841)	437,014	166,422	85,683	697,637

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies in order to minimise foreign exchange risk. The Company may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2014 and 2013, the Group did not enter into any forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the effect on the Group's profit after tax in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2014 and 2013:

	2014	2013
	RMB'000	RMB'000 Restated
Changes in equity and net profits		
– USD	**175,819**	194,431
– SAR	**(12,329)**	(16,388)
– KWD	**554**	(6,241)
– BRL	**(4,073)**	(3,213)

As at 31 December 2014 and 2013, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss.

Credit is managed on the grouping basis by the Group. Credit risk mainly arises from cash at bank and accounts receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank and notes receivables since they are either deposited or will be accepted by the state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counter parties.

In addition, the Group has policies to limit the credit risk exposure on accounts receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, shorten or cancel credit periods, to ensure the overall credit risk is limited to a controllable extent.

The highest credit risk exposure of the Group is the carrying amount of each financial instrument illustrated in the statement of financial position. The Group did not provide any other guarantee that might cause credit risk to the Group.

(c) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Regarding to the management of liquidity risk, the Group's management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The Group's management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient commitment on reserve fund from major financial institute to meet needs of short-term and long-term liquidity.

The financial assets and liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows:

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cashflows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014						
Restricted cash and cash and cash equivalents	**1,213,897**	**—**	**—**	**—**	**1,213,897**	**1,213,897**
Trade and other receivables	**30,558,166**	**—**	**—**	**—**	**30,558,166**	**30,558,166**
Trade and other payables	**(38,549,391)**	**—**	**—**	**—**	**(38,549,391)**	**(38,549,391)**
Borrowings	**(12,019,973)**	**(92,080)**	**(58,427)**	**(428,723)**	**(12,599,203)**	**(12,583,742)**
	(18,797,301)	**(92,080)**	**(58,427)**	**(428,723)**	**(19,376,531)**	**(19,361,070)**
As at 31 December 2013 (Restated)						
Restricted cash and cash and cash equivalents	1,727,786	—	—	—	1,727,786	1,727,786
Trade and other receivables	31,139,303	—	—	—	31,139,303	31,139,303
Trade and other payables	(35,268,889)	—	—	—	(35,268,889)	(35,268,889)
Borrowings	(16,217,666)	(80,000)	(500,000)	—	(16,797,666)	(16,797,666)
	(18,619,466)	(80,000)	(500,000)	—	(19,199,466)	(19,199,466)

43.2 Capital risk management

The objectives of the Group's capital risk management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital. Net liabilities are calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is the sum of shareholders' equity and net liabilities as shown in the consolidated statement of financial position. Shareholders' equity includes the equity attributable to shareholders of the parent and non-controlling interests.

At the reporting date, the debt to equity ratio is set out as below:

	2014	2013
	RMB'000	RMB'000 Restated
Total borrowings	**12,583,742**	16,797,666
Less: cash and cash equivalents (Note 28)	**(1,201,754)**	(1,694,094)
Net debts	**11,381,988**	15,103,572
Total equity	**18,696,138**	30,733,209
Total capital	**30,078,126**	45,836,781
Gearing ratio	**38%**	33%

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.3 Fair value estimation

Fair value hierarchies are categorised into three levels as the lowest level input that is significant to the entire fair value measurement:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

As at 31 December 2014 and 2013, financial assets and liabilities of the Group measured at amortised cost mainly represent: cash and cash equivalents, accounts and other receivable, borrowings and accounts and other payable. The carrying amounts of these financial assets and liabilities are not materially different from those measured at fair value.

44 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2014	2013
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		—	5,387,194
Prepaid land leases		—	263,262
Interests in subsidiaries	21(c)	20,215,327	—
Interests in joint ventures		—	584,850
Deferred income tax assets		—	73,783
Total non-current assets		20,215,327	6,309,089
Current assets			
Inventories		—	1,320,644
Notes and trade receivables		—	2,699,138
Prepayment and other receivables		—	194,636
Restricted cash		—	20,000
Cash and cash equivalents		—	85,797
Total current assets		—	4,320,215
Total assets		20,215,327	10,629,304
Equity			
Share capital		12,809,328	6,000,000
Reserves	30	5,887,791	1,063,464
Total equity		18,697,119	7,063,464
Liabilities			
Non-current liabilities			
Deferred income		—	61,333
Current liabilities			
Notes and trade payables		—	1,200,758
Deposits received and other payables		1,518,208	700,842
Short term borrowings		—	1,602,907
Total current liabilities		1,518,208	3,504,507
Total liabilities		1,518,208	3,565,840
Total equity and liabilities		20,215,327	10,629,304
Net current (liabilities)/assets		(1,518,208)	815,708
Total assets less current liabilities		18,697,119	7,124,797

45 BUSINESS COMBINATION UNDER COMMON CONTROL

On 12 September 2014, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Sinopec Group, pursuant to which Sinopec Group has agreed to transfer 100% equity interests of SOCS to the Company (the "Acquisition").

Pursuant to the Acquisition Agreement, the aggregate consideration for the Acquisition is approximately RMB 24,075,000,000 which was determined based on the valuation of the book value of SOSC as at 30 June 2014 (the ''Initial Acquisition Valuation''). Such consideration shall be settled by the issue of 9,224,327,662 shares at the price of RMB 2.61 (the average closing price of the last 20 trading days as quoted on the Shanghai Stock Exchange).

On 30 December 2014, the Company completed the Acquisition and 9,224,327,662 A shares were issued to Sinopec Group.

As at 30 December 2014, the net asset value of SOSC was approximately RMB 20,215,327,000, which was recognised in the Company's statement of financial position as "investment in subsidiaries". The nominal value of shares of RMB 9,224,328,000 was recognised in "share capital" account. The differences between the nominal value of the share capital and the net assets value of RMB 10,990,999,000 were recognised in the "share premium" account.

For the period from 30 June 2014 to 30 December 2014, the net assets value of SOSC increased by RMB 1,118,903,000. The Company paid such additional amount to Sinopec Group and such were deducted from the "share premium" account.

As set out in the Reorganisation in note 1.1 and the basis of pretention in note 1.3, for the purposes of the consolidated statement of comprehensive income, the Oilfield Business was classified as "continuing operations".

The effect of the Group's consolidated statement of financial position for the business combination under common control as at 31 December 2013 are as follows:

	As at 31 December 2013		
	As previously reported	SOSC	Restated
	RMB'000	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	5,387,194	33,343,075	38,730,269
Other non-current assets	—	4,922,244	4,922,244
Prepaid land leases	263,262	75,976	339,238
Intangible assets	—	30,956	30,956
Interests in joint ventures	584,850	14,487	599,337
Interests in associates	—	128	128
Available-for-sale financial assets	—	41,494	41,494
Deferred income tax assets	73,783	146,592	220,375
Total non-current assets	6,309,089	38,574,952	44,884,041
Current assets			
Inventories	1,320,644	1,899,930	3,220,574
Notes and trade receivables	2,699,138	25,726,609	28,425,747
Prepayment and other receivables	194,636	3,635,131	3,829,767
Amounts due from customers for contract works	—	10,648,754	10,648,754
Restricted cash	20,000	13,692	33,692
Cash and cash equivalents	85,797	1,608,297	1,694,094
Total current assets	4,320,215	43,532,413	47,852,628
Total assets	10,629,304	82,107,365	92,736,669

45 BUSINESS COMBINATION UNDER COMMON CONTROL (Continued)

The effect of the Group's consolidated statement of financial position for the business combination under common control as at 31 December 2013 are as follows: (Continued)

	As at 31 December 2013		
	As previously reported	SOSC	Restated
	RMB'000	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Long term borrowings	—	580,000	580,000
Deferred income	61,333	41,279	102,612
Special payables	—	7,380	7,380
Deferred income tax liabilities	—	4,852	4,852
Total non-current liabilities	61,333	633,511	694,844
Current liabilities			
Notes and trade payables	1,200,758	30,545,605	31,746,363
Deposits received and other payables	700,842	7,363,169	8,064,011
Amounts due to customers for contract works	—	5,130,579	5,130,579
Short term borrowings	1,602,907	14,614,759	16,217,666
Current income tax payable	—	149,997	149,997
Total current liabilities	3,504,507	57,804,109	61,308,616
Total liabilities	3,565,840	58,437,620	62,003,460
Net assets	7,063,464	23,669,745	30,733,209

The effects of the Group's earnings per share for the business combination under common control for the year ended 31 December 2013 are as follows:

	For the year ended 31 December 2013		
	As previously reported	SOSC	Restated
	RMB	RMB	RMB
Earnings per share for profit/(loss) attributable to owners of the company (in RMB) – Basic and diluted	(0.242)	0.243	0.001

46 DISPOSAL OF OUTGOING BUSINESS

On 12 September 2014, the Company entered into a disposal agreement (the "Disposal Agreement") with Sinopec Corp., pursuant to which the Company agreed to transfer the Outgoing Business to Sinopec Corp.

The aggregate consideration of RMB 6,491,426,000 which was determined based on the valuation of book value of the Outgoing Business as at 30 June 2014 (the ''Initial Disposal Valuation''). The consideration is subject to adjustment with reference to the final valuation of the book value of the Outgoing Business as at the completion date of the Disposal Agreement (the ''Final Disposal Valuation'').

On 30 December 2014, the Company completed the Disposal Agreement and disposed the Outgoing Business to Sinopec Corp.

As at 30 December 2014, the net assets value of the Outgoing Business and the gain on disposal of Outgoing Business is as follows:

	Note	RMB'000
Property, plant and equipment		4,054,726
Prepaid land leases		151,047
Interests in joint ventures		585,018
Inventories		1,082,698
Trade and other receivables		2,148,529
Cash and cash equivalents		71,933
Deferred income		(57,557)
Trade and other payables		(2,238,882)
Borrowings		(1,030,000)
Net assets value		4,767,512
Gain on disposal of Outgoing Business	13	1,175,333
		5,942,845
Consideration:		
Outgoing Business's Initial Disposal Valuation's consideration		6,491,426
Adjustments for the decrease in net assets from 30 June 2014 to 30 December 2014		(548,581)
Outgoing Business's Final Disposal Valuation's consideration		5,942,845

47 REPURCHASES OF SHARES

On 12 September 2014, a "Share Repurchase Agreement" was concluded between the Company and Sinopec Corp. According to the agreement, the Company agreed to repurchase 2,415,000,000 A shares from Sinopec Corp. at RMB 2.61 per share which is the average closing price of the shares in the past 20 trading days on the Shanghai Stock Exchange. The total consideration of the repurchase shares is approximately RMB 6,303,150,000.

On 30 December 2014, the agreement is completed and the Company repurchased 2,415,000,000 A shares from Sinopec Corp.

The nominal value of repurchased share approximated RMB 2,415,000,000 was offset with "share capital". The difference between nominal value and consideration of the repurchased shares approximated RMB 3,880,150,000 is recognised and offset with "share premium" and "specific reserve".

48 POST BALANCE SHEET EVENTS

(a) Change of company name

On 22 December 2014, the Board proposes to change the Chinese name of the Company from "中國石化儀征化纖股份有限公司" to "中石化石油工程技術服務股份有限公司" and the English name of the Company from "Sinopec Yizheng Chemical Fibre Company Limited" to "Sinopec Oilfield Service Corporation". The proposed change of company name was approved at the extraordinary general meeting on 9 February 2015 and was effective on 20 March 2015.

(b) Non-public issuance of A shares

The "Approval to the Material Asset Reorganisation of SinopecYizheng 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) is approved by China Securities Regulatory Commission ("CSRC"), the Company issued 1,333,333,333 A shares to Darry Asset Management (Hangzhou) Co., Ltd and other 7 specific investors on 13 February 2015 and raised a net subscription amount of RMB 5,952,516,665.50. The shares registration and relevant procedures of the Issuance had been completed at Shanghai Branch of China Security Depository and Clearing Corporation Limited ("CSDC") on 3 March 2015. All new shares subscribed by the subscribers are the restricted circulating shares which are subject to a lockup period of 12 months. The Company will apply to the SSE on behalf of the Subscribers for the listing and trading of such Shares on 3 March 2016. Sinopec Group remains the controlling shareholder of the Group before and after the Issuance, the controlling power of the Company remains unchanged before and after the Issuance. After the completion of the Issuance, the total assets and net assets of the Company will increase while the debt asset ratio will decrease. The risk bearing capacity of the Company has been enhanced.

(c) Other post balance sheet events

As at 24 March 2015, there are no other material events after reporting date to be disclosed in the Group.

49 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2014 and 2013, the Group has direct and indirect interests in the following principal subsidiaries:

Name of the company	Establishment/Place of incorporation and type of legal entity	Registered capital	Actual interest held		Principal activities and place of operation
			Direct held	Indirect held	
		RMB'000			
Sinopec Oilfield Service Corporation	China/Limited Company	4,000,000	100%	—	Petroleum engineering and technical services/China
Sinopec Shengli Oil Engineering Company Limited	China/Limited Company	700,000	100%	—	Petroleum engineering and technical services/China
Sinopec Zhongyuan Oil Engineering Company Limited	China/Limited Company	450,000	100%	—	Petroleum engineering and technical services/China
Sinopec Henan Oil Engineering Company Limited	China/Limited Company	250,000	100%	—	Petroleum engineering and technical services/China
Sinopec Jianghan Oil Engineering Company Limited	China/Limited Company	250,000	100%	—	Petroleum engineering and technical services/China
Sinopec Jiangsu Oil Engineering Company Limited	China/Limited Company	250,000	100%	—	Petroleum engineering and technical services/China
Sinopec East China Oil Engineering Company Limited	China/Limited Company	200,000	100%	—	Petroleum engineering and technical services/China
Sinopec North China Oil Engineering Company Limited	China/Limited Company	200,000	100%	—	Petroleum engineering and technical services/China
Sinopec Southwest Oil Engineering Company Limited	China/Limited Company	300,000	100%	—	Petroleum engineering and technical services/China
Sinopec Oil Engineering Geophysical Company Limited	China/Limited Company	300,000	100%	—	Petroleum engineering and technical services/China
Sinopec Oil Engineering and Construction Corporation	China/Limited Company	500,000	100%	—	Construction/China
Sinopec Shanghai Offshore Oil Engineering Company Limited (Formerly known as "Sinopec Shanghai Offshore Petroleum Bureau")	China/Limited Company	2,000,000	100%	—	Petroleum engineering and technical services/China
Sinopec International Oil Engineering Company Limited	China/Limited Company	700,000	100%	—	Petroleum engineering and technical services/China

Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 25 March 2015 (Wednesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;

2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;

3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of Grant Thornton (Special General Partnership); The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by Grant Thornton Hong Kong Limited;

4. Documents and Announcements disclosed in the report period;

5. The Article of Associations of the Company;

6. Copies of the Annual Reports and Interim Reports from 1993 to 2014 and the First Quarter Report and the Third Quarter Report from 2002 to 2014 of the Company.

This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, the Chinese version is considered to be more accurate.