Annual Report 2015

SSC

中石化石油工程技術服務股份有限公司
Sinopec Oilfield Service Corporation

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

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 take full responsibility for the authenticity, accuracy and completeness of the information contained in this Annual Report.

2. The 2015 Annual Report has been approved at the ninth meeting of the eighth session of the Board. All the directors attended the meeting.

3. The financial statements of the Company for 2015, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("PRC ASBE") and International Financial Reporting Standards ("IFRS") 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. Sun Qingde, General Manager, Mr. Wang Hongchen, Chief Financial Officer and Mr. Song Daoqiang, Vice Chief Financial Officer and Director of the Asset and Accounting Department of the Company warranted the authenticity, accuracy and completeness of the financial statements contained in the Annual Report.

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

   Audited by Grant Thornton (Special General Partnership) for 2015, in accordance with the PRC ASBE, the net profit to equity shareholders of the Company was RMB24,478,000 (the net profit to equity shareholders of the Company was RMB-11,543,000 under IFRS). At the end of 2015, the undistributed profit of the parent company was RMB-1,422,273,000. Because the accumulated net profit of parent company was negative at the end of 2015, the Board proposed no cash dividend distribution or no reserve capitalization for 2015. The above proposed profit distribution plan shall be submitted for approval at the annual general meeting of the Company for the year 2015 ("2015 AGM").

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Annual Report, the Company did not make any substantive undertakings to investors. Investors should exercise cautious about the investment risks.

7. There was no occupation 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.

9. Major Risk Warnings

   International oil prices stuck at a low level will bring risks to the Company's operation. Due to major oil producing countries' reluctance in cutting their oil production, sustained oversupply and an increasingly strong US dollar, international oil prices keeps declining and will remain at a low level for quite a long time. Sustained low oil and gas prices will have a dampening effect on oil and gas companies' exploration, development, production and investment, leading to less demand for oilfield services and decrease in service prices.

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Section 1 Definitions

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

Company	:	Sinopec Oilfield Service Corporation, a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and H Shares are traded on the Main Board of the Stock Exchange (Stock code 1033)
Group	:	The Company and its subsidiaries
Board	:	the board of Directors of the Company
Articles of Association	:	the articles of association of the Company, as amended, modified or supplemented from time to time
CPC	:	China Petrochemical Corporation, a wholly state-owned company established in the PRC and the controlling shareholder of the Company
Sinopec	:	China Petroleum & Chemical Corporation, 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, and the subsidiary of CPC.
A Shares	:	Shares of the Company which are listed on the SSE and par value per share is RMB1.00.
H Shares	:	overseas listed foreign shares which are listed on the Main Board of the Stock Exchange and par value per share is RMB1.00.
SSE	:	Shanghai Stock Exchange
HKSE	:	The Stock Exchange of Hong Kong Limited
Listing Rules	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	:	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
CSRC	:	China Securities Regulatory Commission
HKSCC (Nominees) Limited	:	Hong Kong Securities Clearing Company (Nominees) Limited
Material Assets Reorganization	:	YCFC sold its total assets and liabilities to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 A Shares of the Company, and at the same time the Company offered shares to China Petrochemical Corporation and purchased its 100% equity of SOSC, and offered non-public A Shares for complementary private placement.
Outgoing Assets	:	YCFC's total assets and liabilities
YCFC	:	Sinopec Yizheng Chemical Fibre Company Limited (the Company's former name before its name changed)
Incoming Assets	:	SOSC's total equity
SOSC	:	Sinopec Oilfield Service Co., Ltd, the subsidiary of the Company
Proceed Raising by Private Placement	:	The Company issued non-public A Shares to no more than 10 qualified special investors for proceed raising
Geophysical exploration, geophysical	:	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	:	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole.

Section 1 Definitions

Completion	:	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	:	The technology of acquiring parameters of various formation characteristics from downhole by using special tools or equipment and technology, and of being used to discover the oil and gas reservoir and other mineral resources.
Mud Logging	:	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	:	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.
2D	:	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.
3D	:	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	:	China Securities Depository and Clearing Corporation Limited (CSDC)- Shanghai Branch
CNPC	:	China National Petroleum Corporation
CNOOC	:	China National Offshore Oil Corporation
Yanchang Petroleum Group	:	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
EPC	:	Engineering, Procurement and Construction; A project contract model, the main services include project design, procurement and construction
China or the PRC	:	People’s Republic of China

Section 2 Company Profile and Principal Financial Indicators

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	86-10-59965998	
Fax	86-10-59965997	
Email	ir.ssc@sinopec.com	

3. Company profile

Registered address	22 Chaoyangmen North Street, Chaoyang District, Beijiing, China
Post code of registered address	100728
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 information 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
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	Place of listing	Stock name	Stock code	Stock name before altering
A Share	SSE	SINOPEC SSC	600871	*ST Yihua
H Share	HKSE	SINOPEC SSC	1033	Yizheng Chemical

Section 2 Company Profile and Principal Financial Indicators

6. Other related information

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

Section 2 Company Profile and Principal Financial Indicators

7. Principal financial information and financial indicators of the Company in the last 3 years (Extracted from the consolidated financial statements prepared in accordance with PRC ASBE)

(1) Principal financial information

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000	Year-on-year change (%)	For the year ended 31 December 2013 RMB'000
Operating income	**60,349,334**	94,481,041	-36.1	107,406,243
Operating profit	**125,445**	615,387	-79.6	662,110
Profit before income tax	**505,740**	2,206,680	-77.1	1,014,775
Net profit attributable to equity shareholders of the Company	**24,478**	1,229,753	-98.0	61,216
Net profit deducted extraordinary gain and loss attributableto equity shareholders of the Company ("-" for loss)	**-58,509**	-2,323,027	Not applicable	-1,413,850
Net cash inflow from operating activities	**2,575,929**	6,746,135	-61.8	1,757,418
	As at 31 December 2015	As at 31 December 2014	Year-on-year change (%)	As at 31 December 2013
Total equity attributable to equity shareholders of the Company	**24,638,094**	18,697,120	31.8	30,681,294
Total assets	**85,307,777**	81,295,708	4.9	92,736,669
Total equity	**14,142,661**	12,809,328	10.4	6,000,000

(2) Principal financial indicators

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000	Year-on-year change (%)	For the year ended 31 December 2013 RMB'000
Basic earnings per share (RMB)	**0.002**	0.08	-97.5	0.004
Diluted earnings per share (RMB)	**0.002**	0.08	-97.5	0.004
Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for loss)	**-0.004**	-0.15	Not applicable	-0.09
Weighted average return on net assets (%)	**0.10**	4.98	Decreased by 4.88 percentage points	0.2
Weighted average return on net assets deducted extraordinary gain and loss (%)	**-0.24**	-32.73	Not applicable	-18.07

8. Significant differences between the financial statements prepared in accordance with PRC ASBE and IFRS

	Net profit attributable to equity shareholders of the Company ("–" for loss)		**Net assets attributable to equity shareholders of the Company**	
	For the year ended 31 December 2015	For the year ended 31 December 2014	**As at 31 December 2015**	As at 31 December 2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC ASBE	**24,478**	1,229,753	**24,638,094**	18,697,120
Adjustments under IFRS:				
a. Government grants (a)	—	33,023	—	—
b. Specific reserve (b)	**-36,021**	-5,468	—	—
IFRS	**-11,543**	1,257,308	**24,638,094**	18,697,120

Section 2 Company Profile and Principal Financial Indicators

(a) Government grants

Under PRC ASBE, 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.

(b) Specific reserve

Under PRC ASBE, accrued production safety fund is recognised as expense in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. As using production 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 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 are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

9. Quarterly Financial Information of 2015 (Prepared in accordance with PRC ASBE)

Unit: RMB'000

	The first quarter (January~March)	The second quarter (April~June)	The third quarter (July~September)	The fourth quarter (October~December)
Operating income	11,135,608	11,985,677	13,459,496	23,768,553
Net profit attributable to equity shareholders of the Company ("-" for loss)	-368,724	-1,011,626	-679,537	2,084,365
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	-398,768	-1,002,677	-701,100	2,044,036
Net cash inflow from operating activities ("-" for outflow)	-1,879,255	507,833	237,831	3,709,520

Explanations of the differences between the quarterly information and the information in the disclosed periodically report

☐ Applicable √ Not Applicable

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

Unit: RMB'000

Extraordinary gain and loss item	2015	2014	2013
Disposal of non-current assets	**262**	1,139,513	-21,984
Government grants recognized in profit or loss during the year	**111,106**	2,466	3,770
Gain and loss from external entrusted loans	**2,406**	—	—
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
Other non-operating income and expenses excluding the aforesaid items	**-1,656**	-11,540	-21,822
Tax effect	**-29,131**	—	-331
Total	**82,987**	3,554,995	1,502,727

Section 2 Company Profile and Principal Financial Indicators

11. Extracted from the financial statements prepared in accordance with IFRS

Unit: RMB'000

	As at 31 December				
	2015	2014	2013	2012	2011
Total assets	**85,307,777**	81,295,708	92,736,669	11,138,204	11,449,599
Total liabilities	**60,670,824**	62,599,570	62,003,460	2,624,721	2,457,660
Equity attributable to owners of the Company	**24,638,094**	18,697,120	30,648,271	8,513,483	8,991,939
Net assets per share attributable to owners of the Company (RMB) [3]	**1.74**	1.46	2.39	1.419	1.499
Equity ratio of owners	**28.88%**	23.00%	33.05%	76.43%	78.53%
Return on net assets	**(0.05%)**	12.93%	4.78%	(4.21%)	9.33%

	For the year ended 31 December				
	2015	2014	2013	2012	2011
Revenue[1]	**60,349,334**	78,993,315	89,729,072	16,987,916	20,179,768
Profit/(Loss) before income tax[1]	**469,719**	3,320,072	2,179,996	(536,627)	1,042,190
Income tax expense /(credit) [1]	**481,421**	900,930	687,350	(178,171)	202,958
(Loss)/Profit attributable to owners of the Company					
Including: continuing operations [2]	**(11,543)**	2,416,928	1,464,987	—	—
discontinued operations [2]	**—**	(1,159,620)	(1,450,019)	(358,456)	839,232
Basic and diluted (loss)/ earning per share (RMB)					
Including: continuing operations [2]	**(0.001)**	0.159	0.096	—	—
discontinued operations [2]	**—**	(0.076)	(0.095)	(0.060)	0.140

Note:
1. Information of 2015, 2014, and 2013 included continuing operation only. Information of 2012 and 2011 included discontinued operations only.
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. The per share information is calculated based on the number of shares at the end of each reporting year.

Section 3 Company Business Summary

1. The Company's main business, business model and industry situation in the reporting period.

With more than 50 years of business operation and rich experience in project execution, the Group is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. By the end of 2015, the Group provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with 465 projects execute in 38 countries and regions.

The Group has five major business sectors—geophysics, drilling, logging & mud logging, downhole operation service and engineering construction, covering the full industrial-chain from exploration, drilling, completion, oil and gas production, collection and transportation, and well abandonment.

The Group has a technological R&D supporting system covering the full industrial-chain from oil and gas exploration to production. With two academicians of the Chinese Academy of Engineering, a large pool of experts and engineers, three research institutes, five design companies and a large number of research offices, the Group is able to provide integrated services in high-acid oil & gas, tight oil & gas, and heavy oil reservoirs. The Group was awarded National Prize for Progress in Science and Technology for many times and the Golden Prize of National High-Quality Project for the Sichuan-Eastern China Natural Gas Transmission Pipeline project. The Group has shale gas oilfield supporting technologies featuring five technological series of drilling, logging, fracturing and testing, equipment manufacturing, and engineering and construction at shallow shale gas reservoirs above 3,500 meters with most key and core technologies localized, making the Group a national leader in this respect.

Committed to the vision of "market is the root, service is the soul, profit is the basis and pursue win-win cooperation", the Group will vigorously promote its specialized, market-oriented, distinctive, high-end and international business. It will expand its business from onshore to offshore fields, from domestic to international markets, from conventional to unconventional fields, and from single engineering service to integrated reservoir services in order to realize its corporate vision—a world-class integrated oilfield service provider.

2. Substantial changes to the Company's major assets in the reporting period

In 2015, the Group kept improving its asset structure and quality by making better use of existing assets, improving new assets and further consolidating internal resources. By the end of 2015, the Group has 779 onshore drilling rigs, 12 offshore drilling platforms, 90 sets of seismograph host computers and 109 sets of imaging logging tools, 496 sets of comprehensive logging instruments, 134 sets of Model 2500 and Model 3000 fracturing trucks and 43 sets of 750 HP and above workover rigs. On 31 December 2015, debt-to-assets ratio of the Group was 71.1%, a year-on-year decrease of 5.9 percentage point.

In 2015, the Group made further adjustment to its personnel structure and cut down the crew number, leading to further improvement in its professionalism and service capacity. By the end of 2015, the Group has 2,113 professional crews, including geophysical, drilling, logging, mud logging, downhole operation, etc, 104 less than the previous year.

In 2015, the Group stepped up efforts in expanding international market and its revenue from international business reached RMB13,884,643,000, decreased by 18.3% compared to that of last year RMB16,984,852,000. International revenue accounted for 23.0% of its total business revenue, an increase of 1.5 percentage point year on year. In 2015, the Group's priority overseas markets made impressive performance despite serious challenges in low oil prices and declining investment by oil companies. The Group completed contracts valuing USD 630 million in Saudi Arabia exceeding USD 800 million for a second straight year, a year-on-year increase of 3.7%; in Kuwait, the completed contracts valued USD 310 million, a year-on-year increase of 134%; and in Algeria, the completed contracts valued USD 160 million, a year-on-year increase of 180%.

3. Analysis on core competitiveness in the reporting period

The Group has the service ability to cover the full industrial-chain of oilfield service. It can provide the full range of services from exploration, development and production for oilfields and bring value to oil companies.

The Group is the biggest provider of petroleum engineering services and integrated oilfield technical services in China, with over 50 years of experiences for oilfield service and strong execution capabilities. Its representative projects include Puguang gas field, Fuling shale gas, Yuanba gas field, Tahe oilfield, etc.

The Group has advanced exploration and development technologies as well as strong R&D abilities. It has a number of advanced technologies with proprietary intellectual property rights, which can bring sustainable high added-value to its services.

The Group has the experienced management as well as highly efficient and well-organized operation team.

The Group has a stable and growing client base. It has the solid client base such as Sinopec Group in China, and the growing number of clients overseas.

Section 4 Chairman's Statement

Jiao Fangzheng

Chairman

Dear shareholders and friends,

Despite tremendous difficulties in the oilfield service industry, 2015 was a year in which we stood the test of crisis, seized opportunities amid challenges and pressed ahead against adversity. In the past year, the international oil prices remained at a low level and broke low record one after another. Chinese and foreign oil companies substantially cut their capital expenditure on upstream exploration and development. As a result, the oilfield service industry faced the cutthroat competition and the decline in service volume and price which lead to a "winter period" of oilfield service industry. Facing these challenges and difficulties, the Company acted in unison to expand markets and tap internal potentials. In its initiative to "combat winter and make profits", the Company made utmost efforts to maintain and increase efficiency, achieved sound progress in all business sectors, and realized profits under extreme difficult circumstances.

In 2015, according to the PRC Accounting Standards for Business Enterprises, the Company's consolidated revenue reached RMB60.35 billion, a year-on-year decrease of 36.1%. Consolidated revenue of 2014 included the business revenue of outgoing chemical fiber business. Excluding the outgoing business, consolidated revenue of 2015 declined by 23.6% year on year. The net profit attributable to shareholders of the Company was RMB24,478,000, a year-on-year decrease of 98.0%; mainly due to decline in oilfield service volume and price caused by decreasing investment of oil companies. As the accumulated net profit in parent company was negative at the end of 2015, the Board of Directors proposed no cash dividend payout and no reserve capitalization for 2015. The above proposed profit distribution scheme shall be submitted for approval at the AGM.

In 2015, the Company actively expanded markets based on benefits, leading to steady increase in its share of the Chinese market within Sinopec Group and notable improvement in its service capacity. As a result, Fuling shale gas field phase I came into production with five billion m^3 production volume and the Weisi Well the Company drilled in the Beibu Gulf generated high yield hydrocarbon flow with daily production volume over 1,000 tons. In the Chinese market outside Sinopec Group, the Company gave priority to coal bed gas market in Shanxi and non-conventional markets such as China Geological Survey, China Huaneng Group and Shenhua Group; in overseas markets, the Company overcame many challenges in priority markets and became the largest onshore drilling contractor of Saudi Aramco, Kuwait National Petroleum Company and Petroecuador as well as the largest geophysical contractor in Algeria. The Company's efforts in tapping internal potentials and increasing efficiency contributed RMB1.18 billion in 2015. The Company pressed ahead with its structural adjustment, internal reorganization and employment system reform, leading to greater efficiency in allocating resources. It actively encouraged scientific and technological research and technological integration, and stimulated the creativity of its employees. Science and technology has played a bigger role in its operation. The Company's Research on "Super High Pressure and High Power Oil and Gas Fracturing Unit and its Cluster Application" won the second Prize of National Science and Technology Progress Award.

Section 4 Chairman's Statement

In 2015, the Company actively fulfilled its corporate social responsibilities. Adhering to the concept of green and low carbon development, carried out "clean water and blue sky" environmental protection activities and launched the initiative to double its energy efficiency. It fully introduced QHSE (quality, health, safety and environment) management, sincerely cared about its employees, actively participated in public welfare undertakings and supported education of rural migrant workers' children. In overseas operation areas, it also actively fulfilled its corporate social responsibilities and promoted joint development along with local economy and society.

The Company's above-mentioned achievements are inseparable from the trust and support of shareholders and the general public as well as from the unity and hard work of the Board, the supervisory committee and all the staff. On behalf of the Board, I'd like to express my heartfelt appreciation to all these people for your support and hard work.

2016 is the first year of China's 13th Five-Year Plan. As the oilfield service industry continues to suffer from the "cold winter" in 2016, the Company has identified 2016 as a crucial year to transform its growth pattern, adjust its structure and promote efficiency and upgrading to make breakthroughs. Committed to the vision of "market is the root, service is the soul, profit is the basis and pursue win-win cooperation", the Company will focus on market development, tapping internal potentials and increasing efficiency, structural adjustment, reform and innovation, strict management, and build an "iron army" in order to make a head start in the first year of the 13th Five-Year Plan period. The Company's priorities in 2016 are as follows:

- Make every effort to expanding markets and stimulating growth;
- Do everything we can to tap internal potentials, increase efficiency, follow laws and regulations, promote strict management and vigorously reduce costs;
- Deepen reforms and adjustments to make new breakthroughs in improving business structure, organizational structure, personnel structure and resource allocation;
- Promote innovation and creativity, speed up commercialization of scientific and technological research outcomes, and enhance its technological capability and competitiveness.

All members of the Board, including me, are confident that with the support of shareholders and the general public as well as concerted efforts by the Board, the supervisory committee, the management and all the staff, the Company will make further progress in all business areas in the 13th Five-Year Plan, create new value for shareholders and the public, and make new contribution to the building of a harmonious society.

Jiao Fangzheng

Chairman

Beijing, China

30 March 2016

Section 5 Report of the Board or Directors

Section 5 Report of the Board of Directors

1. Discussion and analysis of operation by the management

Financial information, except where specifically noted, contained herein have been extracted from the consolidated financial statements prepared in accordance with the PRC ASBE.

Market review

2015 saw sluggish recovery of the world economy, slowdown of China's economic growth, and oil price remaining at a low level. In this context, Chinese and foreign oil companies cut CAPEX for oilfield exploration and development, leading to the decline of work volumes and service prices as well as cut-throat competition in the oilfield industry. At the same time, thanks to the increase demand in China for natural gas and other clean energy sources, investment in non-conventional and new energy such as shale gas, acid gas, coal bed gas and thermal energy has been growing steadily, contributing new growth points to the development of domestic oilfield service market.

Operation review

Facing the decline of work volumes and service prices as well as cut-throat competition, the Company focused on profits, vigorously expanded markets, tapped potentials, increased efficiency and optimized and consolidated internal resources. The initiative to "combat winter and make profits" was launched to maintain and increase efficiency, achieved sound progress in all business sectors, and realized profits under extreme difficult circumstances. In 2015, its consolidated revenue was RMB60,349,334,000, 36.1% less than the previous year. Consolidated revenue of 2014 included the business revenue of outgoing chemical fiber business. Excluding the outgoing business, consolidated revenue of 2015 declined by 23.6% year on year. Net profit attributable to shareholders of the Company was RMB24,478,000, 98.0% less than the previous year. By quarter, the net loss attributable to shareholders of the Company in the first three quarters of 2015 was RMB2,059,887,000, and the net profit attributable to shareholders of the Company in the fourth quarter was RMB2,084,365,000. The Company ceased to lose and begin to turn out a profit in the fourth quarter in 2015, mainly because Sinopec Group made large investment in this period, leading to substantial increase in the Company's workload; the Company received a large amount of revenue in this period given the features of oilfield service sector; the Company's efforts in reducing cost and expenses generated more outcomes in this period; and the Company received certain risk compensation fees from Fuling shale gas project phase I which came to production at the end of 2015 for its technical complexity and high risks.

1. Geophysical service

In 2015, the Company's operation revenue in geophysical service was RMB5,285,158,000, representing an increase of 4.3% than the same period of the previous year, for which the figure was RMB5,065,923,000. The completed 2D seismic accumulated for 43,728 kilometers, increase 25.1% than the previous year; while the 3D seismic accumulated for 14,541 square kilometers, a decline of 25.6% than the previous year. In onshore geophysical markets, the Company continued resource integration in order to vigorously expand domestic markets outside Sinopec and international markets. In international markets, the completed 2D seismic accumulated for 30,354 kilometers, increase 71.2% than the previous year. Among them, geophysical business in Algeria increased rapidly, which generated over 100 million US Dollars output value for the first time in overseas geophysical market. In the offshore geophysical market, the Discovery and Discovery II worked in succession and completed 2D seismic 24,535 kilometers, a year-on-year increase of 114.9%.

2. Drilling service

In 2015, the Company's operation revenue in drilling service was RMB28,561,068,000, a decline of 26.8% than the same period of the previous year, for which the figure was RMB39,003,458,000. Its completed drilling footage reached 8,100 kilometers, a decline of 30.5% than the previous year. It fulfilled its exploration and development tasks of Sinopec Group, contributed to the national Fuling shale gas pilot project phase I which came into production with five billion m^3 production volume and the Weisi Well drilled by the No.2 drilling platform in the Beibu Gulf generated high yield hydrocarbon flow with daily production volume over 1,000 tons. The Company, as in the previous year, explored the domestic markets outside Sinopec and its completed drilling footage in these markets reached 1.1 million meters, increase 2.8% than the previous year. The Company enjoyed robust performance in priority overseas markets despite various challenges and became the largest onshore drilling contractor of Saudi Aramco, Kuwait National Petroleum Company and Petroecuador.

3. Logging/Mud logging service

In 2015, the Company's operation revenue in logging/mud logging service was RMB2,445,848,000, a decline of 41.4% than the same period of the previous year, for which the figure was RMB4,176,936,000. Its completed logging projects have accumulated for 233,600,000 standard meters, a decline of 39.8% than the previous year. Its completed mud logging projects have accumulated for 9,050,000 meters, a decline of 29.3% than the previous year. Guided by client needs, the Company relied on high quality local services as well as such advanced technologies as 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 in developing the external market, contributing to the national Fuling Shale Gas Pilot Project phase I which came into production with five billion m^3 production volume, and making steady progress in non-conventional logging/mud logging service markets such as coal bed gas and thermal energy. The Company vigorously expanded the sales of logging equipment, representing a big leap forward from internal R&D and self-use to external sales, and established a testing center for logging equipments.

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4. Downhole operation service

In 2015, the Company's operation revenue in downhole operation was RMB6,916,025,000, a decline of 18.2% than the same period of the previous year, for which the figure was RMB8,457,649,000. It completed downhole operation for 5,409 wells, a decline of 26.4% than the previous year. In 2015, the Company developed six distinctive technologies—subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high well testing, horizontal well workover and coiled tubing which provided strong support to shale gas development in Fuling, acid gas reservoir development in Yuanba, and oil and gas reservoir exploration and development in Tarim. To actively develop its professional technical and distinctive business, the Company set up its northwest and southwest salvage technical centers as well as coiled tubing and high-pressure operation technical service teams.

5. Engineering and construction service

In 2015, the Company's operation revenue in engineering and construction service was RMB15,378,795,000, a decline of 22.6% than the same period of the previous year, for which the figure was RMB19,875,867,000. Due to the continuous decrease of investments in outbound markets, its completed contracts valued RMB14.61 billion in 2015, a decline of 27.9% than the same period of the previous year, for which the figure was RMB20.25 billion. In 2015, the Company completed the whole Fuling-Wangchang shale gas transmission pipeline project ahead of schedule and created a new business model of EPC consortium; successfully completed the construction of such priority projects as LNG pipeline project in Tianjin, Zhongyuan-Kaifeng natural gas pipeline project, Yichang crude oil double pipeline project, surface auxiliary engineering EPC project in Northwest Qiaogu block and the second Jinan-Qingdao pipeline project; and was awarded “Ghana's annual best hydrocarbon project” for its Ghana gas project.

6. International business

In 2015, the Company's operation revenue in international business service was RMB13,884,643,000, a decline of 18.3% than the same period of the previous year, for which the figure was RMB16,984,852,000. The revenue contributed by the international business accounted for 23.0% of the whole revenue. The Company is firmly committed to its internationalization strategy and established 5 large-scale markets in the Middle East, Africa, America, Central Asia & Mongolia, and the Southeast Asia. In 2015, the Company signed 114 new contracts and renewed 71 contracts in overseas markets with contractual value of USD 2.71 billion, a decline of 11.6% than the previous year, the completed contracts worth USD 2.26 billion, a decline of 15.6% than the previous year. In Kuwait, the Company won the bid and signed contracts on 17 drilling rigs with contractual value of USD 870 million, which further increased its market share there. In Saudi Arabia, the Company completed drilling business with contractual value of USD 630 million and remained as the largest onshore drilling contractor of Saudi Aramco. In Algeria, the Company won the bid and signed contracts on 10 drillers with contract value of USD 450 million, a breakthrough in its Algerian business, and Geophysical business in Algeria increased rapidly, which generated over USD100 million output value for the first time in overseas geophysical market.

7. Research and development

In 2015, the Company paid close attention to priority fields and needs in exploration and development, intensified efforts in technological innovation, and made breakthroughs in its cutting-edge and proprietary technologies. It has applied for 438 patents at home and abroad and was granted 248 patents. Two patents—submersible pump rack take-up and impermeable fluid loss reducer for oil rigs won China Patent Awards in 2015. The Company made breakthroughs in the R&D of core technologies and notable progress in applying key technologies. It further improved integrated and complete sets of technologies for shale gas, acid oil and gas reservoir, deep oil and gas reservoir, and shallow water oil and gas reservoir. In particular, the Company made notable progress in eight key technologies—vibroseis acquisition technology, measurement while drilling technology, CO2 collection and utilization technology, broadband acceleration detector, slimhole well logging instrument, rotary steerable drilling system, high temperature MWD measuring instrument and oil-base mud screw.

8. Internal reform and management

In 2015, the Company continued to deepen reform, centralize and optimize resources and move faster in structural adjustment, leading to greater efficiency in resource allocation. The Company made substantial progress in consolidating its regional companies and technical service companies, which further improved its organizational structure; built a better equipment management system, a resource improvement, autonomous flow and sharing mechanism which is cross-region, cross-department and cross-business-chain, and a service platform to swap and tap idle internal assets in order to reduce the leasing of technical equipment from outside; introduced new patterns of labor, improve labor allocation, promote separate management of labor and equipment, leading to greater efficiency in allocating labor and equipment; cut 104 teams and 10,300 employees to improve team structure and control total employment; and vigorously tap potentials and increase efficiency, resulting in cost reduction of RMB1.18 billion for the whole year. The Company actively developed new business and seizing the opportunity in the building of Sinopec smart pipeline management system, the Company vigorously expanded its surveying and mapping service and brought in RMB180 million revenue in 2015. Sinopec Energy and Environmental Engineering Co., Ltd., unveiled in August 2015, make steady progress in its business.

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9. Capital Expenditures

In 2015, the Company allocated RMB4.07 billion, including RMB1.95 billion for offshore equipment, RMB510 million for foreign project equipment and RMB460 million for downhole operation. In 2015, the Company stayed committed to effective investment and effective development. It carefully selected investment projects with less input, faster outcomes, targeted markets and competitiveness. For example, the 90-meter Shengli Drilling Rig designed by the Company itself is under construction. The Company also built and put into operation the Kantan No.7 122-meter jack up Drilling Rig to enhance its competitiveness in offshore drilling service market. Its major investment projects are as follows:

Unit: RMB1,000

Major Project Name	Project Value	Project Progress	Investment in Current Year	Accumulated Paid-in Investment	Project Outcome
Shengli 122-meter Drilling Rig	700,000	49.2%	147,746	344,031	Under Construction
25-meter Operation Platform Project	466,030	84.6%	222,911	394,298	Under Construction
8000HP Multipurpose Supply Vessel	195,000	72.6%	106,132	141,749	Under Construction
Purchase and Building of Drillings Rigs for Kuwait	943,450	46.3%	360,438	436,533	Partially In Operation
Purchase of No.3000 Fracturing Fleet	182,450	100%	173,547	173,547	In Operation
7000HP Multipurpose Supply Vessel	187,500	99.4%	47,332	186,396	In Operation
Zhongyuan downhole fracturing unit	147,460	100%	142,895	147,295	In Operation
122-meter self-elevating drilling platform No.7	1,511,714	100%	1,511,714	1,511,714	Construction completed
Total	4,333,604	—	2,712,715	3,335,563	/

2. Statement of main business during the reporting period

(1) Main business analysis

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

	2015	2014	Change
	RMB'000	RMB'000	(%)
Operating revenue	60,349,334	94,481,041	-36.1
Operating cost	54,568,960	85,261,101	-36.0
Selling and distribution expenses	62,315	312,380	-80.1
General and administrative expenses	4,043,143	5,367,890	-24.7
Financial expenses	657,090	806,565	-18.5
Net cash flows from operating activities	2,575,929	6,746,135	-61.8
Net cash flows from investing activities	-5,041,812	-3,979,282	Not applicable
Net cash flows from financing activities	3,193,722	-3,231,658	Not applicable
Research and development expenditures	448,185	524,879	-14.6

B. Income and cost analysis

a. Statement of operation by industry

Industry	Operating income for 2015	Operating cost for 2015	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
	RMB'000	RMB'000	(%)	(%)	(%)	
Geophysical	5,285,158	4,848,851	8.3	4.3	9.9	Decreased by 4.6 percentage points
Drilling	28,561,068	26,177,621	8.3	-26.8	-22.9	Decreased by 4.6 percentage points
Logging/Mud logging	2,445,848	2,053,196	16.1	-41.4	-37.6	Decreased by 5.1 percentage points
Downhole Operation	6,916,025	6,108,349	11.7	-18.2	-19.1	Increased by 1.0 percentage points
Engineering and construction	15,378,795	14,208,553	7.6	-22.6	-24.0	Increased by 0.4 percentage points
Other	923,783	591,568	36.0	-42.0	-54.5	Increased by 17.6 percentage points
Total	59,510,677	53,988,138	9.3	-23.9	-22.0	Decreased by 2.2 percentage points

b. Statement of operation by regions

Region	Operating income for 2015	Operating cost for 2015	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
	RMB'000	RMB'000	(%)	(%)	(%)	
Mainland China	45,626,034	40,965,495	10.2	-40.0	-40.0	Decreased by 0.1 percentage points
Hong Kong, Macau, Taiwan, and overseas	13,884,643	13,022,643	6.2	-18.3	-17.7	Decreased by 0.7 percentage points

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c. **Cost analysis**

Product	Item of cost structure	Amount in 2015 RMB'000	Percentage of amount in 2015 in total cost (%)	Amount in 2014 RMB'000	Percentage of amount in 2014 in total costs (%)	Year-on-year change (%)
Geophysical Service	Raw materials	374,414	7.7	381,610	8.6	-1.9
	Fuel and power	166,737	3.4	219,522	5.0	-24.0
	Employees cost	1,447,939	29.9	1,557,650	35.3	-7.0
	Depreciation and amortization	611,900	12.6	690,659	15.7	-11.4
	Subcontracting cost and outsourcing service expenditures	195,266	4.0	83,368	1.9	134.2
	Others	2,052,595	42.3	1,478,715	33.5	38.8
	Total	4,848,851	100.0	4,411,524	100.0	9.9
Drilling Service	Raw materials	4,375,317	16.8	8,681,509	25.6	-49.6
	Fuel and power	1,161,589	4.4	2,269,006	6.7	-48.8
	Employees cost	4,005,058	15.3	8,032,720	23.6	-50.1
	Depreciation and amortization	4,166,114	15.9	4,156,007	12.2	0.2
	Subcontracting cost and outsourcing service expenditures	1,416,871	5.4	1,561,806	4.6	-9.3
	Others	11,052,672	42.2	9,263,733	27.3	19.3
	Total	26,177,621	100.0	33,964,781	100.0	-22.9
Logging/Mud logging Service	Raw materials	326,306	15.9	709,016	21.5	-54.0
	Fuel and power	31,658	1.5	50,080	1.5	-36.8
	Employees cost	1,175,793	57.3	1,458,511	44.3	-19.4
	Depreciation and amortization	409,753	20.0	452,594	13.8	-9.5
	Subcontracting cost and outsourcing service expenditures	90,453	4.4	203,877	6.2	-55.6
	Others	19,233	0.9	416,278	12.7	-95.4
	Total	2,053,196	100.0	3,290,356	100.0	-37.6
Downhole operation Service	Raw materials	1,461,708	23.9	2,034,240	26.9	-28.1
	Fuel and power	272,779	4.5	384,854	5.1	-29.1
	Employees cost	1,363,880	22.3	1,436,785	19.0	-5.1
	Depreciation and amortization	575,674	9.4	494,662	6.6	10.6
	Subcontracting cost and outsourcing service expenditures	1,162,811	19.0	1,314,149	17.4	-11.5
	Others	1,271,497	20.8	1,885,114	25.0	-31.0
	Total	6,108,349	100.0	7,549,804	100.0	-19.1
Engineering and Construction Service	Raw materials	3,398,779	23.9	3,987,579	21.3	-14.8
	Fuel and power	143,665	1.0	179,171	1.0	-19.8
	Employees cost	2,717,090	19.1	3,000,303	16.1	-9.4
	Depreciation and amortization	249,253	1.8	335,390	1.8	-25.7
	Subcontracting cost and outsourcing service expenditures	5,623,017	39.6	7,159,792	38.3	-21.5
	Others	2,076,749	14.6	4,024,267	21.5	-48.4
	Total	14,208,553	100.0	18,686,502	100.0	-24.0

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d. Information about major customers and major suppliers

The operating income of the top 5 customers in 2015

Name of customer	Amount	Percentage to operating income
	RMB'000	(%)
CPC	38,030,533	63.0
Saudi Arbian Oil Company	3,135,394	5.2
CNPC	3,112,096	5.2
Kuwait Oil Company	2,003,020	3.3
CNOOC	1,500,393	2.5
Total	47,781,436	79.2

During the reporting period, the aggregate purchase amounts from the top five largest suppliers was RMB10,878,507,000, accounting for 43.4% of the Company's total purchase amounts, including the largest supplier accounted for 37.2% 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.

C. Expense

Item	2015 RMB'000	2014 RMB'000	Year-on-year change (%)	Reason for change
General and administrative expenses	4,043,145	5,367,890	-24.7	Mainly caused by the strengthening of cost control and the outgoing of fiber business
Selling and distribution expenses	62,315	312,380	-80.1	Mainly caused by the outgoing of fiber business
Financial cost	657,090	806,565	-18.5	Mainly caused by the decrease of borrowings after fund raising during the reporting period, the optimization of the loan structure; increase of the proportion of low interest rates of US Dollar borrowings, which led to decrease of the interest expense.
Impairment losses	171,376	1,135,411	-84.9	Mainly caused by the provision for impairment of fixed assets and intangible assets of the fiber business last year.
Income tax expenses	481,421	974,713	-50.6	Mainly caused by the sharp decrease of annual profit before tax.

D. Statement of research and development expenditure

Expenditure research and development expenditure for 2015 (RMB'000)	448,185
Capitalized research and development expenditure for 2015 (RMB'000)	7,324
Total research and development expenditure for 2015 (RMB'000)	455,509
Percentage of total research and development expenditure to operating income (%)	0.8
Number of research and development personnel	3,565
Percentage of number of R&D personnel to the total number of personnel of the Company (%)	4.6
The proportion of R & D investment of capital (%)	1.6

In 2015, the Company's research and development expenditure was RMB455,509,000, representing a decrease of 13.2% as compared with RMB524,879,000 in last year. It was mainly caused by the outgoing of the fiber business.

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E. Changes in cash flow statement items

Item	2015 RMB'000	2014 RMB'000	Change (%)	Reason for change
Cash received from selling products and providing services	65,281,258	98,625,937	-33.8	Sharp decrease of work volumes in this year
Cash paid for purchasing products and receiving services	41,795,765	67,960,803	-38.5	Decrease of materials procurement caused by the decline of work volumes
Cash received from disposal of investment	—	1,020,000	-100.0	Repayment of borrowing in last year
Net cash from disposing fixed assets, intangible assets and other long-term assets	26,518	64,345	-58.8	The decrease of the disposal of assets in this year
Cash paid for investment	1,217,392	851,349	43.0	Investment from shareholders to joint ventures and new equity investment in accordance with the agreement and schedule in this year
Cash paid for other relating investment activities	—	71,933	-100.0	Due to the selling of outgoing fiber assets in last year
Cash received from new investors	5,954,000	—	100.0	Funds raised by private placement of A shares in this year
Cash received from other relating financing activities	25,932	1,303,683	-98.0	Excluding borrowings of subsidiaries due to the equity transfer in last year and outgoing of fiber business
Cash paid for debt repayment	56,227,818	81,851,284	-31.3	Decrease in repayments of borrowings in this year
Cash paid for dividends, profits or interest	333,053	692,143	-51.9	Decrease in payment of interest in this year
Cash paid for other related raising fund activities	1,793,139	112,504	1493.8	Paying CPC capital structure adjustment fund and the balance between delivery prices of selling assets and of repurchasing shares

(2). Explanations of significant changes in profit led by the non-core business

☐Applicable √Not Applicable

(3). Statement of assets and liabilities analysis

Item	Amount at 31 December 2015 RMB'000	Percentage of amount at 31 December 2015 in total assets (%)	Amount at 31 December 2014 RMB'000	Percentage of amount at 31 December 2014 in total assets (%)	Changes from the end of the preceding year to the end of this year (%)
Cash at bank and on hand	2,011,590	2.4	1,213,897	1.5	65.7
Notes receivable	141,132	0.2	219,506	0.3	-35.7
Accounts receivable	27,121,127	31.8	28,064,935	34.5	-3.4
Inventories	14,769,275	17.3	11,932,142	14.7	23.8
Other current assets	82,062	0.1	168,076	0.2	-51.2
Long-term equity investment	216,400	0.3	107,999	0.1	100.4
Fixed assets	29,008,189	34.0	29,693,146	36.5	-2.3
Construction in progress	2,710,178	3.2	1,387,284	1.7	95.4
Intangible assets	182,203	0.2	92,351	0.1	97.3
Short-term borrowings	12,070,312	14.1	11,889,709	14.6	1.5
Notes payable	1,284,745	1.5	856,442	1.1	50.0
Other accounts payable	5,473,433	6.4	7,327,469	9	-25.3
Non-current liabilities due within one year	87,360	0.1	125,870	0.2	-30.6
long-term borrowings	618,969	0.7	498,723	0.6	24.1
Deferred income	59,008	0.1	43,951	0.1	34.3

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Note:

1. Cash at bank and on hand increased by RMB797,693,000 compared with that of the previous year, which was mainly caused by the received funds raised by private placement of A shares in March 2015.
2. Notes receivables decreased by RMB78,374,000 compared with that of the previous year, which was mainly caused by the honor of notes receivable.
3. Inventories increased by RMB2,837,133,000 compared with that of the previous year, which was mainly caused by the increase of the number of new started projects at the end of 2015 increased from the previous year
4. Other current assets decreased by RMB86,014,000 compared with that of the previous year, which was mainly caused by the decrease of the VAT remaining tax and long-term deferred expenses within 1 year.
5. Long-term equity investment increased by RMB108,401,000 compared with that of the previous year, which was mainly caused by investment from shareholders to joint ventures and new equity investment in accordance with the agreement and schedule in 2015.
6. The project under construction increased by RMB1,322,894,000 compared with that of the previous year, which was mainly caused by the expenditure of fundraising projects and the capital expenditure of other non-fundraising projects.
7. Intangible assets increased by RMB89,852,000 from the previous year, which was mainly caused by the Company's a newly purchase of land.
8. Notes payable increased by RMB428,303,000 from the previous year, which was mainly caused by increasing use of notes.
9. Other payables decreased by RMB1,854,036,000 over the previous year, which was mainly caused by paying for the recovered net incoming assets of CPC.
10. The non-current liabilities due within one year decreased by RMB35,096,000 compared with that of the previous year, which was mainly caused by the repayments of borrowings.
11. The deferred income increased by RMB15,057,000 compared with that of the previous year, which was mainly because of the delayed fund settlement of new national special scientific research project.

(4). Analysis of the industry operation information

A. Market of crude oil and natural gas

In 2015, the oversupply situation of this market had been further exacerbated; the international oil price continued fluctuating at a lower level and frequently recorded much lower price; and the annual average prices of WTI and Brent crude oil futures were 48.76 USD/bbl and 53.60 USD/bbl respectively, which decreased 47.5% and 46.0% respectively from the previous year.

In 2015, China's petroleum consumption continued a slow growth, and its apparent consumption was estimated at 543 million tons, increased 25 million tons than the previous year. Excluding the factors of new increased oil reserves and inventories, the estimated actual oil consumption growth was 4.4%, increased by 0.7 percentage points compared with last year.

In 2015, the growth of China's natural gas demand slowed down, while the gas price reform was continued promoted. The estimated annual apparent consumption was 191 billion cubic meters by the increase of 3.7%. The speed of gas price reform process was accelerated, Chinese Government adjusted the prices twice in April and November 2015 respectively, achieved the price merger of stock natural gas and incremental natural gas, slashed the gas prices in non-resident gas station, actively promoted the construction of oil and gas trading center and created conditions for the formation of market price. (Note: The above information were abstracted from 'The Report of 2015 Domestic and Overseas Development in Oil and Gas Industry', issued by CNPC Economics & Technology Research Institute).

B. The expenditure in exploration and exploitation of domestic and overseas companies

Affected by the sharp decline of international crude oil price, the domestic and overseas oil companies generally cut down its upstream capital expenditures in exploration and exploitation in 2015. For example, Sinopec capex of exploration and exploitation in 2015 was RMB54.7 billion, decreased 31.8% by comparing that in 2014 of RMB80.2 billion; the capex of international oil companies, such as Exxon Mobil, Chevron and BP, was cut down 12%-20%. Affected by the capex sharp decline of these companies, the Company experienced a substantial decline in workload, except the business of 2D seismic, the workload of other businesses decreased by more than 25%, which led the operation income decreased by 36.1% from the previous year.

C. Business information in oilfield Service industry

Affected by the sharp decline of the upstream capex of domestic and overseas oil companies, the global oilfield service industry experienced the continuous downturn and the oilfield service companies faced the situation of sharp decline or loss in operation result. For example, COSL company estimated that its 2015 net profit decreased by 85.0% compared with that of the previous year, and major international oilfield service companies suffered loss in different degrees.

(5). Analysis of investments

A. Significant equity investment

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

B. Significant non-equity investment

During the reporting period, no significant non-equity investment items of the Company occurred.

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C. Information of financial assets measured at fair value

□Applicable √Not Applicable

(6) Sales of major assets and equity

During the reporting period, no sales of major assets and equity of the Company occurred.

(7). 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	Amount of net profit	Main Business
		%	RMB'000	RMB'000	RMB'000	RMB'000	
SOSC	RMB4,000,000,000	100	84,888,658	64,708,466	20,180,193	1,868	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited *	RMB700,000,000	100	15,854,987	11,369,271	4,485,716	-290,641	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited *	RMB450,000,000	100	13,513,661	9,033,003	4,480,658	18,807	Petroleum engineering technical service
Sinopec Henan Oil Engineering Company Limited *	RMB250,000,000	100	2,393,143	1,706,844	686,300	-139,531	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited *	RMB250,000,000	100	9,346,899	7,687,253	1,659,646	510,608	Petroleum engineering technical service
Sinopec Jiangsu Oil Engineering Company Limited *	RMB250,000,000	100	2,252,672	1,588,375	664,297	-220,195	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited *	RMB200,000,000	100	1,252,589	582,090	670,499	-43,617	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited *	RMB200,000,000	100	4,336,177	2,127,173	2,209,004	171,795	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited *	RMB300,000,000	100	7,386,068	3,579,254	3,806,815	81,752	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited *	RMB300,000,000	100	5,081,912	3,439,933	1,641,980	98,799	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation *	RMB500,000,000	100	20,978,881	21,549,797	-570,916	-437,656	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited *	RMB2,000,000,000	100	6,284,387	2,051,395	4,232,991	218,967	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation *	RMB700,000,000	100	3,071,934	2,090,765	981,169	42,883	Petroleum engineering technical service

Name of company	Revenue	Profit
	RMB'000	RMB'000
SOSC	60,349,334	102,994
Sinopec Shengli Oil Engineering Company Limited*	12,383,777	-338,728
Sinopec Zhongyuan Oil Engineering Company Limited *	8,912,627	98,954
Sinopec Henan Oil Engineering Company Limited *	1,825,551	-145,283
Sinopec Jianghan Oil Engineering Company Limited *	5,338,441	502,442
Sinopec Jiangsu Oil Engineering Company Limited *	1,560,524	-232,092
Sinopec East China Oil Engineering Company Limited *	933,615	-38,489
Sinopec North China Oil Engineering Company Limited*	2,963,424	212,306
Sinopec Southwest Oil Engineering Company Limited *	3,763,624	99,759
Sinopec Oil Engineering Geophysical Company Limited *	5,020,011	92,796
Sinopec Oil Engineering and Construction Corporation *	15,787,877	-414,491
Sinopec Shanghai Offshore Oil Engineering Company Limited *	1,600,086	214,511
Sinopec International Petroleum Service Corporation *	1,267,103	61,494

* Note: The Company holds shares though SOSC.

Section 5 Report of the Board of Directors

3. Discussion and analysis on the Company's business in the future

(1) Competitive Structure and Development Trend

The world's economy is expected to have a slow recovery in 2016, while China's economy, in the new normal featuring growth slowdown, improved structure and shift in gear, will under severe downward pressure. Balance in the supply and demand of crude oil will not be realized in the short term as a result of slow growth of global demand, competition for market share among major oil producing countries and stronger US dollar. Thus, international oil prices will remain at a low level. In this context, foreign and Chinese oil companies will continue to cut investment in exploration and development in 2016, which will bring more pressure on oilfield service companies. Nevertheless, we should see that the Chinese economy remains promising and resilient and has space to take further actions. The fundamentals for robust economic growth remain unchanged. Thanks to large demand in economic growth for petroleum, petrochemical products as well as clean energy such as natural gas, investment in natural gas and shale gas in China will continue to grow, which will create opportunities for the oilfield service industry.

(2) Business Strategy in 2016

The Company will actively adapt to market changes, bring into full play its advantages in comprehensive oil and gas service capacity and full industrial chain, support exploration and development of Sinopec in China and external markets outside Sinopec; vigorously explore overseas markets centered on "the Belt and Road Initiative"; with a firm foundation of safe and stable operation, further deepen reforms, expand markets, improve efficiency to make benefits, improve resource allocation and promote structural adjustment, the Company will achieve a better performance in 2016. The Company puts emphasis on the following aspects:

A. Geophysical service

The Company will continue to serve Sinopec in exploration with the most optimized technology, the most applicable equipment and the most efficient teams, particularly in Sichuan basin, northern Erdos basin and natural gas exploration in the East China Sea; expand domestic markets outside Sinopec by deepening cooperation with China Geological Survey and exploring markets among new oil and gas businesses; follow through with the "Go Global" strategy and vigorously explore overseas markets, particularly priority markets such as Algeria and Pakistan; seize the opportunity in the building of Sinopec smart pipeline management system, continue to expand its surveying and mapping service, explore the domestic market outside Sinopec in surveying and mapping service. The Company plans to complete 2D seismic acquisition for 28,920 kilometers and 3D seismic acquisition for 9,390 square kilometers in 2016.

B. Drilling Service

The Company will continue to actively follow Sinopec strategy on exploration and development, keep informed of Sinopec needs in exploration and development, and flexibly adjust and distribute its project service capacity in order to consolidate its service market share within Sinopec, particularly such projects as high yield production of eastern fault blocks and Fuling shale gas project phase II with five billion m^3 of production volume, continue to play out its advantage in proprietary technologies and services and unconventional and new energy markets such as shale gas, acid gas, coal bed gas and thermal energy; continue to expand its share in overseas markets, further improve its presence in overseas markets, pay close attention to risk mitigation, vigorously explore technical service market and high-end markets such as EPC, large drilling contracting, and block contracting. The Company will continue to improve the structure of its drilling teams and cut team number in order to improve efficiency, quality and speed. The Company plans to complete drilling footage accumulated for 6,650 kilometers in 2016.

C. Logging/Mud logging service

The Company will continue to invest on technology R&D, leverage hi-tech equipment and excellent operation teams to provide clients with complete logging/mud logging service and value-added services including data transmission, processing and interpretation, expand client base in China and other countries; improve its geological research in an all-round way, expand its research to reservoir evaluation, and promote the application of logging/mud logging technologies in non-oil fields; maintain its advantage in logging equipment, develop new logging instruments in light of market needs, and further promote sales of logging equipment outside Sinopec while meeting the demand for logging equipment in Sinopec; promote technologies for multi-stage perforation and develop domestic unconventional markets. The Company plans to complete logging footage accumulated for 179,000 kilometers, while the mud logging footage accumulated for 6,250 kilometers in 2016.

D. Downhole operation service

In 2016, on the basis of its shale gas exploration and development in Fuling and western Sichuan, the Company will promote the application of horizontal well large-scale fracturing and testing technology, further improve supporting technologies for high-temperature high-pressure super-deep oil and gas reservoir well completion and measuring technology, and support deep and super-deep oil and gas reservoir exploration and development in Tarim and other places in western China; and expand integrated application of conventional technologies with reference to reducing engineering cost and increasing systematic efficiency to expand market share. In 2016, the Company plans to complete downhole operation service for 4,350 wells.

Section 5 Report of the Board of Directors

E. Engineering and construction service

In 2016, the Company will focus on projects, enhance its EPC capacity, and improve its design quality and project management in an all-round way; actively expand its energy conservation and environment protection business, bring into full play Sinopec Energy and Environmental Engineering Co., Ltd. as the only upstream technical service company of this kind in Sinopec to realize steady progress in this business area; move faster into pipeline operation and maintenance business, leverage its resources to build professional teams and make targeted efforts in order to make breakthroughs; and closely follow “the Belt and Road Initiative” and explore opportunities for overseas infrastructure projects, keep improving its presence overseas and step up risk control in overseas markets. In 2016, the Company plans to sign new contracts valued RMB15 billion and complete contracts valued RMB15 billion.

F. International business

In 2016, the Company will stay committed to improve its overseas business management system, make further progress in optimizing overseas resource allocation, promoting market development and strengthening project regulation and control, as well as promote integrated management of overseas priority markets and integrated allocation of domestic and international resources; pay close attention to the development as a whole in the Middle East; and pay sustained attention to the offshore drilling rig project. The Company will also explore comprehensive oilfield service projects. The Company will integrate technical regulations and standards and actively participate in unconventional exploration, development and engineering technologies for shale gas, tight gas and acid gas. In 2016, the Company plans to sign new contracts valued USD 2 billion and complete contracts value USD 2 billion.

G. Technology development

In 2016, the Company will move fast in building a sound R&D system, strengthen the overarching design and develop an R&D framework featuring “one center, two levels, three teams and four platforms”. The Company will improve its practical and efficient mechanism for technological innovation, improve its input mix and speed up commercialization of research outcomes. On technical R&D, it will give priority to upgrading of Seisway seismic data collection software and research on broadband acceleration detector; focus on the improvement of such technologies as deep shale gas long horizontal safety drilling, deep and super-deeper well speed and efficiency enhancement, rotary steerable drilling system and heat-resistant drilling fluid system; make progress on difficult technologies such as super-high-temperature acid fracturing working liquid system and heat-resistant and high-pressure-resistant downhole tool; develop a process package of high-salt heavy-oil sewage low-energy composite evaporative desalination and improve pipeline full automatic welding; and make early breakthroughs on research and application of shale gas fracturing protector and special gas production wellhead, CO^2 dry fracturing equipment and technology, and maritime engineering equipment.

H. Internal reform and management

In 2016, the Company will vigorously promote reforms, speed up integration of internal resources, step up centralization, optimization and management innovation of such resources as capital, equipment, talents and technology; work hard to cut cost and expenses, encourage all employees and executives to tap their potentials in cutting cost and increasing efficiency, particularly in production, operation, material purchase, equipment leasing, labor cost, fiscal expenses and management fees; build a value-creation-oriented remuneration system centered on value of positions, based on performance assessment and closely linked to profits; and well implemented the reform and reorganization of Sinopec East China Oil Engineering Company, Sinopec Jiangsu Oil Engineering Company, Sinopec North China Oil Engineering Company and Sinopec Henan Oil Engineering Company.

I. Capital expenditures

The Company’s budget for capital expenditure in 2016 is RMB3.45 billion. It will be spent on high-end business development, offshore engineering and construction equipment, construction equipment for the “Go Global” strategy, key labs, and treatment of safety risks. Committed to efficiency, the Company will focus on promoting quality and efficiency. According to the investment principle of being tough, strict, active and cautious, the Company always verifies before setting up projects and evaluate before making decision. Guided by the concept of effective investment and development, the Company pursues endogenous growth, always makes both ends meet. On the basis of previous efforts, the Company carefully select those competitive investment projects with less input, quick outcomes and market needs, put an end to unprofitable projects, bring into full play the leveraging role of investment, promote resource allocation, development transformation, market structure adjustment to increase high-end market shares and cultivate its core competitiveness.

(3) Potential risks

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

A. Risk in the further decline of international crude oil prices

The majority of the business income of the Company comes from oil and gas technical services. Affected by contracting demand in global oil and gas market, a stronger US dollar and weak economic recovery, international oil prices were at a generally low level in 2015, leading to less oil exploration and development investment by oil companies and less demand for oilfield services. If international oil prices continue to decline in 2016, it will result in further cut in investment by oil companies, less demand for oilfield services, and lower service prices.

Section 5 Report of the Board of Directors

B. Market competition risk

At present, domestic and international oilfield service markets are becoming increasingly competitive. The Company's main competitors include various domestic companies and large multinational companies. Many of these companies are competitive in R & D capabilities, customer base and brand awareness etc. With low international oil prices and less investment by oil companies, the Company will face intense and comprehensive competition in future.

C. Environmental damage, hidden hazards and force majeure risk

Petrochemical services involve certain risks, which may cause unexpected or dangerous incidents such as personal injury or death, property damage, environmental damage and disruption to operations, etc. In light of tougher requirements in environmental protection, the Company may cause environmental pollution caused by accidents in its operation, stand trial and pay compensation. As its operation expands, hazard risks faced by the Company also increase accordingly. Further, new regulations promulgated by the state in recent years set out higher standards for production safety. In addition, natural disasters such as earthquake and typhoon as well as 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 used its best endeavors to avoid the occurrence of accidents. However, the Company cannot completely avoid potential financial losses caused by such contingent incidents. The Company has implemented a strict HSE management system and strived to avoid all types of accidents, but still can't completely avoid economic loss caused by such incidents.

D. Exchange rate risk

At present, the implementation of the RMB exchange was based on market supply and demand, regulated and managed by floating exchange rate system with the reference to a basket of currency. As the Company uses foreign currency to pay international business and signs the contract mainly in USD, the fluctuation in exchange rates of USD or other currency to RMB will affect the revenue of the Company.

4. Assets, liabilities, equity and cash flow (Extracted from the financial statements prepared in accordance with IFRS)

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

(1). Assets, liabilities and equity analysis

	As at 31 December 2015	As at 31 December 2014	The rate of change
	RMB'000	RMB'000	%
Total assets	85,307,777	81,295,708	4.9
Current assets	48,187,792	44,532,552	8.2
Non-current assets	37,119,985	36,763,156	1.0
Total liabilities	60,670,824	62,599,570	-3.1
Current liabilities	59,909,391	61,937,914	-3.3
Non-current liabilities	761,433	661,656	15.1
Total equity attributable to equity shareholders of the Company	24,638,094	18,697,120	31.8

As at 31 December 2015, the Group's total assets were RMB85,307,777,000, representing an increase of RMB4,012,069,000 from that at the end of 2014, of which: Current assets were RMB48,187,792,000, representing an increase of RMB3,655,240,000 from that at the end of 2014, which was mainly due to the increase of RMB2,808,997,000 in amounts due from customer for contract works and the increase of RMB791,455,000 in cash and cash equivalents. Non-current assets were RMB37,119,985,000, representing an increase of RMB356,829,000 from that at the end of 2014, which was mainly due to the increase of RMB637,937,000 in property, plant and equipment and the increase of RMB101,051,000 in equities of joint venture companies.

As at 31 December 2015, the Group's total liabilities were RMB60,670,824,000, representing a decrease of RMB1,928,746,000 from that at the end of 2014, of which: Current liabilities were RMB59,909,391,000, a decrease of RMB2,028,523,000 as compared with the end of 2014, which was mainly due to the decrease of advance receipts and other accounts payable, with total RMB2,503,316,000. Noncurrent liabilities were RMB761,433,000, an increase of RMB99,777,000 compared with the end of 2014, which was mainly due to an increase of RMB101,960,000 in long-term borrowings.

As at 31 December 2015, the total equity attributable to equity holders of the Company was RMB24,638,094,000, an increase of RMB5,940,974,000 as compared with the end of 2014, mainly due to the receipts of raising fund via offering non-public A shares in March 2015.

As at 31 December 2015, the Group's ratio of total liabilities to total assets was 71.1%, and 77.0% as at 31 December 2014.

Section 5 Report of the Board of Directors

(2). Cash flow analysis

The main items of cash flow of the Group in 2015 and 2014 showed in the following table.

Main items of cash flow	2015	2014
	RMB'000	RMB'000
Net cash inflow from operating activities	2,595,785	4,501,360
Net cash outflow from investing activities	(5,003,471)	(2,528,821)
Net cash inflow/(outflow) from financing activities	3,199,141	(2,464,879)
Increase/(Decrease) in cash and cash equivalents	791,455	(492,340)
Cash and cash equivalents at the beginning of the year	1,201,754	1,694,094
Cash and cash equivalents at the end of the year	1,993,209	1,201,754

For the year ended 31 December 2015, the Group's net cash inflow from operating activities was RMB2,595,785,000, which decreased by RMB1,905,575,000 as compared with same period last year. It was mainly due to a decrease of RMB2,850, 353,000 of the Group's profit before income tax in 2015.

For the year ended 31 December 2015, the Group's net cash outflow from investing activities was RMB5,003,471,000, which increased by RMB2,474,650,000 as compared with same period last year. It was mainly due to an increase of RMB1,277,526,000 of the purchase of property, plant and equipments and lending out of entrusted loans RMB1,097,000,000.

For the year ended 31 December 2015, the Group's net cash inflow from financing activities was RMB3,199,141,000, which increased by RMB5,664,020,000 compared with same period last year. It was mainly due to the receipts of raising fund RMB5,952,517,000 via offering non-public A shares in 2015.

(3). Bank and affiliated company borrowings

As at 31 December 2015, the Group's bank and affiliated company borrowings were RMB12,759,281,000 (2014: RMB12,498,432,000). These borrowings include the short-term borrowings in RMB12,140,312,000, the long-term borrowings due with one year in RMB70,000,000 and the long-term borrowings more than one year expirations in RMB618,969,000; the fixed-rate loans were RMB5,185,324,000 and the floating rate loans were RMB7,573,957,000. As at 31 December 2015, borrowings of approximately 41.8% were denominated in Renminbi and approximately 58.2% were denominated in US Dollars.

(4). Gearing ratio

As at 31 December 2015, the gearing ratio of the Company was 30.5% (2014: 37.8%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

5. The required information disclosure according to the Listing Rules

(1). Assets pledge

For the year ended 31 December 2015, there was no pledge on the Group assets.

(2). Foreign Exchange Risk Management

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

(3). Financial Summary

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

A summary of the results and of the assets and liabilities of the Group for the last three financial years (extracted from the financial statements prepared in accordance with the PRC ASBE) is set forth in the section on "Company Profile and Principal Financial Indicators" of the Annual Report.

Section 5 Report of the Board of Directors

A fair review of the Group's business, a discussion and analysis on business performance using financial key performance indicators and the material factors underlying our results and financial position during the reporting period, particulars of significant events affecting the Group and the outlook of the Company's business are discussed through this Annual Report included in the chapters of " Company Business Summary", "Chairman's Statement", "Report of the Board or Directors" and "Significant Events". All the discussions constitute parts of the Directors' Report.

(4). Reserves

Changes in reserves of the Group during the reporting period are set forth in note 31 of the financial statements prepared in accordance with the IFRS of the Annual Report.

(5). Fixed assets

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

(6). Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 36 of the financial statements prepared in accordance with the IFRS of the Annual Report.

(7). Retirement plan

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

(8). Income tax

During the twelve months at the end of 31 December 2015, the Group's incoming tax is RMB481,421,000 (2014: RMB974,713,000), the effective tax rate is 102.4% (2014: 44.2%). The main reason for the change of the effective tax rate is as following: 1) the existence of losses of the Group and part of the subsidiaries, 2) the expansion of the Group'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 Group paid tax in the countries and regions where it has businesses.

(9). Capitalized interest

Details of capitalized interest of the Group are set out in note 6 of the financial statements prepared in accordance with the IFRS of the Annual Report.

(10) Environmental policy and performance of the Company

Led by construction of ecological civilization and green low-carbon strategy, the Company continue to carry out clean production, energy saving and emission reduction, carbon asset inventory and verification, and the energy efficiency doubling plan. The special action of blue sky environmental protection is launched and effectiveness of energy and environment work gets sustainable improvement. Details with regard to the Company's performance in relation to environmental performance and polices are also provided in the " Report on Social Responsibility for 2015" of the Company. All those discussions in regard to environmental policies constitute part of the Directors Report.

In 2015, the Company is not included in the list of heavily polluting enterprises released by Chinese environmental department. There is no significant environmental or other social security issues about the Company.

The Company has established a comprehensive environmental impact assessment system to enhance environmental control. In 2015, the Company had no environmental pollution accident, nor had been sued, fined or sanctioned due to environmental pollution or violating environmental laws and regulations.

(11) Compliance with laws and regulations

For detailed information about laws and regulations of significant influence on the Company, please refer to the related disclosure in Appendix I "regulatory review" of the circular about the material asset restructuring on 27 October 2014 on the website of Shanghai Stock Exchange www.sse.com.cn and website of HKSE.

In 2015, the Company strictly abide by the laws and regulations which have significant influence on the Company and has never been sued, fined or sanctioned due to violating major laws and regulations.

Section 5 Report of the Board of Directors

(12) Important employees, customers and suppliers of the Company

For detail information about major customers and major supplier of the Company, please refer to page 18 of this Annual Report. There were no supplier, other customers, employee and others that have a significant impact on the Company and on which the Company's success depends.

(13) Management contract

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period.

(14) Pre-emptive rights

Neither the Company's "Articles" nor Chinese law stipulates the clause about pre-emptive rights.

(15) Purchase, sale or redemption of the Company's listed securities

As of the twelve month ended at 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of their listed securities.

(16) Directors' interests in competing business

During the reporting period, there remains a few competing business between CPC (and its subsidiaries) and the Group. Certain directors of the Company hold positions in CPC and its subsidiaries. For details, please refer to the chapter Directors, Supervisors, Senior Management and Employees of this Annual Report.

(17) Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the reporting period.

(18) Directors service contracts

No Director proposed for election at the 2015 AGM has a service contract with the Company or any of its subsidiaries which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

(19) Permitted indemnity provisions

During the reporting period, the Company has purchased liability insurance for all directors to minimize their risks arising from the performance of their duties. The permitted indemnity provisions are provided in such directors liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors.

(20) Equity-linked agreement

For the year ended 31 December 2015, the Company has not entered into any equity-linked agreement.

On behalf of the Board

Jiao Fangzheng

Chairman

Beijing, China

30 March 2016

Section 6 Report of the Supervisory Committee

Section 6 Report of the Supervisory Committee

Dear shareholders,

In 2015, all supervisors of the Company follow the relevant provisions of Company Law of China and Articles of Association, complied with principles of honest and compliance, actively participated in supervising the Company's management process, carefully considered major decisions and earnestly fulfilled the duties of supervision, in order to safeguard the interests of the shareholders and the Company. All the supervisors serve their duties of supervision, safeguarding and service. The 2015 work report of supervisory committee is as follows:

1. Meetings of the supervisory committee

The supervisory committee of the Company (the "Supervisory Committee") convened five meetings in 2015 and approved 19 resolutions. In line with a responsible attitude for all shareholders, the Supervisory Committee held serious discussion and carefully analyzed on every resolutions to make sure its Legal compliance. The details are as follows,

1.1 The first meeting of the eighth session of the Supervisory Committee was held on 9 February 2015. This meeting considered and approved the resolution regarding the election of the Chairman of eighth Supervisory Committee.

1.2 The second meeting of the eighth session of the Supervisory Committee was held on 24 March 2015. This meeting considered and passed 2014 Supervisory Committee Work Report; 2014 Financial Statement; 2014 Annual Report; Resolutions in relation to 2014 connected transactions; 2014 Profit Distribution Plan; Resolution regarding to executive related accounting policy and accounting estimation of oilfield service business; Resolution in regard to replacing previously invested self-financing of equity investment projects by raised fund and Resolution in regard to temporarily supplement of current assets by using part of idle raised funds.

1.3 The third meeting of the eighth session of the Supervisory Committee was held on 28 April 2015. This meeting considered and passed Resolution to accept Mr. Wang Chunjiang and Mr. Zhang Jixing's resignations in eighth session of the Supervisory Committee; Resolution to elect Mr. Hu Guoqiang as the Chairman of eighth Supervisory Committee; and 2015 first quarterly report of the Company.

1.4 The fourth meeting of the eighth session of the Supervisory Committee was held on 25 August 2015. This meeting considered and passed 2015 interim report; 2015 interim financial statement; Resolution to not distribute 2015 Interim dividend; and Special report of raised funds on deposit and its actual use in 2015 Semi-Annual.

1.5 The fifth meeting of the eighth session of the Supervisory Committee was held on 28 October 2015. This meeting considered and passed 2015 third quarterly report of the Company; Resolution to enter into the continuing connected transaction agreements with CPC and the annual caps of the continuing connected transaction for the year 2016, 2017 and 2018; and Resolution in regard to temporary supplement of current assets by using part of idle raised funds.

2. Fulfillment of duties

In 2015, the Supervisory Committee performed its supervision duties by supervising the decision-making process of the general meetings and meetings of the board and attending the general meetings and meetings of the board to ensure its legal compliance. In 2015, the Company convened six meetings of the board and three general meetings. All resolutions have been effectively implemented, and the decision-making process of the general meetings and meetings of the board were legal compliance. Meanwhile, the Supervisory Committee took advantage of a variety of ways to understand the Company's production and management situation, and supervise the Company's significant decision and operation situation. The Supervisory Committee attended the internal meetings of the Company on time, strengthened communications with the management and the related functional departments and paid close attention to the Company's significant decision about operating situation and internal reform. The Supervisory Committee agreed that in 2015, the international oil price continued fluctuating at a lower level and frequently recorded much lower price, and the oilfield service industry faced the cutthroat competition. The Company insisted that market is the root, service is the soul, profit is the basis,pursue win-win cooperation, "combat winter and make profits". The smooth running of production operations was ensured; and profitability in operating results under extremely difficult circumstances was achieved. The supervisory committee has no violation on supervision affairs during this reporting period.

2.1 Information on the operations according to the law

The board of directors earnestly fulfilled rights and obligations given by Company Law of China and the Articles of Association, and make reasonable decisions on major issues of the Company's operation and development; Management group conscientiously implemented the resolutions of the Board, continued to deepen the reform, accelerated the structural adjustment, strengthened the strict management, reduced costs and increased efficiency to make a remarkable performance. Except for the Dr. Wong, Kennedy Ying Ho, the Independent Non-executive Director of the Company, who was prosecuted by Independent Commission Against Corruption of Hong Kong due to personal reasons, we did not find any violation of laws, rules and regulations, the Articles of Association or behaviors that would damage the interests of the Company or its shareholders.

Section 6 Report of the Supervisory Committee

2.2 Check the Company's financial situation

The financial report the Company for 2015 reflected the operation results on the Company's financial situation truly and just which conforms to relevant regulations of domestic and foreign securities regulatory authorities. The disclosed information of the report were true, accurate and complete. We did not find any violation of confidentiality in report preparation and review personnel.

2.3 Check the actual use of the Company's raising fund

During the reporting period, the Supervisory Committee supervised the actual use of the Company's raising fund. The Supervisory Committee agreed that the use of raising fund has been strict followed by the Company's Raising Fund Management Method, and conformed to relevant regulations of domestic and foreign securities regulatory authorities and the Company's corporate governance provisions, which was beneficial to the Company's continuing development. There was no situation of changing the use of raised fund or of damaging the shareholders' interest.

2.4. Information of connected transactions

The transactions between the Company and CPC and its subsidiaries were in compliance with the relevant rules of HKSE and the SSE, and satisfied the Company's need of production and operation. The terms of the transactions were fair and reasonable, and in the interests of the Company and its shareholders.

2.5 Establishment of the internal control system

The Company has established and implemented effectively the internal control system and issued internal control evaluation report which is comprehensive, true and objective. There was no find of existence significant deficiencies about the internal control system. The establishment of internal control system was a continuous work, and the Company shall improve it in accordance with the business development.

In 2016, the Supervisory Board and the supervisors will continue to uphold the principle of good faith and diligence, conscientiously perform supervisory duties, enhance the supervision and inspection to protect the interests of the Company and its shareholders.

Chairman of the Supervisory Committee

Hu Guoqiang

Beijing, China

30 March 2016

Section 7 Significant Events

1. Profit Distribution Plan for Ordinary Shares or Plan for Capitalization of Surplus Reserves

(1). Formulation, implementation or adjustment of dividend policy

The Company's current dividend policy is as follows: during the reporting period, under the situation of: 1) Company has net profit, 2) the Company has 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 shareholders. The specific amount of dividends shall be proposed by the Board of Directors of the Company, and be finally approved by the General Meeting. During the process of enacting and executing of the Company's dividend policy, the independent directors fulfilled their responsibilities following the corresponding obligations, which fully reflected the opinions and demands of minority shareholders and protected their legitimate rights and interests.

Due to the reason that the Company's undistributed profit at the end of 2015 was negative, there were no cash dividends. But the Company would strictly implements its Articles of Associations, as 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 minority shareholders.

(2). Profit distribution plan or pre-arranged plan for Ordinary Shares or plan or pre-arranged plan for capitalization of surplus reserves in the previous three years (inclusive of the reporting period) (in accordance with PRC 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	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement
	(RMB) (Tax included)	(RMB) (Tax included)	(share)	(RMB'000)	(%)
2015	—	—	—	24,478	—
2014	—	—	—	1,229,753	—
2013	—	—	5	61,216	—

(3). If the Company records profits and the parent company records a positive distribution of profit available to shareholders of ordinary shares during the reporting period but there is no proposal for cash dividend for ordinary shares, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

√ Not Applicable

2. Performance of undertakings

(1). The undertakings made by the Company, shareholders, the de facto controllers, directors, supervisors, senior management and other associated parties during or until the reporting period.

Background	Type	Party	Undertaking	Date and Duration	Whether there is a performance period	Whether the undertaking has bee strictly fulfilled timely
Undertaking regarding share reform	Other	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 regulations of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance and CSRC, the Board makes a proposal for a share option incentive scheme, with the exercise price of the first grant of share options being not less than RMB6.64 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)	Date of the undertaking: 20 August 2013 Duration: 1 year	Yes	As at 19 August 2014, the Company does not have the conditions of the implementation of share option incentive plan due to the consecutive losses of operating results. CPC would make a request to the Board to propose the share option incentive scheme on the premise of compliance with relevant regulations after the completion of Material Assets Reorganization
Undertaking regarding the Material Assets Reorganization	Solve the horizonta competition	CPC	The Non-Competition Undertaking 1.CPC made a undertaking 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 Reorganization, 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 after the completion of the Material Assets Reorganization. CPC will find the appropriate opportunity to sell the petroleum service business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the CPC's comprehensive consideration of the related factors of national laws, industry norms and international political and economy situations. 3. After the completion of the Material Assets Reorganization, if CPC 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 CPC 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. CPC consent that it will bear and pay the damages to the listed companies caused by its violation of the undertakings.	Date of Undertakings: 12 September 2014 Duration: Long Term	Yes	During the reporting period, CPC did not act contrary to the undertakings.

Section 7 Significant Events

Background	Type	Party	Undertaking	Date and Duration	Whether there is a performance period	Whether the undertaking has bee strictly fulfilled timely
Undertaking regarding the Material Assets Reorganization	Other	CPC	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. CPC and its controlled 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. CPC 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. CPC and its controlled companies guarantee not to illegally use the funds of the Company and its controlled companies. 3. If CPC violate the above undertaking, it would compensate the losses caused to the Company pursuant to applicable laws and regulations.	Date of undertaking: 12 September 2014 Duration: Long Term	Yes	During the reporting period, CPC did not act contrary to the promise.

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

In 2014, the Company implemented the Material Assets Reorganization. During the process of reorganization, the Company predicted the earning situation about the post-restructuring (for more details, please refer to the disclosure documents in relation to the Material Asset, Reorganizations at the website of www.sse.com.cn and HKSE). The forecast amount of net profit of incoming assets for year 2015 is RMB3,505,402,300, while the actual net profit is RMB2,026,000. The Company did not achieve its profit forecast of 2015 mainly due to the following reasons: the price of international crude oil fell sharply and the international and domestic oil companies significantly reduced capital expenditures of the upstream exploration and exploitation, thus caused a sharp decline in the Company's operation volume and the decrease in the Company's service price. Given that changes of global crude oil price and external operating environment in 2015 were unpredictable when the Company made the 2015 profit forecast, and significant impact of decreasing crude oil price on the Company's performance was greater than expectation, though the Company made best efforts to expand markets, deepened the reform, accelerated technology innovation and enhanced cost reduction to successfully make profit for the Company, the profit was lower than the 2015 profit forecast. The Company sincerely apologizes to the investors for this. The Company's announcement on 31 March 2016 in relation to explanation of the realization status of the profit forecast for 2015 of the acquired asset in the Material Asset Reorganization detailed the reasons of failure of realization of the profit forecast. (For more details, please refer to the related announcement of 31 March 2016 at the website of www.sse.com.cn and HKSE)

Grant Thornton (Special General Partnership) issued the special audit report about the realization status of the profit forecast of the Incoming Assets in the Material Assets Reorganization of the SSC (for more details, please refer to the related announcement of 31 March 2016 at the website of www.sse.com.cn and HKSE), and agreed that the document of "*in relation to explanation of the realization status of the profit forecast for 2015 of the acquired asset in the Material Asset Reorganization*" was prepared in accordance with the document of "*Management Measures for material assets reorganization of listed companies*"(China Securities Regulatory Commission Order No. 53), which fairly reflected the differences between the profit forecast and profit realization of the Company in all significant aspects.

3. Capital occupancy and progress on settlement of arrears

During the reporting period, there was no appropriation of fund for non-operational purpose by the controlling shareholder and its related parties.

4. 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

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

	The present employment
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	1
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The remuneration of the domestic and overseas accounting firm	RMB9,600,000
The audit period for the overseas accounting firm	1
The accounting firm for Internal Control Audit	Grant Thornton (Special General Partnership)
The remuneration of the accounting firm for Internal Control Audit	RMB2,000,000

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board 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 has been approved by the shareholders at the of the annual general meeting of the Company for the year 2014 held on 16 June 2015.

On 30 March 2016, the Board 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 respectively for the year 2016. The proposal will become effective after the approval at the 2015 AGM.

6. Insolvency and restructuring

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

7. Material litigation and arbitration

During the reporting period, there is no material litigation and arbitration.

8. The punishment or rectification situation suffered by the Company or its directors, supervisors, senior management, controlling shareholders and de facto controllers

During the reporting period, except for Dr. Wong, Kennedy Ying Ho, the Independent Non-executive Director of the Company, who was prosecuted by Independent Commission Against Corruption of Hong Kong due to personal reasons, none of the Company or its other Directors, Supervisors, senior management, controlling shareholders or de facto controllers 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.

Section 7 Significant Events

9. The information on the integrity status of the Company and its controlling shareholders, de facto controllers during the reporting period

During the reporting period, the Company and its controlling shareholders, de facto controllers kept honest and faithful, and there was no occurrence of dishonesty.

10. Company's stock option incentive scheme, employee stock ownership plan and other employee incentive cases and its respective effect

During the reporting period, the Company did not adopt any stock option incentive scheme, employee stock ownership plan or other employee incentive cases.

11. Information on significant connected transactions

(1). The connected transactions relating to daily operation

The nature of the transaction classification	Connected parties	Amount of transaction	Percentage of the same type of transaction
		RMB'000	(%)
Purchasing materials and equipments	CPC and its associates	9,327,661	37.2
Providing engineering services	CPC and its associates	37,502,329	64.0
Receiving community services	CPC and its associates	1,602,780	100.0
Receiving integrated services	CPC and its associates	244,567	100.0
Technology research and development income	CPC and its associates	275,613	100.0
Rental expenses	CPC and its associates	152,312	33.0
Interest expenses	CPC and its associates	335,616	98.5
Loan obtained	CPC and its associates	56,746,079	99.4
Loan repaid	CPC and its associates	56,543,528	100.0
SPI expenses	CPC	89,215	100.0
SPI refund	CPC	42,806	100.0

The Company is of the view that it is important to conduct the above connected transactions and to select certain connected transactions, which would continue to occur. The agreement of connected transaction is based on the need of Company's operations and actual market situation. Purchasing materials and equipment from CPC and its subsidiaries will ensure the stable and safe supply of the Company's raw materials. The fact of providing engineering service to CPC and its subsidiaries is based on the history of the operating system of China's petroleum development and the history of CPC's development, which constitute the main sources of the Company's business income. The loan made from CPC can satisfy the need of financial resources under the situation of the fund shortage, therefore it is beneficial to the Company. The pricing of the above transactions were mainly based on the market price or contract price determined by open bidding or negotiation, reflecting the principal of fairness, justice and openness, which is beneficial to the development of Company's main business, and ensures the maximization of the shareholders' interests. The above connected transactions have no adverse impact on the profits of the Company or the independence of the Company.

The Company's independent non-executive directors have reviewed the Company's continuing connected transactions, and concluded that (1) the transactions between the Company and connected parties have been conducted in the ordinary course of the Company's business; (2) the transactions have been entered into based on normal commercial terms, or terms not less favorable than those available from or to independent third parties, where there is no available comparable terms; (3) the transactions were conducted pursuant to the terms of the relevant agreements, and the terms were fair and reasonable and in the interests of the Company and its shareholders as a whole; (4) the annual amount of the above connected transactions did not exceed the annual cap of each category of the connected transaction as approved by the independent shareholders.

In accordance with Rule14A.56 of the Listing Rules, the Company's auditor issued its unqualified opinion letter regarding to the Company's continuing connected transactions disclosed during the reporting period, and containing its findings and conclusions.

Details of related transactions of the Company are set out in note 10 of the financial statements prepared in accordance with the PRC ASBE and note 42 of the financial statements prepared in accordance with IFRS of the Annual Report.

Section 7 Significant Events

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

During the reporting period, no connected transactions related to acquisition or disposal of assets or equities of the Company occurred.

(3). The fund provided between related parties

Unit: RMB'000

Related parties	Funds provided to related party			Funds provided to the Company by related party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
CPC and its subsidiaries (excluding Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited)	19,712,996	-1,648,318	18,064,678	7,835,426	-1,778,577	6,056,849
Sinopec Finance Company Limited	—	—	—	4,530,000	-2,235,000	2,295,000
Sinopec Century Bright Capital Investment Limited	—	—	—	7,502,995	2,474,266	9,977,261
Total	19,712,996	-1,648,318	18,064,678	19,868,421	-1,539,311	18,329,110

12. Significant contracts and their performance

(1) Trusteeship, sub-contracting and leasing

During the reporting period, there were no trusteeship, sub-contracting or leasing of properties to other companies by the Company which would contribute more than 10% (including 10%) of the Company's total profit during the reporting period.

(2). Guarantee

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

(3). Entrusting others to manage cash assets

During the reporting period, the Company has no entrusted financing, entrusted loans, other investments or derivative investment products.

(4). Other significant contract

During the reporting period, the Company did not enter into any other material contract which requires disclosure.

13. Information on social responsibility

(1). Information on social responsibility

For information on social responsibility, please refer to "Report on Social Responsibility for 2015" of the Company.

(2). Details of environment protection of listed enterprises and its subsidiaries which belong to serious pollution as regulated by the State Environment Department

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 2015.

Section 8 Changes in Ordinary Shares and Information on Shareholders

1. Changes in Share Capital of Ordinary Shares

(1). Changes in share capital are as follows:

A. Details of the changes in share capital 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	Percent (%)
I. Shares with selling restrictions:	10,259,327,662	80.1	+1,333,333,333	—	—	—	+1,333,333,333	11,592,660,995	82.0
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned companies	10,259,327,662	80.1	—	—	—	—	—	10,259,327,662	72.6
3. Shares held by other domestic investors	—	—	+1,333,333,333	—	--	—	+1,333,333,333	1,333,333,333	9.4
4. Shares held by foreign investors	—	—	—	—	—	—	—	—	—
II. Shares without selling restrictions	2,550,000,000	19.9	—	—	—	—	—	2,550,000,000	18.0
1. RMB-denominated ordinary shares	450,000,000	3.5	—	—	—	—	—	450,000,000	3.2
2. Shares traded in non-RMB currencies and listed domestically	—	—	—	—	—	—	—	—	—
3. Shares listed overseas	2,100,000,000	16.4	—	—	—	—	—	2,100,000,000	14.8
4. Others	—	—	—	—	—	—	—	—	—
III. Total shares	12,809,327,662	100.0	+1,333,333,333	—	—	—	+1,333,333,333	14,142,660,995	100.0

B. Note for the changes in Share Capital of Ordinary Shares

During the reporting period, the Company's total number of shares and its share capital structure have been changed. On 3 March 2015, the Company completed the registration of A shares issued under the Proceed Raising by Private Placement. 1,333,333,333 A shares with selling restrictions were issued under the Proceed Raising by Private Placement, resulting in the changes of the Company's total number of shares and its share capital structure.

C. The effects of changes in Share Capital of Ordinary Shares on the financial indicators of the Company such as earnings per share and net assets per share, in the previous year and the latest period

On 3 March 2015, the Company completed the A share private placement and issued 1,333,333,333 A Shares. The total number of shares increased from 12,809,327,662 shares to 14,142,660,995 shares, resulting in the diluted financial indicators such as earnings per share and net assets per share in 2015.

Section 8 Changes in Ordinary Shares and Information on Shareholders

(2). Changes in Shares with Selling Restrictions

Unit: Share

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of shares to be freely tradable during the reporting period	Change in number of shares with selling restrictions during the reporting period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Expiration date of selling restrictions
CPC	9,224,327,662	0	0	9,224,327,662	In accordance with the Material Assets Reorganization plan, within 36 months from 31 December 2014, the Company's non-public offering stocks to CPC cannot be transferred.	—
CITIC Limited	1,035,000,000	0	0	1,035,000,000	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	—
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	0	0	293,333,333	293,333,333	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership	0	0	133,333,333	133,333,333	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Darry Asset Management (Hangzhou) Co., Ltd.	0	0	133,333,333	133,333,333	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Hua An Fund- Minsheng Bank-Hua An Jifeng No. 11 Asset Management Plan	0	0	111,110,800	111,110,800	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Beixin Ruifeng Fund-ICBC-Fengqing No.33 Asset Management Plan	0	0	93,333,333	93,333,333	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Donghai Fund-Xingye Bank-Xinlong No.118 Multi-client Asset Management Plan	0	0	66,666,667	66,666,667	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	0	0	66,666,666	66,666,666	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	0	0	66,666,666	66,666,666	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-SPD Bank- Beijing Trust-Fengshou Financing No. 2015001 Trust Plan	0	0	32,311,326	32,311,326	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Beixin Ruifeng Fund-ICBC-Beixin Ruifeng Fund Fengqing No. 29 Asset Management Plan	0	0	26,666,667	26,666,667	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Shuguang No. 18 Asset Management Plan	0	0	24,938,272	24,938,272	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan	0	0	22,777,500	22,777,500	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Beixin Ruifeng Fund-Ningbo Bank-Beixin Ruifeng Fund Fengqing No. 18 Asset Management Plan	0	0	22,222,222	22,222,222	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Shuguang No.15 Asset Management Plan	0	0	16,264,090	16,264,090	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Minsheng Bank-Huaan Jifeng No.6 Asset Management Plan	0	0	15,555,300	15,555,300	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Shuguang No.20 Asset Management Plan	0	0	14,962,963	14,962,963	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	0	0	13,333,300	13,333,300	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Fuchun Private Placement No. 221 Asset Management Plan	0	0	13,011,272	13,011,272	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Fuchun Private Placement No. 226 Asset Management Plan	0	0	12,740,204	12,740,204	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Minsheng Bank-Huaan Jifeng No.9 Asset Management Plan	0	0	11,556,000	11,556,000	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	0	0	10,842,727	10,842,727	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-China Foreign Economy and Trade Trust Co., Ltd.-Hengsheng Private Placement Investment Trust Plan	0	0	10,842,727	10,842,727	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No.223 Asset management Plan	0	0	8,674,182	8,674,182	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Xingye Bank-Shanghai Renhe Zhiben Asset Management Co., Ltd.	0	0	8,445,080	8,445,080	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-Minsheng Bank-Huaan Jifeng No.8 Asset Management plan	0	0	8,333,100	8,333,100	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *

Section 8 Changes in Ordinary Shares and Information on Shareholders

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of shares to be freely tradable during the reporting period	Change in number of shares with selling restrictions during the reporting period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Expiration date of selling restrictions
Donghai Fund-ICBC-Private Placement Strategy No.8 Asset Management plan	0	0	6,666,667	6,666,667	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No. 160 Asset Management plan	0	0	5,963,500	5,963,500	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Caitong Fund- Fuchun Private Placement No. 210 Asset Management plan	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Shuguang No. 17 Asset Management plan	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Fuchun Longcheng Yunlian No.2 Asset Management plan	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank- Fuchun Private Placement No. 186 Asset Management plan	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank- Fuchun Private Placement No. 200 Asset Management plan	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Xingye Bank-First Capital Securities Co., Ltd	0	0	5,421,363	5,421,363	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No. 60 Asset Management plan	0	0	4,738,272	4,738,272	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huaan Fund-XIngye Bank-Gulan	0	0	4,444,480	4,444,480	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Huana Fund-XIngye Bank-Huana Private Placement Quantization No. 1 Asset Management plan	0	0	4,444,440	4,444,440	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Minsheng Bank-Shuguang No.13 Asset Management Plan	0	0	4,228,663	4,228,663	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Caitong Fund-Tongan Private Placement No. 1 Asset Management plan	0	0	3,252,818	3,252,818	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Shanghai Tongan Investment Management Co., Ltd.	0	0	3,252,818	3,252,818	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Caitong Fund-Anxin Private Placement No. 3 Asset Management plan	0	0	3,252,818	3,252,818	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No. 125 Asset Management plan	0	0	3,252,818	3,252,818	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Guangfa No.1 Asset Management plan	0	0	3,252,818	3,252,818	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No. 79 Asset Management plan	0	0	3,035,964	3,035,964	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Caitong Fund-Fuchun Private Placement No. 86 Asset Management plan	0	0	2,168,545	2,168,545	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Anxin Private Placement No. 5 Asset Management plan	0	0	1,626,409	1,626,409	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Pingan Bnak-Zhang Yongzhen	0	0	1,409,555	1,409,555	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Zhongxin Xincheng Asset Management Co., Ltd.	0	0	1,387,869	1,387,869	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Xingye Bank-Zhejiang Houdao Asset Management Co., Ltd.	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Xingye Bank-Fuchun Huaan No.1 Asset Management plan	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Caitong Fund-Kaiyuan Private Placement No.1 Asset Management Plan	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-ICBC-Fuchun Private Placement No.105 Asset Management Plan	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-Pingan Bank-Wang Wenran	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Caitong Fund-China Everbright Bank-Fuchun Private Placement No.203 Asset Management plan	0	0	1,084,273	1,084,273	The lock-up period for non-public offering was 12 months commencing on 3 March 2015	3 March 2016 *
Total	10,259,327,662	0	1,333,333,333	11,592,660,995	—	—

Note: 1,333,333,333 A shares with selling restrictions issued under the Proceed Raising by Private Placement became freely tradable on 3 March 2016. For more details, please refer to the relevant announcements dated 26 February 2016 at the website of www.sse.com.cn and HKSE.

Section 8 Changes in Ordinary Shares and Information on Shareholders

2. Share issuance and listing

(1). At the end of the reporting period, the situation of shares issuance as following.

On 3 March 2015, the Company completed the proceed raising by non-public issuance (the "Issuance") of new A Shares to the target subscribers (the "Subscribers").

A. Details of the Issuance

Type of Shares and nominal value:	PRC-listed RMB-denominated ordinary shares (A Shares), with a nominal value of RMB1.00 each
Number of Shares issued	1,333,333,333 A Share
Issue price	RMB4.50 per A Share
Net price	RMB4.46 per A Share
Total proceeds	RMB5,999,999,998.50
Net proceeds	RMB5,952,516,665.50
Issuance date	13 February 2015
Listing date	3 March 2015*
Market price on the issuance date	RMB6.19 per A Share HKD2.41 per H Share

* The 1,333,333,333 A Shares under the Issuance are shares subject to trading moratorium. All the new shares subscribed by the Subscribers are subject to a lockup period of 12 months starting from 3 March 2015.

B. Subscribers

All the A Shares under the Issuance subscribed by seven subscribers i.e. Darry Asset Management (Hangzhou) Co., Ltd., Beixin Ruifeng Fund Management Co.,Ltd., Hua An Fund Management Co.,Ltd., Beijing Harvest Yuanxing Investment Center (Limited Partnership), Donghai Fund Management Co., Ltd., Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership), and Caitong Fund Management Co., Ltd.

C. The use of proceeds raised from the Issuance is set out below:

No.	Name of project	Proceeds from the Issuance utilised	Total investment for project	Percentage
Overseas operational high-end equipment				
1	Drilling rig project in Kuwait	RMB1.6 billion	RMB1.6 billion	100%
Ocean engineering equipment				
2	Establishment of 25-meter platform	RMB466 million	RMB466 million	100%
3	Purchase of 8000hp multi-task ship	RMB195 million	RMB195 million	100%
4	Purchase of wireline logging system LOGIQ	RMB120 million	RMB120 million	100%
Shale gas operation equipment				
5	Purchase of downhole test equipment	RMB139 million	RMB148 million	93.92%
6	Purchase of top drive equipment	RMB110 million	RMB110 million	100%
7	Purchase of Coiled tubing equipment	RMB80 million	RMB80 million	100%
Pipeline construction equipment				
8	Purchase of pipeline construction equipment	RMB530 million	RMB530 million	100%
Working capital				
9	Working Capital	RMB2.76 billion	RMB2.76 billion	100%
	Total	RMB6 billion	RMB6.009 billion	99.85%

Section 8 Changes in Ordinary Shares and Information on Shareholders

(2). Changes in total number of ordinary shares and share capital structure and changes in the structure of assets and liabilities

On 3 March 2015, the company completed the registration of the A Shares issued under the Proceed Raising by Private Placement. The total issued share capital increased from 12,809,327,662 shares to 14,142,660,995 shares. See more information about the change of share capital structure in "Changes in share capital".

(3). Internal employee shares

The Company has not issued any internal employee shares during the reporting period.

3. Information on shareholders and the de factor controller

(1). Number of shareholders

As at 31 December 2015, the number of shareholders of the Company was 102,545, including 102,181 holders of A Shares and 364 registered holders of H Shares. The Company has satisfied the minimum public float requirement under the Listing Rules.

As at 29 February 2016, the number of shareholders of the Company was 104,420, including 104,050 holders of A Shares and 370 registered holders of H Shares.

(2). The shareholdings of the top ten shareholders of the Company and the shareholdings of the top ten shareholders of shares without selling restrictions of the Company

Shareholdings of the top ten shareholders Names of shareholders	Nature of shareholders	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
CPC	State-owned legal person	9,224,327,662	65.22	9,224,327,662	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") *	Overseas legal person	2,086,002,496	14.75	0	0
CITIC Limited	State-owned legal person	1,035,000,000	7.32	1,035,000,000	0
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	Others	293,333,333	2.07	293,333,333	Unknown
Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership)	Others	133,333,333	0.94	133,333,333	133,333,333
Darry Asset Management (Hangzhou) Co., Ltd.	Others	133,333,333	0.94	133,333,333	133,333,300
Hua An Fund-Minsheng Bank-Hua An Jifeng No. 11 Asset Management Plan	Others	111,110,800	0.79	111,110,800	Unknown
Beixin Ruifeng Fund-ICBC-Fengqing No.33 Asset Management Plan	Others	93,333,333	0.66	93,333,333	Unknown
Donghai Fund-Xingye Bank-Xinlong No.118 Multi-client Asset Management Plan	Others	66,666,667	0.47	66,666,667	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	Others	66,666,666	0.47	66,666,666	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	Others	66,666,666	0.47	66,666,666	Unknown

Section 8 Changes in Ordinary Shares 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*	2,086,002,496	H Share
China Securities Finance Corporation Limited	3,300,500	A Share
IP KOW	2,850,000	H Share
Shi Xiaoye	2,765,883	A Share
Zhang Zhiqing	2,520,000	A Share
Deng Yongyin	1,888,900	A Share
Zhang Nan	1,888,800	A Share
Zhu Youxin	1,577,300	A Share
Hu Shanping	1,300,000	A Share
Jin Caijuan	1,183,599	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that "Donghai Fund- Xingye Bank-Xinlong No.118 Multi-client Asset Management Plan", "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan" and "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan" belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned s hareholders.	

Note: * Agent for different clients

(3) Number of shares held by the top ten shares holders with selling restrictions and its selling restriction

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 throu gh listing	Selling restriction
CPC	9,224,327,662	31 December 2017	9,224,327,662	3 years
CITIC Limited	1,035,000,000	20 August 2014	300,000,000[1]	1 year[2]
		20 August 2015	300,000,000[1]	2 years[2]
		22 August 2016	435,000,000	3 years
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	293,333,333	3 March 2016	293,333,333	1 year
Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership)	133,333,333	3 March 2016	133,333,333	1 year
Darry Asset Management (Hangzhou) Co., Ltd.	133,333,333	3 March 2016	133,333,333	1 year
Hua An Fund-Minsheng Bank-Hua An Jifeng No. 11 Asset Management Plan	111,110,800	3 March 2016	111,110,800	1 year
Beixin Ruifeng Fund-ICBC-Fengqing No.33 Asset Management Plan	93,333,333	3 March 2016	93,333,333	1 year
Donghai Fund-Xingye Bank-Xinlong No.118 Multi-client Asset Management Plan	66,666,667	3 March 2016	66,666,667	1 year
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	3 March 2016	66,666,666	1 year
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	66,666,666	3 March 2016	66,666,666	1 year
Statement on the connected relationship or activities in concert among the above-mentioned shareholders		Except that "Donghai Fund- Xingye Bank-Xinlong No.118 Multi-client Asset Management Plan", "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan" and "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan" belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or acting in concert among the above-mentioned s hareholders.		

Section 8 Changes in Ordinary Shares and Information on 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 share capital of 6,000,000,000 shares of pre-Material Assets Reorganization.
2. As at 30 March 2016, CITIC Limited does not start the application procedure to SSE to end the lock-up period of the relevant shares through the Board.

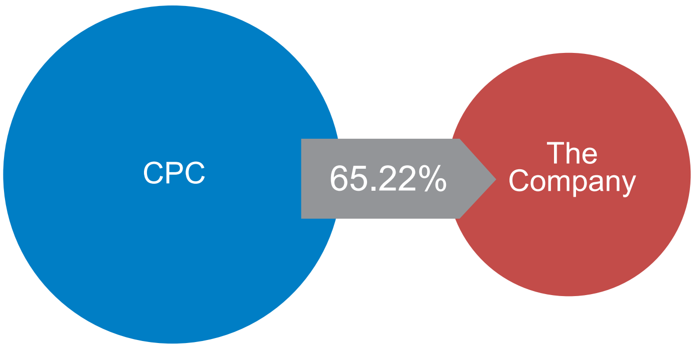
4. Changes in share capital and information on de facto controller

(1). Information on controlling shareholder

A. Legal Representative

Name of the shareholder	China Petrochemical Corporation		
Legal representative	Wang Yu-pu		
Date of establishment	14 September 1983		
Organization number	10169286-X		
Registered capital	RMB274.866 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 an d social services.		
CPC's subsidiaries and associates listed in domestic and overseas market during the reporting period	**Name of company**	**Number of share held (shares)**	**Shareholding (%)**
	Sinopec	85,792,671,101	70.86%
	SINOPEC Engineering (Group) Co., Ltd	2,967,200,000	67.01%
	Kingdream Public Limited Company	270,270,000	58.73%
	China Merchants Energy Shipping Co., LTD	912,886,000	17.23%

B. The diagram of the controlling relationship between the Company and the controlling shareholder



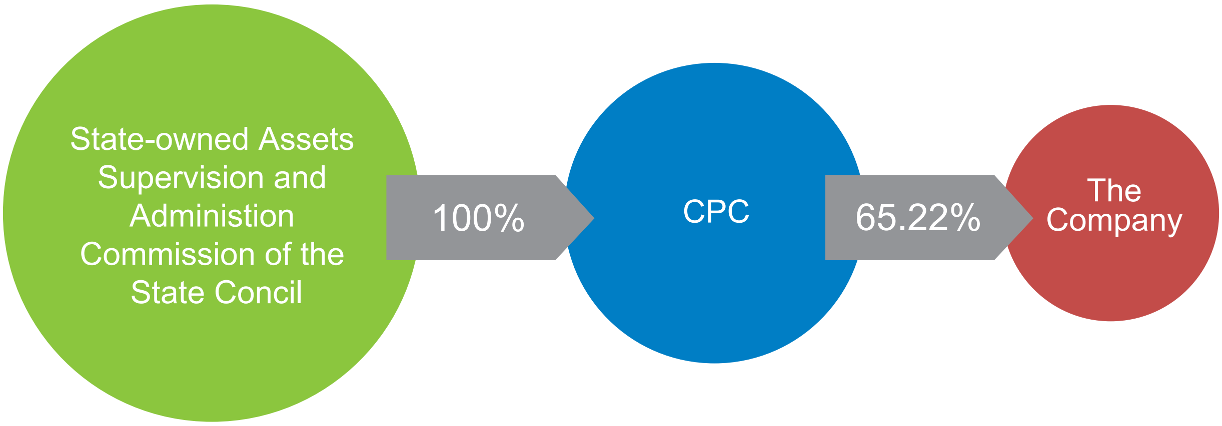
Section 8 Changes in Ordinary Shares and Information on Shareholders

(2) The de facto controller

A. Legal Representative

The de facto controller is also CPC. See more information in " Information on controlling shareholder" relating to controlling shareholder.

B. The diagram of the controlling relationship between the Company and the de facto controller



5. Other legal person shareholders that holding over 10% of the total issued share capital 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 issued share capital 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 2015, 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 shares 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)	(%)	(%)	(%)	
CPC	9,224,327,662	65.22	76.60	Not applicable	—
CITIC Limited	1,035,000,000	7.32	8.59	Not applicable	—

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2015, 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 Listing Rules) of the Company.

Section 9 Directors, Supervisors, Senior Management and Employees

Section 9 Directors, Supervisors, Senior Management and Employees

1. Information on the changes of shareholdings and on the remuneration

(1). Information on the change of shareholdings and on the 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 during the reporting period (RMB)	Whether there are salaries from the unit of shareholders
Jiao Fangzheng	Chairman	Male	53	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhou Shiliang	Director, Deputy General Manager	Male	58	9 February 2015	8 February 2018	0	0	No Change	509,392	No
Li Lianwu	Director	Male	58	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Hong	Director	Male	57	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Jiang Bo	Independent Non-Excutive Director	Female	60	9 February 2015	8 February 2018	0	0	No Change	183,333	No
Zhang Huaqiao	Independent Non-Excutive Director	Male	52	9 February 2015	8 February 2018	0	0	No Change	183,333	No
Pan Ying	Independent Non-Excutive Director	Male	46	16 December 2015	8 February 2018	0	0	No Change	16,667	No
Hu Guoqiang	Chairman of Supervisory Committee	Male	51	28 April 2015	8 February 2018	0	0	No Change	315,533	No
Zou Huiping	Supervisor	Male	55	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Wen Dongfen	Supervisor	Female	51	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	51	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Qin	Supervisor	Female	53	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Cong Peixin	Supervisor	Male	53	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Xu Weihua	Supervisor	Male	52	9 February 2015	8 February 2018	0	0	No Change	609,583	No
Du Guangyi	Supervisor	Male	50	9 February 2015	8 February 2018	0	0	No Change	529,742	No
Sun Qingde	General Manager	Male	54	11 March 2016	8 February 2018	0	0	No Change	—	No
Geng Xianliang	Deputy General Manager	Male	51	9 February 2015	8 February 2018	0	0	No Change	471,625	No
Zhang Yongjie	Deputy General Manager	Male	52	9 February 2015	8 February 2018	0	0	No Change	562,833	No
Liu Rushan	Deputy General Manager	Male	54	9 February 2015	8 February 2018	0	0	No Change	471,625	No
Wang Hongchen	Chief Financial Manager	Male	52	9 February 2015	8 February 2018	0	0	No Change	433,858	No
Zhang Jinhong	Deputy General Manager	Male	52	28 April 2015	8 February 2018	0	0	No Change	315,533	No
Huang Songwei	Deputy General Manager	Male	51	28 April 2015	8 February 2018	0	0	No Change	315,533	No
Li Honghai	Secretary to the board	Male	52	9 February 2015	8 February 2018	0	0	No Change	380,857	No
Zhu Ping	Former Vice Chairman, Former General Manager	Male	52	9 February 2015	11 March 2016	0	0	No Change	509,392	No
Yuan Zhengwen	Former Vice Chairman	Male	60	9 February 2015	6 December 2015	0	0	No Change	509,392	No
Wong, Kennedy Ying Ho	Former Independent Non-Excutive Director	Male	53	9 February 2015	3 August 2018	0	0	No Change	100,000	No
Wang Chunjiang	Former Chairman of Supervisory Committee	Male	59	9 February 2015	28 April 2015	0	0	No Change	128,625	No
Zhang Jixing	Former Supervisory	Male	53	9 February 2015	28 April 2015	0	0	No Change	—	Yes
Yong Ziqiang	Former Deputy General Manager	Male	54	9 February 2015	28 April 2015	0	0	No Change	128,625	No
Zuo Yaojiu	Former Deputy General Manager	Male	53	9 February 2015	28 April 2015	0	0	No Change	142,500	No
Zong Tie	Former Deputy General Manager	Male	57	9 February 2015	28 April 2015	0	0	No Change	118,325	No
Zhao Diandong	Former Deputy General Manager	Male	53	9 February 2015	28 April 2015	0	0	No Change	142,500	No

Section 9 Directors, Supervisors, Senior Management and Employees

Information about current directors, supervisors and senior management

(1) Directors

Mr. JIAO Fangzheng*, aged 53, 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; in May 2015, he was appointed as the Director and Senior Vice President of Sinopec. Mr. Jiao was appointed as Director of SOSC in August 2012; in September 2014, he was elected as Chairman of SOSC; and in February 2015, he was elected as Chairman of the Company.

Mr. ZHOU Shiliang#, aged 58, 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 from May 2009 to May 2015, he acted 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 58, 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.

Mr. ZHANG Hong*, aged 57, Director. Mr. Zhang is a senior accountant with a bachelor degree, and is currently Deputy Director of Audit Department of CITIC Limited, and obtained the qualification of CPA of the PRC. Mr. Zhang held the position of Deputy Director of Audit Department of CITIC Group since January 2010. He has been held the position of Deputy Director of Audit Department of CITIC Limited since December 2011. Mr. Zhang has been engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. He held the position of Director of Sinopec Yizheng Chemical Fibre Company Limited from December 2002 to February 2015. Since June 2015, he was appointed as Director of the Company.

Ms. JIANG Bo+, aged 60, 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 52, 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 China Smartpay Group Holdings Limited (HK8325) and an Independent Non-executive Director of Yancoal Australia Limited which is an Australian Securities Exchange listed company. In addition, he serves as an Independent Non-executive Director of Fosun International Limited (HK656), Luye Pharma Group Ltd. (HK2186), Zhong An Real Estate Limited (HK0672), China Huirong Financial Holdings Limited (HK1290), Logan Property Holdings Company Limited (HK3380), Wanda Commercial Properties (Group) Co., Limited (HK0169), and a Non-executive Director of Boer Power Holdings Limited (HK1685), all of which are Hong Kong Stock Exchange listed companies. Since February 2015, he was appointed as independent non-executive Director of the Company.

Section 9 Directors, Supervisors, Senior Management and Employees

Mr. PAN Ying+, aged 46, independent non-executive Director, citizen of United States, bachelor degree. Mr. PAN began to work at China's State Administration of Foreign Exchange ("SAFE") in 1991, and was responsible for establishing SAFE Investment Company, Ltd., in 1994 based in Hong Kong. Mr. PAN joined Seagate Global Group Ltd., in Los Angeles in 1997 and served as CEO of SeaBright Asset Management Limited in 2004. He began to act as CEO of Everbright Ashmore (Beijing) Real Estate Investment Consultants Limited, a member of the management committee of China Everbright Limited, and a member of the investment & strategy committee, executive committee and audit committee of Everbright Prestige Capital. Since December 2015, he was appointed as independent non-executive Director of the Company.

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

(2) Supervisors

Mr. HU Guoqiang, aged 51, Chairman of Supervisory Committee, Employee Representative Supervisor. Mr. Hu is a Senior Accountant, Bachelor Degree. In March, 1998, Mr. Hu was appointed as the Deputy Manager of sales department (sales company) in SINOPEC Star Petroleum Co., Ltd; in October, 2001, Mr. Hu was appointed as the director of Enterprise Reform Department in SINOPEC Star Petroleum Co., Ltd; in June 2003, Mr. Hu was appointed as the audit inspection commissioner in the Audit Bureau of China Petrochemical Corporation; in June, 2004, Mr. Hu was appointed as the chief accountant of headquarters of Sinopec Western New Exploration Project; in January, 2007, Mr. Hu was appointed as the vice director of Audit Bureau in China Petrochemical Corporation. In March 2015, Mr. Hu was appointed as the Secretary of Discipline Inspection Committee the Company. Since April 2015, he was appointed as supervisor of the Company.

Mr. ZOU Huiping, aged 55, 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 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 51, 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; from May 2012 to November 2015, she was also appointed as Chairman of Sinopec Century Bright Capital Investment Limited; from November 2015, she was appointed as the Director of the Finance Department of Sinopec, and from December 2015, she was appointed as the Chief Financial Offier of Sinopec. 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.

Mr. DU Jiangbo, aged 51, Supervisor. Mr. Du is a professor-level senior economist with a M.A. degree. In September 2006, he was appointed as Head of the Legal Affairs Division of Headquarters of Sichuan-East China Gas Transmission Construction Project. In November 2010, he was appointed as Deputy Director of the Legal Affairs Division of China Petrochemical Corporation; and in March 2015, he was appointed as Director of the Legal Affairs Department of China Petrochemical Corporation. Since June 2015, he was appointed as supervisor of the Company.

Ms. ZHANG Qin, aged 53, 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; 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; and from March 2015, she was appointed as the Deputy Director of the Political Work Department. 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 53, 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 52, 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 50, 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.

Section 9 Directors, Supervisors, Senior Management and Employees

(3) Senior management

Mr. SUN Qingde, Aged 54. Mr. Sun is a professor-level senior engineer with a Ph. D degree. He has been working for Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation as the deputy general manager of Drilling Company, the manager of Zhongyuan Argentina Company, the deputy manager of the Third Drilling Company and the manager of the Second Drilling Company; in December 2001, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; from December 2012, he acted as the Excutive Director and General Manager of Sinopec Zhongyuan Oil Engineering Company Limited; from September 2014, he acted as Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation and General Manager of Sinopec Henan Oilfield Branch Company. Since March 2016, he was appointed as the General Manager of the Company.

Mr. GENG Xianliang, aged 51, 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; from June 2015, he was elected as the Chairman of Kingdream Public Limited Company. 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. ZHANG Yongjie, aged 52, 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, 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 54, 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. WANG Hongchen, aged 52, 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. ZHANG Jinhong, aged 52, Deputy General Manager. Mr. Zhang is a Professor-level Senior Accountant, Master degree. In October, 2000, he was appointed as the vice chief accountant and manager of drilling department of Jiangsu Petroleum Exploration Bureau of Sinopec Group; in July, 2004, he was appointed as the vice chief accountant and manager of the engineering technology management department; in June, 2008, he was appointed as the vice director of Huadong Bureau of Sinopec Group; in December 2012, he was appointed as the Executive Director, General Manager and Party Secretary of Sinopec Huadong Oilfield Service Corporation. Since April 2015, he was appointed as Deputy General Manager of the Company.

Mr. HUANG Songwei, aged 51, Deputy General Manager. Mr. Huang is a Professor-level Senior Engineer, Master Degree. In June, 2000, he was appointed as the chief engineer of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in May, 2002, he was appointed as the vice manager of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporationl; in April, 2004, he was appointed as the Party Secretary of Talimu Zhongyuan Drilling Company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in February, 2005, he was appointed as the manager of the fourth drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in July, 2011, he was appointed as the vice chief engineer of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation and the manager and party secretary of southwest drilling company. In January, 2013, he was appointed as the vice general manager of Sinopec Zhongyuan Oilfield Service Corporation. Since April 2015, he was appointed as Deputy General Manager of the Company.

Mr. LI Honghai, aged 52, 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.

Section 9 Directors, Supervisors, Senior Management and Employees

(2). Stock option incentive awarded for Directors, Supervisors and Senior Management

☐Applicable √Not Applicable

2. Information on current and former directors, supervisors and senior management

(1) Positions in the shareholder company

Name	Name of shareholder company	Position held in shareholder company	The starting date of term in office	The termination date of term in office
Jiao Fangzheng	CPC	Vice President and a member of Party Committee	July 2014	—
Zhang Hong	CITIC Limited	Deputy Director of Audit Department	December 2011	—
Zou Huiping	CPC	Director of the Auditing Department	March 2006	—
Wen Dongfen	CPC	Director of the Finance Department	March 2009	November 2015
Du Jiangbo	CPC	Director of the Legal Affairs Department	March 2015	—
Zhang Qing	CPC	Deputy Director of the Political Work Department	March 2015	—
Cong Peixin	CPC	Deputy Director of the Supervisory Administration	April 2013	—
Zhang Jixing	CPC	Head of the Legal Affairs Division	September 2013	March 2015

(2). Positions in other enterprises

Name	Name of other ent erprises	Position held in other ente rprises	Beginning date of term	End date of term
Jiao Fangzheng	Sinopec	Director; Senior Vice President/ Director of Exploration & Production Department	27 May 2015/ July 2010	—
Wen Dongfen	Sinopec	Chief Financial Offier/ Director of the Finance Department	28 December 2015/ November 2015	—
Zhou Shiliang	Sinopec	Employee Representative Supervisor	22 May 2009	27 May 2015
Li Lianwu	Sinopec	Party Secretary of Sinopec Oil and Gas Exploration and Development Company/ Deputy Director of Exploration & Production Department of Sinopec	September 2014	—
Zou Huiping	Sinopec	Supervisor	24 May 2006	—
Geng Xianliang	Kingdream Public Limited Company	Chairman	11 June 2015	10 June 2018

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.	RMB7,078,806
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB7,078,806

Section 9 Directors, Supervisors, Senior Management and Employees

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

Name	Position	Change	Reason for change
Zhang Hong	Director	Elected	Elected at General meeting
Pan Ying	Independent Non-executive Director	Elected	Elected at General meeting
Hu Guoqiang	Chairman of Supervisory Committee	Elected	Elected at Supervisory Committee
Du Jiangbo	Supervisory	Elected	Elected at General meeting
Zhang Jinhong	Deputy General Manager	Appointed	Appointed by the Board of Directors
Huang Songwei	Deputy General Manager	Appointed	Appointed by the Board of Directors
Yuan Zhengwen	Vice Chairman	Resigned	Passed away
Wong, Kennedy Ying Ho	Independent Non-executive Director	Resigned	Personal reason
Wang Chunjiang	Chairman of Supervisory Committee	Resigned	Change of work
Zhang Jixing	Supervisory	Resigned	Change of work
Yong Ziqiang	Deputy General Manager	Resigned	Change of work
Zuo Yaojiu	Deputy General Manager	Resigned	Change of work
Zong Tie	Deputy General Manager	Resigned	Change of work
Zhao Diandong	Deputy General Manager	Resigned	Change of work

Due to work change, Mr. Zhu Ping tendered his resignation to the Board on 11 March 2016, and resigned from his positions as executive director, vice chairman, deputy director of the Strategy and Investment Committee of the Board of Directors and the Company's general manager. His resignation has been accepted by the Board and became effect from 11 March 2016. Mr. Zhu Ping was diligent and responsible during his tenure of directorship. The Board expressed its gratitude to Mr. Zhu Ping for his hard work and contribution to the Company.

On 11 March 2016, the seventh meeting of the eighth session of the Board approved the resolution regarding to nominate Mr. Sun Qingde as the candidate of executive director of the eighth session of the Board, and resolved to submit the proposal to 2015 AGM for approval.

Nominated by the chairman of the Board, on 11 March 2016, Mr. Sun Qingde was appointed as the Company's general manager in the seventh meeting of the eighth session of the Board. The term of office of Mr. Sun Qingde as general manager of the Company takes effect from 11 March 2016 to the date when the term of the eighth session of the Board expires (expecting to be 8 February 2018).

5. The information of any punishment by Securities regulators in the last three years

☐Applicable √Not Applicable

Section 9 Directors, Supervisors, Senior Management and Employees

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

(1). Personnel information

The number of the Company' serving staff	120
The number of the Company's subsidiaries' serving staff	78,062
The total number of the serving staff	78,182
The number of retired staff whose expense should be born by the company and its subsidiaries	3,992
Professional composition	
Type of Professional Number of the staff	Number of staff
Production Staff	46,312
Technical Staff	12,399
Researcher	3,565
Financial Staff	2,285
Marketing and Administrative Staff	7,880
Others	5,741
Total	78,182
Education level	
Type	Number of staff
Master or above	2,109
Bachelor	23,528
Junior college	14,668
Others	37,877
Total	78,182

(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 plan

Committed to staff training, the Company has established a differentiated and multi-tiered training management system which focuses on promoting staff fulfillment of responsibilities and talent building. Centered on central tasks in production and operation, the Company carries out the management, professional skills, operating skills and international training programs, highlight standardized management required by a public company, risk prevention and control, international business, high-end skills, and backbone staff in training, conducts basic skills training for all employees, hold training in various ways such as on-job training, off-job training and online training to make all employees to move forward along with the Company.

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

As at 31 December 2015, 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.

Section 9 Directors, Supervisors, Senior Management and Employees

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. More details about the expired date of the terms of Directors in the eighth session of the Board and the Supervisors in eighth session of Supervisory Committee, please see the section in "*Directors, Supervisors, Senior Management And Employees*"

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 purchases 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.

Section 10 Corporate Governance

1. Information on Corporate Governance

As a company listed in China and overseas, the Company reviewed its corporate governance pursuant to the Corporate Governance Code and Corporate Governance Report ("Corporate Governance Code") as set out in Appendix 14 of the Listing Rules and relevant regulations regarding listed companies' corporate governance released by CSRC. The Board assessed that during the reporting period, the Company' corporate governance satisfied these requirements in corporate governance. In November 2015, the Board was awarded with "China's Securities Golden Bauhinia Awards for the Best Board of Directors of Listed Companies" by Hong Kong Ta Kung Pao.

The Board considers that the improvement of corporate governance in 2015 mainly shows as the following:

A. Improve the basic regulation system of corporate governance. In 2015, the Company revised sixteen corporate governance documents including Articles of Association,"Rules of Procedure of the General Meeting of Shareholders", "Rules of Procedure of the Board of Directors", "Rules of Procedure of the Board of Supervisors", detailed rules for the implementation of Committees of the board of directors, "Management System of Information Disclosure", "Working System of Investor Relationship". Accordingly, the corporate governance regulation system is further improved and the standard operation of the Company after Material Asset Reorganizations is effectively guaranteed.

B. To further strengthen the internal control and risk management. In 2015, the Board reviewed and approved the amendments to internal control manual. In the amended internal control manual, the Company refined the significant defects of internal control and identification of major defects quantitatively and qualitatively, especially the determination of financial indicators which significantly increased objective factors in identifying the defects. Meanwhile, the amended manual further refined the identification and control measures of risk factors. The Board also discussed the resource allocation of internal audit department and audit coverage improving issues, helping strengthen the Company's internal audit on significant business and major business department.

C. To further improve the information disclosure and investor relations management. 2015 is the first year since the Company became listed. As the oilfield service industry remained gloomy, the Company is facing severer operating environment. The Company reminded investors of the investment risks and completely disclosed business condition of the industry and Company. Meanwhile, the Company actively communicated with investors through various channels, indicating the Company's determination to be responsible for the investors and to make best effort to protect minority investors.

In 2015, the Company continued the insiders registration procedures and revised "insider registration management system", "Employee Code for Securities Transactions", "Regulation for the shareholding and changes of shareholding of the directors, supervisors and senior managers". All the directors and supervisors of the Company confirm that there is no illegal trading of the Company's securities during the reporting period.

In strict accordance with the requirements of relevant laws and regulations including Company Law of China, the Securities Law, Administrative Measures for the Disclosure of Information of Listed Companies, domestic and overseas listing rules, the Company will continuously perfect its management system, improve the standard operation and management level of the Company, protect the interests of Company and its shareholders and promote the sustainable and healthy development of the Company.

2. Summary of Shareholders' Meetings

During the reporting period, the Company held its first extraordinary general meeting for the year 2015 on 9 February 2015, the annual general meeting for the year 2014 on 16 June 2015, and the second extraordinary general meeting for the year 2015 on 16 December 2015 in Beijing. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Disclosure date of resolutions
The first extraordinary general meeting for the year 2015	9 February 2015	www.sse.com.cn/www.hkexnews.hk	10 February 2015
The annual general meeting for the year 2014	16 June 2015	www.sse.com.cn/www.hkexnews.hk	17 June 2015
The second extraordinary general meeting for the year 2015	16 December 2015	www.sse.com.cn/www.hkexnews.hk	17 December 2015

Section 10 Corporate Governance

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	Supposed Number of times for attending 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 times for attending at shareholders' meetings
Jiao Fangzheng	No	6	6	0	0	0	No	3
Zhu Ping	No	6	6	0	0	0	No	3
Zhou Shiliang	No	6	5	0	1	0	No	3
Li Lianwu	No	6	5	0	1	0	No	3
Zhang Hong	No	3	3	0	0	0	No	2
Jiang Bo	Yes	6	6	0	0	0	No	3
Zhang Huaqiao	Yes	6	3	1	2	0	No	0
Pan Ying	Yes	1	1	0	0	0	No	1
Yuan Zhengwen	No	5	3	0	2	0	No	1
Wong, Kennedy Ying Ho	Yes	3	3	0	0	0	No	2
The Board meetings held during the year (No. of times)								6
Including: meetings held on site (No. of times)								5
Meetings held by correspondence (No. of times)								0
Meetings held by correspondence on site and by correspondence (No. of times)								1

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

During the reporting period, the Company's independent directors did not raise objections against the proposals in the Board meetings or other meeting proposals. The detail information related to the performance of the independent directors is published in the report of the Company's independent directors 2015 on the website of SSE and HKSE.

4. Important comments and suggestions from the special committee under the Board during the report period

The audit committee made significant suggestions as follows:

(1). Enhancing internal audit of the Company and improving internal audit coverage for major business and major departments.

(2). Further optimizing business structure and personnel structure. Gradually transform to high-end business, increase the proportion of high-end business and reduce the total employment.

(3). Paying more attention to the exchange rate risk and take effective measures to control the risk.

5. 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.

6. The note to the information of that it cannot be guaranteed the independence with respect to Business, Personnel, Assets, Organization 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, organization and finance.

7. The performance evaluation, establishment and implementation of the incentive mechanism for senior management

Under the guidance of the annual operation and management target set by the Board, Remuneration and Appraisal 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 incentive and binding mechanism for senior management.

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

8. Whether disclose the internal control self-evaluation report:

YES

The Board will take responsibility for establishing and maintaining sufficient internal control of financial report and will guarantee its effective implementation. The Supervisory Committee conducted supervision on the Board about establishment and implementation of internal control. Managers take charge of organizing routine operation of internal control. In 2015, in accordance with “basic norms of enterprise internal control”, “application guidelines of enterprises internal control”, “evaluation guidelines of enterprises internal control”,the Board assessed the internal control of the Company during the reporting period, and concluded that there is no significant or material deficiencies as of 31 December 2015. The internal control system in relation to the financial statement of the Company is sound and effective.

The Board approved the Company’s 2015 annual report of self-assessment of internal control on 30 March 2016. Please visit the website of the HKSE or SSE for details of the report. All members of the Board ensure that this report is true, accurate and complete and there is no false representation, misleading statements or material omissions.

Description about major defects of the internal control during the reporting period

☐ Applicable √ Not Applicable

9. Information about the audit report of internal control

Whether disclose the audit report of internal control: YES

Grant Thornton (Special General Partnership) audited the Company’s internal control as of 31 December 2015 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2015 annual internal control audit report disclosed on 31 March 2016.

10. Compliance with Corporate Governance Code of the Listing Rules

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

A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The eighth session of the Board held six meetings in 2015, including four regular meetings. 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 proposals in the agenda for the Board meetings and have the right to require for more related materials.

Section 10 Corporate Governance

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

(4) The Board Secretary records and keeps the minutes of the Board meetings and meetings of the 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 review and signature after the Board meetings.

(5) The Board Secretary provides sustainable service and briefings for all Directors to ensuring them to understand the applicable rules and regulations of domestic and foreign authorities.

A.2 Chairman and Chief Executive Officer

(1) Mr. Jiao Fangzheng was elected as Chairman of the Board by the Board. Mr. Sun Qingde 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 Directors to make informed decision were regulated 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 for their decisions. If necessary, Independent Directors can engage independent professionals to issue independent opinion to support their decisions and the Company should pay such expenses.

A.3 The Board composition

(1) The Board consists of 7 members with extensive professional and management experiences, one of which is female (Please refer to the Chapter headed "Directors, Supervisors, Other Senior Management and Employees" in this annual report for detailed information.) Among the 7 members, there are 1 executive directors, 3 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 financial experts t, with rich experience in international capital management and investment. The composition of the Board is reasonable and diversified. On the first meeting of the eighth session of the Board dated on 9 February 9 2015, the Company has approved the diversified policy of the Board.

(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 Listing Rules. The Company considers that each of the independent non-executive directors is independent.

(3) The Independent Directors are listed 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 longer than 6 years.

A.5 Nomination Committee

The Board has not established Nomination Committee. The responsibility of Nomination Committee regulated in the Corporate Governance Code will be taken by the Board. Pursuant to the Articles of Association, the candidates for independent directors may be nominated by the Board, the Supervisory Committee, or shareholders holding more than one per cent of the total issued share capital of the Company individually or collectively. The candidates of the remaining directors shall be nominated by the Board, the Supervisory Committee, or shareholders holding more than three per cent of the total issued share capital of the Company. All candidates for directors are subject to election by the shareholders' general meeting of the Company. The independent non-executive directors should express their independent opinions before the Board nominated the candidate for directors.

A.6 Responsibilities of Directors

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

(2) Each of the directors was able to devote sufficient time and efforts to handling the Company's business. Directors shall abstain from voting at the Board meeting if there is a conflict of interests.

(3) Each of the directors confirmed that he or she has complied with the Model Code 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 the employee in purchasing and selling of the securities of the Company.

Section 10 Corporate Governance

(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 hours 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 directors, 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 receive sufficient information 3 working days before the Board meetings which can help them to make informed decisions.

(3) The Board Secretary provides continuing services to all Directors. They can inspect 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 session of the Board consists of independent non- executive Director Mr. Pan Ying as the chairman, the non-executive director Mr. Li Lianwu and the independent non-executive director Ms. Jiang Bo as the member. The Remuneration Committee has its terms of reference which can be found on the website of the Company or HKSE.

(2) Pursuant to the principles approved at the shareholders' general meeting and the service contract which was entered into between the Company and each Director or Supervisor, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management based on the proposal submitted by the Remuneration Committee and with reference to the operating results,. The details of the remuneration of the Directors during the reporting period are set forth in the chapter "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.

C. Accountability and audit

C.1 Financial reporting

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

(2) The Directors are responsible for reviewing the accounts for every fiscal year, which help the accounts to truly and impartially reflect the business, performance and cash flow of the Company during the reporting period When preparing the financial accounts for the year ended 31 December 2015, the Directors have selected appropriate accounting policies, made prudent and reasonable judges and estimates, and prepared the accounts on a going concern basis. The Board and all directors jointly and severally accepted full responsibility for the authenticity, accuracy and completeness of the content of the Annual Report and warranted that there were no false representations, misleading statements or material omissions contained in the Annual Report.

(3) Required under the Listing Rules, the Company has published the annual report, interim report, quarterly reports and other share price-sensitive information 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 prevent operational, financial and compliance risks.

(2) The management of the Company implemented the responsibilities of internal control. With sufficient resources in the accounting and financial reporting aspects, 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.

(4) See more related information of the Company's internal control during the reporting period in 2015 Internal Control Evaluation Report Prepared by the Company.

C.3 The Audit Committee

(1) The Audit Committee consists of the 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. Pan Ying who act as committee members. 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 on the website of the Company and HKSE.

(3) The Audit Committee may engage independent professionals when performing their duties. Reasonable costs arising from or in connection with such engagement are borne by the Company. The working expenses of the committee are included in the budget of the Company. In addition, according to the Company policies, the senior management and relevant departments of the Company shall actively cooperate with the Audit Committee.

Section 10 Corporate Governance

(4) During the reporting period, the Audit Committee held 6 meetings. The review opinions were given at the meetings and submitted to the Board after signed by all the committee members. During the reporting period, the Board and the Audit Committee did not have any disagreement in their opinion.

As recommended by the eighth meeting of the Audit Committee under the eighth session of the Board and the ninth meeting of the eighth session of the Board have resolved to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2016, appoint Grant Thornton (Special General Partnership) as the Company's auditor regarding internal control for 2016, and proposed to authorize the Board to determine their remuneration. Such proposal is subject to the approval by the shareholders of the Company at the 2015 AGM.

An analysis of remuneration in respect of audit services is set forth in item 5 of the "Significant Events" chapter 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 perform their duties as authorized by the Board, and are required to report to the Board.

(2) The Board, the senior management and each committees under the Board have clear authority and duties. The responsibilities and authorities of the Board and the senior management are set forth in the Articles of Association, the Rules and Procedures for shareholders' general meeting and the Rules and Procedures for the Board.

(3) The attendance record of the meetings of each Committee under the eighth session of the Board during the reporting period is as follows.

The Audit Committee

Name	Attended in Person	Attended by Proxies	Absence
Jiang Bo	6	—	—
Li Lianwu	6	—	—
Pan Ying	—	—	—
Wong, Kennedy Ying Ho	4	—	—

The Remuneration Committee

Name	Attended in Person	Attended by Proxies	Absence
Pan Ying	—	—	—
Jiang Bo	1	—	—
Li Lianwu	—	—	—
Zhou Shiliang	1	—	—
Wong, Kennedy Ying Ho	1	—	—

Note: With effective from 16 December 2015, Mr. Pan Ying has been appointed as the member of Audit Committee and the chairman of Remuneration Committee of the Company. With effective from 16 December 2015, Mr. Li Lianwu has been appointed as the member of Remuneration Committee of the Company.

E. Communication with shareholders

(1) During the reporting period, the Chairman proposed separate resolutions in respect of each substantially separate issue at a shareholders' general meeting. All resolutions are voted by poll, so that the interests of all shareholders could be guaranteed. The notice of the general meeting was dispatched to all the shareholders of the Company 45 days prior to the meeting (excluding the date of the meeting).

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

(3) Chairman of the Board attended 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 2014 annual general meetings.

(4) During the reporting period, the Articles of Association was amended three times. The amendments were made primarily on the relevant provisions of the scope of business, share capital structure of the Company, registered capital and registered address.

F. The secretary to the Board

(1) The Secretary to the Board is also the Company Secretary of the Company as approved by HKSE. The Secretary to the Board was nominated by the Chairman of the Board and appointed by the Board. He is the senior management member who reports to the Company and the Board. The Secretary to the Board 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 actively participated in career development trainings and has already been trained over 15 hours during the reporting period.

Grant Thornton
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Auditors' Report

GTCNZZ (2016) No. 110ZA1394

To the Board of Sinopec Oilfield Service Corporation

We have audited the accompanying Financial Statements of Sinopec Oilfield Service Corporation ("SSC"),which comprises the consolidated and the company balance sheets as at 31 December 2015, the consolidated and the company 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 year ended 31 December 2015.

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 as at 31 December 2015, and the results of its operations and cash flows for the year ended 31 December 2015 are fairly presented in all material respects.

Grant Thornton China

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

Beijing, China

30 March 2016

CONSOLIDATED BALANCE SHEETS

Expressed in RMB'000

Items	Notes	At 31 December 2015	At 31 December 2014
Current assets:			
Cash at bank and on hand	V.1	2,011,590	1,213,897
Financial assets at fair value through profit or loss		—	—
Notes receivable	V.2	141,132	219,506
Accounts receivable	V.3	27,121,127	28,064,935
Prepayments	V.4	460,035	660,271
Interest receivables		—	—
Dividend receivables		6	—
Other receivables	V.5	2,432,785	2,215,132
Inventories	V.6	14,769,275	11,932,142
Non-current assets due within one year	V.7	2,493,030	1,350,742
Other current assets	V.8	82,062	168,076
Total current assets		49,511,042	45,824,701
Non-current assets:			
Available-for-sale financial assets	V.9	40,494	40,494
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	V.10	216,400	107,999
Investment property		—	—
Fixed assets	V.11	29,008,189	29,693,146
Construction in progress	V.12	2,710,178	1,387,284
Construction materials		—	—
Disposal of fixed assets		4,023	3,175
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	V.13	182,203	92,351
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses	V.14	3,447,818	3,989,879
Deferred income tax assets	V.15	187,430	156,679
Other non-current assets		—	—
Total non-current assets		35,796,735	35,471,007
Total assets		85,307,777	81,295,708

CONSOLIDATED BALANCE SHEETS (Continued)

Expressed in RMB'000

Items	Notes	At 31 December 2015	At 31 December 2014
Current liabilities:			
Short-term loans	V.16	12,070,312	11,889,709
Financial liabilities at fair value through profit or loss		—	—
Bills payable	V.17	1,284,745	856,442
Accounts payable	V.18	28,909,101	30,057,165
Advances from customers	V.19	9,263,970	8,417,168
Employee benefits payable	V.20	187,561	288,285
Taxes payable	V.21	2,612,168	2,955,778
Interest payables	V.22	14,823	20,028
Dividend payables		—	—
Other payables	V.23	5,473,433	7,327,469
Non-current liabilities due within one year	V.24	87,360	125,870
Other current liabilities			—
Total current liabilities		59,903,473	61,937,914
Non-current liabilities:			
Long-term loans	V.25	618,969	498,723
Bonds payables		—	—
Long-term payables	V.26	57,072	69,440
Long-term employee benefits payable		—	—
Special payables	V.27	1,051	2,647
Estimated liablities		—	—
Deferred income	V.28	59,008	43,951
Deferred income tax liabilities	V.15	31,251	46,895
Other non-current liabilities			—
Total non-current liabilities		767,351	661,656
Total liabilities		60,670,824	62,599,570
Share capital	V.29	14,142,661	12,809,328
Capital resreve	V.30	8,894,216	4,275,032
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve	V.31	259,547	295,568
Surplus reserve	V.32	200,383	200,383
Retained earnings	V.33	1,141,287	1,116,809
Equity attributable to the owners of the Company		24,638,094	18,697,120
Minority interests		-1,141	-982
Total shareholders' equity		24,636,953	18,696,138
Total liabilities and shareholders' equity		85,307,777	81,295,708

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

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

BALANCE SHEETS

Expressed in RMB'000

Items	Notes	At 31 December 2015	At 31 December 2014
Current assets:			
Cash at bank and on hand	XIV.1	419,118	—
Financial assets at fair value through profit or loss		—	—
Notes receivable		—	—
Accounts receivable		—	—
Prepayments		—	—
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	XIV.2	5,157,515	—
Inventories		—	—
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		5,576,633	—
Non-current assets:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	XIV.3	20,215,327	20,215,327
Investment property		—	—
Fixed assets		—	—
Construction in progress		—	—
Construction materials		—	—
Disposal of fixed assets		—	—
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets		—	—
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets		—	—
Other non-current assets		—	—
Total non-current assets		20,215,327	20,215,327
Total assets		25,791,960	20,215,327

BALANCE SHEETS (Continued)

Expressed in RMB'000

Items	Notes	At 31 December 2015	At 31 December 2014
Current liabilities:			
Short-term loans		—	—
Financial liabilities at fair value through profit or loss		—	—
Bills payable		—	—
Accounts payable		—	—
Advances from customers		—	—
Employee benefits payable		—	—
Taxes payable		69	—
Interest payables		—	—
Dividend payables		—	—
Other payables	XIV.4	1,119,802	1,518,207
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		1,119,871	1,518,207
Non-current liabilities:			
Long-term loans		—	—
Bonds payables		—	—
Long-term payables		—	—
Long-term employee benefits payable		—	—
Special payables		—	—
Estimated liablities		—	—
Deferred income		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
Total non-current liabilities		—	—
Total liabilities		1,119,871	1,518,207
Share capital	XIV.5	14,142,661	12,809,328
Capital resreve	XIV.6	11,751,318	7,132,134
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve		—	—
Surplus reserve	XIV.7	200,383	200,383
Retained earnings	XIV.8	-1,422,273	-1,444,725
Equity attributable to the owners of the Company		24,672,089	18,697,120
Minority interests		—	—
Total shareholders' equity		24,672,089	18,697,120
Total liabilities and shareholders' equity		25,791,960	20,215,327

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

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

CONSOLIDATED INCOME STATEMENTS

Expressed in RMB'000

Items	Notes	2015	2014
1. Revenue	V.34	60,349,334	94,481,041
Less: Cost of sales	V.34	54,568,960	85,261,101
Business taxes and surcharges	V.35	712,093	980,648
Selling expenses	V.36	62,315	312,380
General and administrative expenses	V.37	4,043,145	5,367,890
Finance costs	V.38	657,090	806,565
Impairment losses on assets	V.39	171,376	1,135,411
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	V.40	-8,910	-1,659
Including: Investment income from investments in associates and joint ventures		-11,958	-3,709
2. Operating profits (loss in "-")		125,445	615,387
Add: Non-operating income	V.41	471,912	1,710,049
Including: Gains from disposal of non-current assets		28,751	1,172,551
Less: Non-operating expenses	V.42	91,617	118,756
Including: Losses on disposal of non-current assets		28,489	32,053
3. Profit before income tax (loss in "-")		505,740	2,206,680
Less: Income tax expense	V.43	481,421	974,713
4. Profit for the year/period (loss in "-")		24,319	1,231,967
Including: Profit from combined party before business combination under common control		—	2,424,556
Profit for the year/period attributable to:			
– The owners of the Company		24,478	1,229,753
– Minority interests		-159	2,214
5. Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners of the Company		—	—
– Minority interests		—	—
6. Total comprehensive income		24,319	1,231,967
Total comprehensive income for the year/period attributable to:			
– The owners of the Company		24,478	1,229,753
– Minority interests		-159	2,214
7. Earnings per share			
– Basic		0.002	0.08
– Diluted		0.002	0.08

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

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

INCOME STATEMENTS

Expressed in RMB'000

Items	Notes	2015	2014
1. Revenue	XIV.9	—	15,487,726
Less: Cost of sales	XIV.9	—	15,557,127
Business taxes and surcharges	XIV.10	32	14,687
Selling expenses	XIV.11	—	230,182
General and administrative expenses	XIV.12	3,440	860,978
Finance costs	XIV.13	-25,924	36,803
Impairment losses on assets	XIV.14	—	1,037,361
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	XIV.15	—	168
Including: Investment income from investments in associates and joint ventures		—	168
2. Operating profits (loss in "-")		22,452	-2,249,244
Add: Non-operating income	XIV.16	—	1,159,012
Including: Gains from disposal of non-current assets		—	1,145,989
Less: Non-operating expenses	XIV.17	—	28,574
Including: Losses on disposal of non-current assets		—	6,477
3. Profit before income tax (loss in "-")		22,452	-1,118,806
Less: Income tax expense	XIV.18	—	73,783
4. Profit for the year/period (loss in "-")		22,452	-1,192,589
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:			
– The owners of the Company		22,452	-1,192,589
– Minority interests		—	—
5. Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners of the Company		—	—
– Minority interests		—	—
6. Total comprehensive income		22,452	-1,192,589
Total comprehensive income for the year/period attributable to:			
– The owners of the Company		22,452	-1,192,589
– Minority interests		—	—
7. Earnings per share			
– Basic		—	—
– Diluted		—	—

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

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

CONSOLIDATED CASH FLOW STATEMENTS

Expressed in RMB'000

Items	Notes	2015	2014
1. Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		65,281,258	98,625,937
Tax refund received		315,041	422,270
Cash received from other operating activities	V.44	3,204,955	2,890,940
Subtotal of cash inflow from operating activities		68,801,254	101,939,147
Cash paid for the purchases of goods and receiving of services		41,795,765	67,960,803
Cash paid for employees and on behalf of employees		15,761,606	17,567,147
Taxes paid		5,516,054	6,245,425
Cash paid for other operating activities	V.44	3,151,900	3,419,637
Subtotal of cash outflow from operating activities		66,225,325	95,193,012
Net cash flow from operating activities	V.45	2,575,929	6,746,135
2. Cash flows from investing activities:			
Cash received from the investments		—	1,020,000
Cash received from the investment income		3,007	11,917
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		26,518	64,345
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities	V.44	—	31,113
Subtotal of cash inflow from investing activities		29,525	1,127,375
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		3,853,945	4,183,375
Cash paid for the investments		1,217,392	851,349
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities	V.44	—	71,933
Subtotal of cash outflow from investing activities		5,071,337	5,106,657
Net cash flow from investing activities		-5,041,812	-3,979,282
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		5,954,000	—
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		55,567,800	78,120,590
Cash received from issuance of bonds		—	—
Cash received for other financing activities	V.44	25,932	1,303,683
Subtotal of cash inflow from financing activities		61,547,732	79,424,273
Cash paid for repayments of borrowings		56,227,818	81,851,284
Cash paid for distribution of dividend, profit or payments of interests		333,053	692,143
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	24,022
Cash paid for other financing activities	V.44	1,793,139	112,504
Including:Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		58,354,010	82,655,931
Net cash flow from financing activities		3,193,722	-3,231,658
4. Effect of exchange rate changes on cash and cash equivalents		63,616	-27,535
5. Net changes in cash and cash equivalents		791,455	-492,340
Add: Cash and cash equivalents at beginning of year/period	V.45	1,201,754	1,694,094
6. Cash and cash equivalents at end of year/period	V.45	1,993,209	1,201,754

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

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

CASH FLOW STATEMENTS

Expressed in RMB'000

Items	Notes	2015	2014
1. Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		—	16,117,141
Tax refund received		—	6,186
Cash received from other operating activities		—	14,022
Subtotal of cash inflow from operating activities		—	16,137,349
Cash paid for the purchases of goods and receiving of services		—	14,899,341
Cash paid for employees and on behalf of employees		—	1,003,941
Taxes paid		3,008	40,130
Cash paid for other operating activities	XIV.19	5,197,501	393,947
Subtotal of cash outflow from operating activities		5,200,509	16,337,359
Net cash flow from operating activities	XIV.20	-5,200,509	-200,010
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
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities	XIV.19	—	31,113
Subtotal of cash inflow from investing activities		—	75,799
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		—	29,277
Cash paid for the investments		—	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities	XIV.19	—	71,933
Subtotal of cash outflow from investing activities		—	101,210
Net cash flow from investing activities		—	-25,411
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		5,954,000	—
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		—	6,010,411
Cash received from issuance of bonds		—	—
Cash received for other financing activities	XIV.19	25,932	800,000
Subtotal of cash inflow from financing activities		5,979,932	6,810,411
Cash paid for repayments of borrowings		—	6,585,088
Cash paid for distribution of dividend, profit or payments of interests		—	84,359
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities	XIV.19	360,305	—
Including: Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		360,305	6,669,447
Net cash flow from financing activities		5,619,627	140,964
4. Effect of exchange rate changes on cash and cash equivalents		—	-1,340
5. Net changes in cash and cash equivalents		419,118	-85,797
Add: Cash and cash equivalents at beginning of year/period	XIV.20	—	85,797
6. Cash and cash equivalents at end of year/period	XIV.20	419,118	—

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB'000

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 resere	Retained earnings	Minority interests	Total shareholders' equity
Balance at 31 December 2014	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138
Add:Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—
Balance at 1 January 2015	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138
Changes during the period (decrease in "-")	1,333,333	4,619,184	—	—	-36,021	—	—	24,478	-159	5,940,815
I. Total comprehensive income	—	—	—	—	—	—	—	24,478	-159	24,319
II. Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	—	—	5,952,517
1.Contribution of capital	1,333,333	4,619,184	—	—	—	—	—	—	—	5,952,517
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	—	—	—	—	-36,021	—	—	—	—	-36,021
1.Provided during the period	—	—	—	—	951,980	—	—	—	—	951,980
2.Used during the period (expressed in "-")	—	—	—	—	-988,001	—	—	—	—	-988,001
VI. Others	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2015	14,142,661	8,894,216	—	—	259,547	200,383	—	1,141,287	-1,141	24,636,953

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB'000

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 resere	Retained earnings	Minority interests	Total shareholders' 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	—	22,171,408	—	—	300,982	—	—	1,112,416	84,938	23,669,744
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	—	—	—	—	—	—	—	1,229,753	2,214	1,231,967
II. Increase or decrease of capital	6,809,328	216,013	—	—	-1,392	—	—	—	-64,112	6,959,837
4.Contribution of capital	6,809,328	58,115	—	—	-1,392	—	—	—	-64,112	6,801,939
5.Share payments recognised in equity	—	—	—	—	—	—	—	—	—	—
6.Others	—	157,898	—	—	—	—	—	—	—	157,898
III. Distribution of profits	—	—	—	—	—	—	—	-17,080	-24,022	-41,102
4.Provision of surplus reserve	—	—	—	—	—	—	—	—	—	—
5.Distribution to (from) shareholders	—	—	—	—	—	—	—	-17,080	-24,022	-41,102
6.Others	—	—	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	956,144	—	—	—	—	—	-956,144	—	—
5.Transfer of capital reserve to paid up capital	—	—	—	—		—	—	—	—	—
6.Transfer of surplus reserve to paid up capital	—	—	—	—		—	—	—	—	—
7.Offset of surplus reserve with losses	—	—	—	—		—	—	—	—	—
8.Others	—	956,144	—	—		—	—	-956,144	—	—
V. Special reserve	—	—	—	—	-5,469	—	—	—	—	-5,469
3.Provided during the period	—	—	—	—	1,251,650	—	—	—	—	1,251,650
4.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:* **Sun Qingde** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB'000

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
Balance at 31 December 2014	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120
Add:Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
Balance at 1 January 2015	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120
Changes during the period (decrease in "-")	1,333,333	4,619,184	—	—	—	—	22,452	5,974,969
I. Total comprehensive income	—	—	—	—	—	—	22,452	22,452
II. Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	5,952,517
7.Contribution of capital	1,333,333	4,619,184	—	—	—	—	—	5,952,517
8.Share payments recognised in equity	—	—	—	—	—	—	—	—
9.Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
7.Provision of surplus reserve	—	—	—	—	—	—	—	—
8.Distribution to (from) shareholders	—	—	—	—	—	—	—	—
9.Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
9.Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
10.Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
11.Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
12.Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—		—	—	—
5.Provided during the period	—	—	—	—		—	—	—
6.Used during the period (expressed in "-")	—	—	—	—		—	—	—
VI. Others	—	—	—	—	—	—	—	—
Balance at 31 December 2015	14,142,661	11,751,318	—	—	—	200,383	-1,422,273	24,672,089

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

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

STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB'000

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' 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
10.Contribution of capital	6,809,328	5,985,340	—	—	-1,394	—	—	12,793,274
11.Share payments recognised in equity	—	—	—	—	—	—	—	—
12.Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
10.Provision of surplus reserve	—	—	—	—	—	—	—	—
11.Distribution to (from) shareholders	—	—	—	—	—	—	—	—
12.Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
13.Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
14.Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
15.Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
16.Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	-53	—	—	-53
7.Provided during the period	—	—	—	—	917	—	—	917
8.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:* **Sun Qingde** *Chief Financial Officer:* **Wang Hongchen** *Manager of accounting department:* **Song Daoqiang**

Notes to the financial information

For the year ended 2015 (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 registereded in the People's Republic of China ("PRC") and exclusively established by Yihua Group Corporation (hereinafter reffered to as "Yihua") on 31 December 1993.The Company's headquarter is located in the No.22 Chaoyangmen North Street,ChaoyangDistrict,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 respetively.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" (CaiJin 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 Sinope 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 Sinope Corp.,excuted the Confirmation on Completion of Incoming Equities with Sinopec Group on 22 December 2014. According to the Confirmations,the Company transfered 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 Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd at on 13 February 2015.

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:

"Provision of oilfield services such as geological exploration, drilling, logging and special down-hole for exploration and production of onshore and offshore oil and natural gas, contracting foreign projects in contracting overseas petroleum, natural gas, chemical, bridge, road, housing construction, water resources and hydropower, municipal utility and industrial plant projects.".

These financial statements and financial information notes have been approved for issue by the ninth meeting of the eighth term Board of Directors of the Company on 30 March 2016.

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 remains unchanged, 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, PRC ASBE) 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 Regulatiory Commission.

The financial statements are prepared on a going concern basis.The Group's current liabilities exceed current assets of approximately RMB10,392,431,000 as at 31 December 2015(Current liabilities exceed current assets of RMB16,113,213,000 in 2014), committed capital expenditures are approximately RMB0.803billion.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 reorganization, 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 instrumentsand 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 policiesfor depreciation of fixed assets、amortization of intangible assets and long-term deferred expense and revenue are recognizedon the basis of its production and management characterisitics, the 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 PRC ASBE

The financial statements are in compliance with the requirement of PRC ASBE,which gives a ture view of the entire company's and consolidated financial position at 31 December 2015 and the Company's and the consolidated operating results at 31 December 2015.

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.

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.

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

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 retainedearning.

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 differences,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 aggragete 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 valuerecognized 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 book value 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 profitor 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 preparing 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 accordancewith 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.

(3) Purchase of the minority stake in the subsidiary

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.

(4) 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.

(5) 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.

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

6. Method of preparing consolidated financial statements (Continued)

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

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.

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.

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

9. Foreign currency transactions and translation of foreign currency statement (Continued)

(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’ equityin 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.

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.

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

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 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.

Distinction between financial liabilities and equity instruments

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

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.

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

10. Financial instruments (Continued)

(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;

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 lossis 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.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

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 assetis recognized to the extent of its continuing involvement in the transferred financial asset and recognize an associated liabilityis recognized.

(8) Offseting 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.

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 leve linput 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 and doubtful debts

Individually significant accounts receivable should be taken impairment test separately. Provision for bad and doubtful debts shall be made when there is an indication that the accounts receivable can not 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 and doubtful debts provision of individually significant receivables: the provision for bad and doubtful debtsis recognized according to the difference between the present value of future cash flows, which is lower, and the carrying amount.

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

12. Receivables (Continued)

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

The reason of provision for bad and doubtful 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 and doubtful debts provision:the provision for bad and doubtful debts is recognized as the difference between the present value of predicted future cash flow of accouts receivables under its carrying amounts.

(3) Receivables with provision for bad and doubtful debts collectively

For individually insignificant receivables, and individually significant receivables which are not impaired in individual test, the provision for bad and doubtful debts is recognized according to the following credit risk combination, the provision for bad and doubtful 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 and doubtful debts collectively
Group of ageing	Ageing state	Ageing analysis method
Related party grouping and imprest	Type of assets	Estimated future cash flows based on historical loss rate

A、 For group of ageing, the rate of provision for bad and doubtful 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 amounts for project contracts due from customers, 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.

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

13. Inventories (Continued)

(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 ect. 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".

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 venturers.

(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 intial 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.

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)

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.

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.

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

15. Long-term equity investment (Continued)

(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 tonote 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 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.

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 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.

5) 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.

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

16. Fixed assets (Continued)

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

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.

(5) 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.

(6) 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.

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.

(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.

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

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
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 related to theories of oil-gas exploration and development, oil-gas exploration and development experiments, pilot tests for oil-gas exploration, researches of softwares, etc; Expenditure on the development phase is related to applications of oil-gas exploration and development technology, pilot tests of oil-gas development, adaptability of technologies in a development process, software developments, etc.

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.

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.

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

21. Impairment of assets (Continued)

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 can not 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, otherdependants, 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 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.

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 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.

(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.

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

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 priceE、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.

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.

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

26. Revenue

Revenue is determined in accordance with the fair value of the consideration receiveds 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 (a) percentage of work performed to date as a percentage of total contract value, or (b) the proportion of accumulated actual contract costs to the estimated total costs or the proportion of accumulated actual contract costs to the estimated total costs. and the stage of completion of ageophysics or drilling engineering contract is determined according to surveys of the work performed.

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.

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

27. Government grants (Continued)

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 recognisedgovernment 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.

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.

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

29. Operating leases and finance leases (Continued)

(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:

(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.

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

32. Critical accounting judgments and estimates (Continued)

(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 Ⅲ(16), (19) and (22), 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 ofdepreciation 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.

(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

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

(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
Corporate income tax	Tax payable	25

Corporate income tax:

Taxpayer	Tax rate%
Sinopec Southwest Oil Engineering Company Limited	15
Sinopec Oil Engineering and Construction Corporation	15
Sinopec Zhongyuan Oil Engineering Company Limited	15
Sinopec Henan Oil Engineering 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” (CaiShui [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”(CaiShui [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”(CuanGuoShuiZhi Fa [2014] No.8)issued bySiChuan 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 2015” (Lu KeZi [2015] No.154 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 Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to to “Notification of the list of the first batch of Henan Province High-tech enterprise subject to review in 2015” (Yu Gao Qi [2015] No.8) 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 Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to “Notification of the first batch of Henan Province High-tech enterprise subject to review in 2015” (Yu Ke[2015]No.19) 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 Company Limitedhas 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

(unless otherwise stated, amount in RMB'000)

Items	At 31 December 2015			At 31 December 2014		
	Original currency	Exchange rate	Amount	Original currency	Exchange rate	Amount
Cash on hand:	—	—	9,221	—	—	15,635
RMB	—	—	2,036	—	—	4,070
USD	428	6.4936	2,781	586	6.1190	3,585
EUR	43	7.0952	304	45	7.4556	338
BRL	182	1.6805	306	287	2.3039	661
DZD	3,810	0.0607	231	4,259	0.0696	296
KWD	22	21.3621	465	27	20.8866	573
KZT	13,688	0.0191	262	11,130	0.0336	373
SAR	827	1.7318	1,432	874	1.6310	1,420
Others			1,404			4,319
Cash at banks:	—	—	1,983,693	—	—	1,154,823
RMB	—	—	614,393	—	—	243,857
USD	146,020	6.4936	948,239	97,685	6.1190	597,735
EUR	88	7.0952	621	154	7.4556	1,145
BRL	1,293	1.6805	2,172	3,826	2.3039	8,815
DZD	1,125,901	0.0607	68,329	446,564	0.0696	32,466
KWD	6,271	21.3621	133,967	1,741	20.8866	36,362
KZT	225,218	0.0191	4,308	352,830	0.0336	11,840
SAR	44,186	1.7318	76,523	83,479	1.6310	136,151
Others	—	—	135,141			86,452
Among cash at bank:Related parties	—	—	958,159	—	—	530,069
Including: RMB	—	—	75,707	—	—	87,867
USD	115,581	6.4936	750,540	55,987	6.1190	342,585
SAR	14,024	1.7318	24,288	60,237	1.6310	98,230
Others			107,623			1,387
Other monetary funds:	—	—	18,676	—	—	43,439
RMB	—	—	1,218	—	—	19,976
USD	2,225	6.4936	14,448	2,511	6.1190	15,365
AED	131	1.7699	233	131	1.6644	219
DZD	12,219	0.0607	742	11,058	0.0696	769
SAR	—	—	—	1,062	1.6310	1,733
KZT	2,244	0.0191	43	1,252	0.0336	42
Others	—	—	1,992	—	—	5,335
Total:	—	—	2,011,590	—	—	1,213,897
Amount deposited abroad:			1,364,170			867,231

At 31 December 2015,the Group's restricted cash such as margin deposit is RMB18,381,000 (At 31 December 2014:RMB12,143,000),there is no deposits pledged to banks for issuing bankers' acceptances.

V. Notes to the consolidated financial statements (Continued)

2. Notes receivable

Category	At 31 December 2015	At 31 December 2014
Bank acceptance bills	129,487	207,691
Trade acceptance bills	11,645	11,815
Total	141,132	219,506

(1) There is no pledged or overdue notes receivable at 31 December 2015 and 2014.

(2) At 31 December 2015,the endorsed undue notes receivable

Type	At 31 December 2015	At 31 December 2014
Bank acceptance bills	988,476	—
Trade acceptance bills	89,806	—
Total	1,078,282	—

(3) As at 31 December 2015, 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 October 2015	26 January 2016	8,000
Issuer 2	14 September 2015	14 March 2016	5,620
Issuer 3	17 November 2015	17 February 2016	5,000
Issuer 4	20 July 2015	19 January 2016	5,000
Issuer 5	20 July 2015	19 January 2016	5,000
Total			28,620

3. Accounts receivable

	At 31 December 2015	At 31 December 2014
Accounts receivable	27,698,918	28,494,350
Less: provision for bad debts	577,791	429,415
Net	27,121,127	28,064,935

V. Notes to the consolidated financial statements (Continued)

3. Accounts receivable (Continued)

(1) Accounts receivable disclosed by categories:

Type	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	967,931	3.49	24,198	2.50	943,733
Provision for bad and doubtful debts collectively					
Including: Ageing groups	8,649,537	31.23	553,593	6.40	8,095,944
Related party grouping	18,081,450	65.28	—	—	18,081,450
Subtotal	26,730,987	96.51	553,593	2.07	26,177,394
Receivables of individually insignificant amount but with provision made on an indivdual basis	—	—	—	—	—
Total	27,698,918	100.00	577,791	2.09	27,121,127

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful 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
Receivables of individually insignificant amount but with provision made on an indivdual basis	12,334	0.04	12,328	99.95	6
Total	28,494,350	100.00	429,415	1.51	28,064,935

Receivables of individually significant amount and with provision made on an individual basis

Accounts receivable (By entity)	Amount	Bad debt provision	Provision proportion	Provision reason
Entityt A	967,931	24,198	2.5	Provision made on the basis of the expected loss rate
Total	967,931	24,198	2.5	

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

Ageing	At 31 December 2015					At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	7,667,831	88.65	—	—	7,667,831	8,206,262	91.56	—	—	8,206,262
1 – 2 years	519,319	6.00	155,796	30.00	363,523	380,448	4.25	114,134	30	266,314
2 – 3 years	161,474	1.87	96,884	60.00	64,590	182,285	2.03	109,371	60	72,914
Over 3 years	300,913	3.48	300,913	100.00	—	193,582	2.16	193,582	100	—
Total	8,649,537	100.00	553,593	—	8,095,944	8,962,577	100.00	417,087	—	8,545,490

V. Notes to the consolidated financial statements (Continued)

3. Accounts receivable (Continued)

(2) Provision,recovery or reversal of bad debt

The total bad debt provision made at the current period is RMB148,394,000 (At year 2014: RMB49,625,000). 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 RMB18,000 (2013: RMB2,517,000), there is no written-off of accounts receivable occurred by related party transactions.

(4) As at 31 December 2015 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	Related party	17,797,091	64.25	—
Entity B	Third party	1,409,562	5.09	33,758
Entity C	Third party	967,931	3.49	24,198
Entity D	Third party	671,803	2.43	—
Entity E	Third party	540,159	1.95	2,625
Total		21,386,546	77.21	60,581

4. Prepayments

	At 31 December 2015	At 31 December 2014
Prepayments	474,961	675,042
Less: provision for bad debts	14,926	14,771
Net	460,035	660,271

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

Ageing	At 31 December 2015		At 31 December 2014	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	441,709	93.00	641,955	95.09
1 – 2 years	18,835	3.96	25,423	3.77
2 – 3 years	12,303	2.59	656	0.10
Over 3 years	2,114	0.45	7,008	1.04
Total	474,961	100.00	675,042	100.00

(2) As at 31 December 2015, the five largest prepayments are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total prepayments
Entity A	Third party	49,215	10.36
Entity B	Third party	27,636	5.82
Entity C	Third party	22,728	4.79
Entity D	Related party	16,460	3.47
Entity E	Third party	11,229	2.36
Total		127,268	26.80

V. Notes to the consolidated financial statements (Continued)

5. Other receivables

	At 31 December 2015	At 31 December 2014
Other receivables	2,816,399	2,576,835
Less: provision for bad debts	383,614	361,703
Net	2,432,785	2,215,132

(1) Other receivables disclosed by categories:

Type	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	2,563,394	91.02	383,614	14.97	2,179,780
Related party grouping	253,005	8.98	—	—	253,005
Subtotal	2,816,399	100.00	383,614	13.62	2,432,785
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	2,816,399	100.00	383,614	13.62	2,432,785

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	2,443,121	94.81	361,703	14.80	2,081,418
Related party grouping	133,714	5.19	—	—	133,714
Subtotal	2,576,835	100.00	361,703	14.04	2,215,132
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	2,576,835	100	361,703	14.04	2,215,132

① At 31 December 2015 and 2014, there is no other receivables that is individually significant and with provision for bad and doubtful debts made individually.

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

	At 31 December 2015					At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net carrying amount	Amount	Proportion %	Bad debt provision	Provision proportion	Net carrying amount
Within 1 year	2,049,119	79.94	—	—	2,049,119	2,028,636	83.03	—	—	2,028,636
1 – 2 years	170,252	6.64	51,076	30.00	119,176	49,897	2.04	14,969	30	34,928
2 – 3 years	28,712	1.12	17,227	60.00	11,485	44,635	1.83	26,781	60	17,854
Over 3 years	315,311	12.30	315,311	100.00	—	319,953	13.10	319,953	100	—
Total	2,563,394	100.00	383,614	—	2,179,780	2,443,121	100.00	361,703	—	2,081,418

(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 has written-off of other receivables RMB636,000 (2014: RMB313,000), there is no written-off of other receivables occurred by related party transactions.

V. Notes to the consolidated financial statements (Continued)

5. Other receivables (Continued)

(4) Other receivables disclosed by nature:

Items	At 31 December 2015	At 31 December 2014
Imprest	66,734	125,405
Guarantee	780,753	718,477
Amount paid on behalf	1,150,581	755,768
Temporary payment	451,067	358,245
Escrow funds	9,680	16,559
Loan	10,000	10,000
Deposits	48,525	64,015
Export tax refund receivable	2,823	2,839
Others	296,236	525,527
Total	2,816,399	2,576,835

(5) As at 31 December 2015, the five largest other receivables are analysed as follows:

Company Name	Relationship with the company	Items	Amount	Percentage of total other receivables	Ending balance of bad debt provision
Entity A	Third party	Amount paid on behalf	885,707	31.45	—
Entity B	Related party	Guarantee	251,127	8.92	—
Entity C	Third party	Amount paid on behalf	176,404	6.26	166,339
Entity D	Third party	Amount paid on behalf	132,144	4.69	24,816
Entity E	Third party	Temporary payment	119,952	4.26	—
Total			1,565,334	55.58	191,155

6. Inventories

(1) Inventories by categories

Category	At 31 December 2015			At 31 December 2014		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,732,626	7,724	1,724,902	1,743,628	7,724	1,735,904
Work in progress	141,177	—	141,177	89,322	—	89,322
Finished goods	76,995	—	76,995	99,015	—	99,015
Turnover materials	33,895	—	33,895	24,917	—	24,917
Amounts due from customers for contract work	12,814,579	24,030	12,790,549	10,009,710	28,159	9,981,551
Others	1,757	—	1,757	1,433	—	1,433
Total	14,801,029	31,754	14,769,275	11,968,025	35,883	11,932,142

As at 31 December 2015 and 2014, no capitalised borrowing costs were included in the balance of inventories, and the above inventories were not pledged.

V. Notes to the consolidated financial statements (Continued)

6. Inventories (Continued)

(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 2015	Provision	Others	Reversal or Write-off	Others	At 31 December 2015
Raw materials	7,724	—	—	—	—	7,724
Amounts due from customers for contract work	28,159	—	—	4,129	—	24,030
Total	35,883	—	—	4,129	—	31,754

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.

(3) Completed yet settled assets formed by construction contracts

Items	At 31 December 2015
Contract cost incurred	47,236,160
plus recognised profit	4,043,563
Less: Loss on contracts	24,030
Less: Progress billings	38,465,144
Book value of completed yet settled assets formed by construction contracts	12,790,549

7. Non-current assets due within one year

Items	At 31 December 2015	At 31 December 2014
Long-term deferred expenses due within one year	1,396,030	1,350,742
Cross-border Double-sided Fund Pool In RMB	1,097,000	—
Total	2,493,030	1,350,742

In accordance with the "Notification Of Developing Cross-border Double-sided Fund pool In RMB For Better Convenience to Multinational Enterprises"[Yin Fa(2015)No.279] issued by the People's Bank of China, the Group, which acted as the prinicipal, entered into four entrusted loan arrangements with Sinopec Finance Company Limited, which acted as the agent, to provide funds to a subsidiary of the Sinopec Group. The entrusted loans held by the Group as of the reporting date are unsecured,current and due within one year and borne fixed interest rates of 3% - 4% per annul.

8. Other current assets

Items	At 31 December 2015	At 31 December 2014
VAT to be offset	82,062	168,076
Total	82,062	168,076

9. Available-for-sale financial assets

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

Items	At 31 December 2015			At 31 December 2014		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Availabel-for-sale equity instruments	40,494	—	40,494	40,494	—	40,494
Including: based on cost	40,494	—	40,494	40,494	—	40,494
Total	40,494	—	40,494	40,494	—	40,494

V. Notes to the consolidated financial statements (Continued)

9. Available-for-sale financial assets (Continued)

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

Items	At 31 December 2015	At 31 December 2014
Listed	—	—
Unlisted	40,494	40,494
Total	40,494	40,494

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	At 1 January 2015	The fluctuation of this period								At 31 December 2015	The ending balance of impairment
		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		
① Joint venture											
SinoFTS Petroleum Services Ltd. (SinoFTS)	72,579	113,042	—	-8,466	—	—	—	—	—	177,155	—
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	20,802	—	—	-3,529	—	—	—	—	—	17,273	—
Sinopec Gulf Petroleum Engineering Services, LLC	13,383	—	—	—	—	—	—	—	—	13,383	—
QianjiangHengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,107	—	—	37	—	—	33	—	—	1,111	—
Subtotal	107,871	113,042	—	-11,958	—	—	33	—	—	208,922	—
② associates											
Sinopec International Trading (Nigeria) Company Limited	128	—	—	—	—	—	—	—	—	128	—
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	—	3,500	—	—	—	—	—	—	—	3,500	—
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	—	2,000	—	—	—	—	—	—	—	2,000	—
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	—	1,850	—	—	—	—	—	—	—	1,850	—
Subtotal	128	7,350	—	—	—	—	—	—	—	7,478	—
Total	107,999	120,392	—	-11,958	—	—	33	—	—	216,400	—

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

The informations 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 2014	1,121,780	55,274,703	56,396,483
2. Increase in the year	152,377	3,164,836	3,317,213
(1) Purchase	23,061	2,587,103	2,610,164
(2) Transferred from construction in progress	129,316	577,733	707,049
3. Written back during the year	4,491	728,954	733,445
(1) Disposal/write-off	4,491	728,954	733,445
4. At 31 December 2015	1,269,666	57,710,585	58,980,251
Accumulated depreciation:			
1. At 31 December 2014	338,887	26,075,169	26,414,056
2. Increase in the year	42,870	3,879,641	3,922,511
(1) Depreciation 7(a)	42,870	3,879,641	3,922,511
3. Written back during the year	4,091	642,509	646,600
(1) Disposal/write-off	4,091	642,509	646,600
4. At 31 December 2015	377,666	29,312,301	29,689,967
Provision for impairment			
1. At 31 December 2014	8,623	280,658	289,281
2. Increase in the year	—	—	—
(1) Provision	—	—	—
(2) Other additions	—	—	—
3. Written back during the year	122	7,064	7,186
(1) Disposal or retirement	122	7,064	7,186
4. At 31 December 2015	8,501	273,594	282,095
Net carrying amount			
1. At 31 December 2015	883,499	28,124,690	29,008,189
2. At 31 December 2014	774,270	28,918,876	29,693,146

As at 31 December 2015 and 2014, no fixed assets of the Group were pledged.

(a) At 31 December 2015, depreciation of fixed assets amounted to RMB3,922,511,000 (2014: 4,360,236,000), were included in operating expense 3,890,615,000, selling expense 720,000 and administrative expense 31,376,000 (2014: 4,291,302,000, 676,000 and 68,257,000).

At year 2015, the total cost of fixed assets transferred from construction in progress is 707,049,000 (2014: 3,542,765,000).

(2) Fixed assets rented under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Net carrying amount
Equipment	77,897	10,042	—	67,855
Total	77,897	10,042	—	67,855

(3) The situation of premiseswithout qualified ownership certificates

There had been a total amount of 21 premises without qualified ownership certificates up to 31 December 2015, totaling amount in cost of 183,158,000, in accumulated depreciation of 6,943,000 and net book value of 176,215,000.

V. Notes to the consolidated financial statements (Continued)

12. Construction in progress

(1) Details of construction in progress

Items	At 31 December 2015			At 31 December 2014		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	74,143	3,502	70,641	128,663	3,502	125,161
Major Materials and equipment procurement projects	2,638,344	91,762	2,546,582	1,343,219	91,762	1,251,457
Other construction projects	92,955	—	92,955	10,666	—	10,666
Total	2,805,442	95,264	2,710,178	1,482,548	95,264	1,387,284

(2) The major construction projects in progress are set out as follows:

Project name	At 1 January 2015	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	Including current capitalized interest	Capitalised rate%	At 31 December 2015
	A	B	C	D				E=A+B-C-D
Shenli operating 90 meters	196,285	147,746	—	—	9,469	9,469	4.66	344,031
25 m working platform project	171,387	222,911	—	—	8,479	7,920	4.58	394,298
Shenli operating No. 6 platform	314,906	—	314,906	—	4,276	—	4.30	—
Kuwait rig acquisition projects	76,095	360,438	395,099	41,434	—	—	—	—
Unconventional oil and gas exploration and development equipment acquisition	4,741	—	4,741	—	—	—	—	—
8000HP Multipurpose Supply Vessel	35,617	106,132	—	—	2,648	2,210	4.73	141,749
7000HP Multipurpose Supply Vessel	139,064	47,332	186,396	—	10,933	4,233	5.86	—
Exploration VII jackup rig project of Sinopec marine engineering	—	1,511,714	—	—	6,590	6,590	4.36	1,511,714
Model 3000 fracturing truck equipment acquisition of special down-hole operation	—	173,547	173,547	—	—	—	—	—
Zhongyuan special down-hole operation fracturing trunk	4,400	142,895	147,295	—	—	—	—	—
Total	942,495	2,712,715	1,221,984	41,434	42,395	30,422	—	2,391,792

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
Shenli operating 90 meters	700,000	49.15	49.15	loans、Selfraised
25 m working platform project	466,030	84.61	84.61	loans、issue of ordinary shares
Shenli operating No. 6 platform	326,930	100	100	loans、Selfraised
Kuwait rig acquisition projects	943,450	46.26	46.26	issue of ordinary shares
Unconventional oil and gas exploration development and equipment acquisition	199,760	100	100	Selfraised
8000HP Multipurpose Supply Vessel	195,000	72.6	72.6	loans、issue of ordinary shares
7000HP Multipurpose Supply Vessel	187,500	99.4	99.4	loans、Selfraised
Exploration VII jackup rig project of Sinopec marine engineering	1,511,714	100	99	loans、Selfraised
Model 3000 fracturing truck equipment acquisition of special down-hole operation	182,450	95.12	100	Selfraised、issue of ordinary shares
Zhongyuan special down-hole operation fracturing trunk	147,460	100	100	Selfraised
Total	—	—	—	—

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 2014		61,774	186	111,471	15,338	188,769
2.	Increase in the year		55,360	—	11,424	42,005	108,789
	(1)	Purchase	55,360	—	11,424	42,005	108,789
	(2)	Transferred from construction in progress	—	—	—	—	—
3.	Written back during the year		—	—	4,179	—	4,179
	(1)	Disposal/write-off	—	—	4,179	—	4,179
	(2)	Decrease by transfer(c)	—	—	—	—	—
4.	At 31 December 2015		117,134	186	118,716	57,343	293,379
Accumulated amortization:							
1.	At 31 December 2014		10,666	19	72,291	13,442	96,418
2.	Increase in the year		1,514	18	16,035	1,370	18,937
	(1)	Provision	1,514	18	16,035	1,370	18,937
	(2)	Other additions					
3.	Written back during the year		—	—	4,179	—	4,179
	(1)	Disposal/write-off	—	—	4,179	—	4,179
	(2)	Decrease by transfer	—	—	—	—	—
4.	At 31 December 2015		12,180	37	84,147	14,812	111,176
Provision for impairment							
1.	At 31 December 2014		—	—	—	—	—
2.	Increase in the year		—	—	—	—	—
3.	Written back during the year		—	—	—	—	—
4.	At 31 December 2015		—	—	—	—	—
Carrying amount							
1.	At 31 December 2015		104,954	149	34,569	42,531	182,203
2.	At 31 December 2014		51,108	167	39,180	1,896	92,351

As at 31 December 2015 and 31 December 2014, the above intangible assets were not pledged.

For the year ended 31 December 2015, amortisation of intangible assets amounted to RMB18,937,000 (2014: 22,103,000), were included in profit and loss.

At the year ended, the intangible assets formed through internal research and development take up 3.99% of the total amount of intangible assets.

(2) Land Use Right without qualified ownership certificates

Items	Carrying amount	Reasons for not completing qualified ownership certificates
Land in Wuhan guanggu high-tech zone	55,245	Newly acquired land, certificate is in the progress

V. Notes to the consolidated financial statements (Continued)

14. Long-term deferred expenses

Items	At 31 December 2014	Increase in the year	Decrease in the year		At 31 December 2015
			Amortisation in the year	Other decreases	
Special tools of petroleum engineering	4,029,362	1,229,563	1,626,804	—	3,632,121
Other tools of Petroleum engineering	618,055	354,616	364,021	—	608,650
Camping house	636,676	206,822	310,003	—	533,495
Other long-term deferred expenses	56,528	54,433	41,379	—	69,582
Total	5,340,621	1,845,434	2,342,207	—	4,843,848
Including:Amount due within one year	1,350,742	—	—	—	1,396,030
Due over one year	3,989,879	—	—	—	3,447,818

Long-term deferred expenses mainly represent special drilling and logging tools of petroleum engineering, geophysical special tools, camping house etc.

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 2015		At 31 December 2014	
	Deductible/taxable temporary differences	Deferred incoome tax assets/liabilities	Deductible/taxable temporary differences	Deferred incoome tax assets/liabilities
Deferred income tax assets				
Provision for assets impairment and influence on depreciation	208,720	52,180	214,636	53,659
Provision for bad debts	505,053	123,483	392,648	95,030
Deferred income	47,070	11,767	31,961	7,990
Subtotal	760,843	187,430	639,245	156,679
Deferred income tax liabilities				
Revaluation of assets	125,990	30,827	185,953	45,702
Depreciation of fixed assets	2,441	424	7,459	1,193
Subtotal	128,431	31,251	193,412	46,895

(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.

Tax losses that are not recognized as deferred tax assets are analysed as follows:

Items	At 31 December 2015	At 31 December 2014
Deductible temporary differences	684,991	1,686,714
Tax losses	4,605,881	4,015,385
Total	5,290,872	5,702,099

(3) Tax losses that are not recognized as deferred tax assets will be expired as follows:

Years	At 31 December 2015	At 31 December 2014	Note
2015	—	21,658	
2016	33,472	33,472	
2017	951,210	975,715	
2018	1,143,155	1,428,491	
2019	1,551,644	1,556,049	
2020	926,400	—	
Total	4,605,881	4,015,385	

V. Notes to the consolidated financial statements (Continued)

16. Short-term loans

Items	Currency	At 31 December 2015	At 31 December 2014
Unsecured borrowings from related parties	RMB	5,185,324	4,350,000
	USD	6,884,988	7,502,995
Unsecured borrowings from third parties	RMB	—	—
	USD	—	36,714
Total		12,070,312	11,889,709

As at 31 December 2015, the interest rate range of short-term borrowings is 1.48%-7.6% (31 December 2014:1.55%-6%).

As at 31 December 2015, the Group had no overdue short-term borrowings.

RMB3,040,324,000 funds of unsecured borrowings from related parties are provided to the Group by Sinopec Century Bright Capital Investment Limited, RMB1,097,000,000 of which is cross-border double-sided fund loan. (Note V. 7.)

17. Bills payable

Category	At 31 December 2015	At 31 December 2014
Commercial acceptance bills	—	—
Bank acceptance bills	1,284,745	856,442
Total	1,284,745	856,442

As at 31 December 2015 and 2014,there is no bank deposit pledged for bills payable.

18. Accounts payable

Items	At 31 December 2015	At 31 December 2014
Payables for materials	8,675,845	9,713,409
Payables for construction	7,790,790	8,634,143
Payable for labour cost	8,772,052	9,190,948
Payables for equipment	3,074,973	2,276,547
Others	595,441	242,118
Total	28,909,101	30,057,165

Important accounts payable aged over one year:

Items	At 31 December 2015	Overdue reasons
Entity A	216,104	Retention money、Unsettled
Entity B	162,459	Retention money、Unsettled
Entity C	116,441	Retention money、Unsettled
Entity D	111,899	Retention money、Unsettled
Entity E	90,991	Retention money、Unsettled
Total	697,894	

V. Notes to the consolidated financial statements (Continued)

19. Advances from customers

Items	At 31 December 2015	At 31 December 2014
Advances for construction labor and service	1,459,457	1,853,049
Amounts due to customers for contract work	7,804,513	6,564,119
Total	9,263,970	8,417,168

(1) Important advance from customers aged over one year:

Items	At 31 December 2014	Overdue reasons
Entity A	247,047	Not yet finalised
Entity B	128,676	Not yet finalised
Entity C	67,193	Not yet finalised
Entity D	41,276	Not yet finalised
Entity E	39,607	Not yet finalised
Total	523,799	

(2) Completed yet settled assets formed by construction contracts

Items	At 31 December 2014
Progress billings	22,980,924
Less:Contract cost incurred	13,504,115
plus recognised profit	1,672,296
Amounts due to settled yet completed contract work	7,804,513

20. Employee benefits payable

Items	At 31 December 2014	Increase in the year	Decrease in the year	At 31 December 2015
Short term employee benefits	201,274	14,207,586	14,221,299	187,561
Post-employment benefits	87,011	1,707,858	1,794,869	—
Termination benefits	—	12,570	12,570	—
Total	288,285	15,928,014	16,028,738	187,561

(1) Short-term employee benefits

Items	At 31 December 2014	Increase in the year	Decrease in the year	At 31 December 2015
Wages or salaries, bonuses, allowances and subsidies	27,150	7,424,675	7,427,437	24,388
Staff welfare	—	1,154,154	1,154,154	—
Social security contributions	3,954	812,257	816,188	23
Including: 1. Basic medical insurance	—	580,427	580,427	—
2. Supplementary medical insurance	13	83,919	83,932	—
3. Work-related injury insurance	—	66,869	66,869	—
4. Birth insurance	3,919	48,904	52,823	—
5. Other insurance	22	32,138	32,137	23
Housing funds	1,396	803,853	803,892	1,357
Labor union and employee education funds	100,893	237,827	228,854	109,866
Others	67,881	3,774,820	3,790,774	51,927
Total	201,274	14,207,586	14,221,299	187,561

As at 31 December 2015, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2016.

V. Notes to the consolidated financial statements (Continued)

20. Employee benefits payable (Continued)

(2) Post-employment benefits

Items	At 31 December 2014	Increase in the year	Decrease in the year	At 31 December 2015
Basic pension insurance	—	1,275,152	1,275,152	—
Unemployment insurance	—	88,163	88,163	—
Annuity	87,011	344,543	431,554	—
Total	87,011	1,707,858	1,794,869	—

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 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 12,570,000 compensation to the resigning employee for terminating labor relation.

21. Taxes payable

Items	At 31 December 2015	At 31 December 2014
Value Added Tax	1,843,544	1,905,588
Business tax	77,802	83,680
Urban maintenance and construction tax	117,536	135,540
Education surtax	77,055	92,125
Corporate income tax	244,493	432,426
Individual income tax	135,757	150,421
Withholding tax	44,233	66,205
Others	71,748	89,793
Total	2,612,168	2,955,778

22. Interest payable

Items	At 31 December 2015	At 31 December 2014
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	1,618	331
Interest payable of short term loan	13,205	19,697
Total	14,823	20,028

V. Notes to the consolidated financial statements (Continued)

23. Other payables

Items	At 31 December 2015	At 31 December 2014
Guarantee	497,300	409,207
Deposits	156,200	161,140
Amount paid on behalf	291,281	339,054
Temporary receipts	370,126	369,576
Escrow payments	30,549	28,437
Withheld payments	85,841	169,590
Sinopec Group capital restructuring funds	2,600,000	4,000,000
The net profit or loss during the reorganization	1,118,903	1,479,207
Others	323,233	371,258
Total	5,473,433	7,327,469

As at 31 December 2015, other payables with aging over 1 year with a carrying amount of RMB4,370,650,000 (31 December 2014: RMB598,252,000). Those except the undisbursed amount due to the Sinopec group generated from capital restructuring funds and the net proft and loss at transition period, 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 2015	At 31 December 2014
Long-term loans within one year	70,000	110,000
Long-term payables within one year	17,360	15,870
Total	87,360	125,870

(1) Long-term loans within one year

Items	At 31 December 2015	At 31 December 2014
Mortgage loan	—	—
Loans on credit	70,000	110,000
Total	70,000	110,000

(2) Long-term payables within one year

Items	At 31 December 2015	At 31 December 2014
Finance leases liabilities	17,360	15,870
Other long term payables	—	—
Total	17,360	15,870

25. Long-term loans

Items	At 31 December 2015	Range of interest rate	At 31 December 2014	Range of interest rate
Pledge loans	487,020	5.63-5.79%	428,723	5.60%
Loans on credit	201,949	2.43-6.15%	180,000	5.56-6.15%
Subtotal	688,969	—	608,723	—
Less: Long-term loans within one year	70,000	5.75-6.15%	110,000	5.56-6.15%
Total	618,969	—	498,723	—

The group has no overdue long-term loans at 31 December 2015

V. Notes to the consolidated financial statements (Continued)

26. Long-term payables

Items	At 31 December 2015	At 31 December 2014
Finance leases liabilities	68,514	85,310
Others	5,918	—
Subtotal	74,432	85,310
Less: Long-term payables within one year	17,360	15,870
Total	57,072	69,440

27. Specific payable

Items	At 31 December 2014	Increase for the period	Decrease for the period	At 31 December 2015	Reasons
Compensation of relocation	2,647	2,000	3,996	651	Relocation of public interests
Petroleum Equipment Welding Technology Service Platform	—	400	—	400	Torch project allocations
Total	2,647	2,400	3,996	1,051	

28. Deferred income

Items	At 31 December 2014	Increase for the period	Decrease for the period	At 31 December 2015
Government grants related to assets	8,287	3,096	1,018	10,365
Government grants related to income	35,664	393,651	380,672	48,643
Total	43,951	396,747	381,690	59,008

Including: Details of deferred income – Government grants

Government grants projects	At 31 December 2014	Increase in current year	Recognised in non-operating income in current year	At 31 December 2015	Related to assets/income
The 863 plan of developing radar imaging prototype	1,200	1,100	—	2,300	Related to assets
Major nationalspecial funds of cementing technology for ultra deep horizontal wells	189	—	189	—	Related to assets
Compensation of relocation	4,498	1,996	829	5,665	Related to assets
Zhongyi oil equipment project allocations	2,400	—	—	2,400	Related to assets
Bonded financial subsidies	—	31,053	31,053	—	Related to income
National 863 project	1,274	650	1,501	423	Related to income
National special research	34,195	56,431	43,194	47,432	Related to income
Industry support fund	—	14,749	14,749	—	Related to income
Pension allowance	—	919	919	—	Related to income
Labor insurance fee refund	—	3,671	3,671	—	Related to income
Subsidies of reemployment	—	712	712	—	Related to income
Subsidies of stable post	—	1,334	1,334	—	Related to income
Consumption tax refund	—	270,584	270,584	—	Related to income
Other government grants	195	13,548	12,955	788	Related to income
Total:	43,951	396,747	381,690	59,008	

V. Notes to the consolidated financial statements (Continued)

29. Share capital (Unit: thousand shares)

At 31 December 2015:

Items	At 1 January 2015	Changes in current (+、-)		Subtotal	At 31 December 2015
		Issued shares	Write off Repurchase of shares		
Held by state-owned legal person (A share)	10,259,328	—	—	—	10,259,328
RMB public shares (A share)	450,000	1,333,333	—	1,333,333	1,783,333
Foreign shares listed overseas (H share)	2,100,000	—	—	—	2,100,000
Total	12,809,328	1,333,333	—	1,333,333	14,142,661

At 31 December 2014:

Items	At 1 January 2015	Changes in current (+、-)		Subtotal	At 31 December 2015
		Issued shares	Write off Repurchase of shares		
Held by state-owned legal person (A share)	3,450,000	9,224,328	-2,415,000	6,809,328	10,259,328
RMB public shares (A share)	450,000	—	—	—	450,000
Foreign shares listed overseas (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 noncirculating 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 2015, 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).

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 issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd on 13 February 2015, the net proceeds from the issuing were approximately RMB5,962,516,700. The new shares are limited tradable shares with lock-up period of 12 months and had been traded on the market since 3 March 2016.

30. Capital reserve

At 31 December 2015:

Items	At 1 January 2015	Increase for the period	Decrease for the period	At 31 December 2015
Share premium	4,207,063	4,619,184	—	8,826,247
Other capital reserve	67,969	—	—	67,969
Total	4,275,032	4,619,184	—	8,894,216

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

V. Notes to the consolidated financial statements (Continued)

30. Capital reserve (Continued)

Reasons for the change are as follows:

Items	2015	2014
Capital reserve before adjustment at the end of last year	4,275,032	1,146,794
Adjustment of business combination under common control(a)	—	22,171,408
Capital reserve after adjustment at the beginning of the year	4,275,032	23,318,202
Increase for the period:	4,619,184	7,105,040
Including:Investment increased by Sinopec Group invest Incoming Equities (b)	—	5,689
Issuarance of ordianary shares (c)	4,619,184	—
Acquisition of subsidiaris' minority Interest (d)	—	11,600
Major reorganization(a)	—	5,985,340
Revaluation of assets(e)	—	146,267
Adjustment of interests reclassification(e)	—	956,144
Decrease for the period:	—	26,148,210
Including:Convert capital reserve into share capital	—	—
Investment funds recovered by Sinopec Gorp (f)	—	5,932,883
Adjustment of business combination under common control (a)	—	20,215,327
Capital reserve at the end of the year	8,894,216	4,275,032

(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). According to the change of consolidation scope caused by business combination under common control,opening balance of capital reserve in 2014 increased 22,171,408,000,capital reserve decreased 20,215,327,000 at 31 December 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 9,872,096,000 due to the difference between the payment of shares and initial investment cost, decreased 3,886,756,000 due to the difference between repurchase of shares and payment of the price.The net increase in share premium is 5,985,340,000.

(b) The subsidiary acquired in the business combination under common control obtained additional investment of Sinopec Group before acquisition date. The investment amount was nil in 2015. (2014: 5,689,000)

(c) As note Ⅴ29,the net proceeds from the issuing were approximately RMB5,962,517,000 and RMB4,619,184 was recognized as capital reserve.

(d) The sinopec petroleum engineering corporate acquires the minority stake of some subsidiaries, and the difference between acquisition cost and the portion of subsidies' net carrying amount continuouly calculated at investment date when the acquisition is completed should berecognized as capital reserve, which is nil in 2015. (2014: 11,600,000)

(e) 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 146,267,000 and retained earnings reclassified into capital reserve 956,144,000.

(f) Capital reserve decreased 5,932,883,000 due to Sinopec Group recovered investment funds before acquisition date in 2014.

V. Notes to the consolidated financial statements (Continued)

31. Special reserve

Items	At 31 December 2014	Increase for the period	Decrease for the period	At 31 December 2015
Special reserve	295,568	951,980	988,001	259,547
Total	295,568	951,980	988,001	259,547

In accordance with PRC regulations, the Group appropriated production safety fund of RMB951,980,000 to specific reserve for the year ended 31 December 2015 (2014: RMB1,251,650,000), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2015, the Group utilised production safety fund amounting to RMB988,001,000 (2014: RMB1,257,117,000) which was of expenditure nature.

32. Surplus reserve

Items	At 31 December 2014	Increase for the period	Decrease for the period	At 31 December 2015
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 reserveaccumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss orincrease the paid in capital after approval from the appropriate authorities.

33. Retained earnings

Items	2015	2014	Appropriation/ distribution ratio
Retained earnings before adjustment at the end of last year	1,116,809	-252,136	—
Adjustment of business combination under common control(Add+, Less-)(a)	—	1,112,416	—
Retained earnings after adjustment at the beginning of the year	1,116,809	860,280	
Add:Net profit attributable to parent company	24,478	1,229,753	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Incoming Equities assigned to Sinopec Group before acquisition date	—	17,080	
Adjustment of interests reclassification	—	956,144	
Retained earnings at the end of the year	1,141,287	1,116,809	
Including:Surplus reserve attributable to parent company extracted by subsidiaries	84,767	273,531	

(a) As described in Note Ⅴ.46, according to the change of consolidation scope caused by business combination under common control, the opening balance of retained earnings in 2014 increased RMB1,112,416,000.

(b) Retained earnings reclassified into capital reserve according to the corporate system reform of the subsidiaries in 2014.

V. Notes to the consolidated financial statements (Continued)

34. Revenue and cost of sales

Items	2015		2014	
	Revenue	Cost	Revenue	Cost
Major business	59,510,677	53,988,138	93,074,684	84,052,168
Other business	838,657	580,822	1,406,357	1,208,933
Total	60,349,334	54,568,960	94,481,041	85,261,101
Including:Continuing operations	60,349,334	54,568,960	78,993,315	69,703,974
Discontinued operations	—	—	15,487,726	15,557,127

Notes: The analysis information of the Group's revenue and cost by industry and region refer to Note XIII No.5

(1) Major business

Industry	2015		2014	
	Revenue	Cost	Revenue	Cost
Geophysics	5,285,158	4,848,851	5,065,923	4,411,524
Drilling Engineering	28,561,068	26,177,621	39,003,458	33,964,781
Logging and Mud Logging	2,445,848	2,053,196	4,176,936	3,290,356
Special Down-hole Operations	6,916,025	6,108,349	8,457,649	7,549,804
Engineering Construction	15,378,795	14,208,553	19,875,867	18,686,502
Fiber	—	—	14,902,022	14,848,968
Others	923,783	591,568	1,592,829	1,300,233
Total	59,510,677	53,988,138	93,074,684	84,052,168

(2) Business revenue (Classified by area)

Area	2015	2014
China mainland	45,626,034	76,089,832
Hong Kong, Macao, Taiwan and overseas	13,884,643	16,984,852
Total	59,510,677	93,074,684

35. Business tax and surcharges

Items	2015	2014
Business tax	219,512	245,681
Urban maintenance and construction tax	222,767	294,331
Education surtax	166,420	223,061
Overseas tax	90,637	194,894
Others	12,757	22,681
Total	712,093	980,648

Notes: The provision and payment standards of business tax and surcharges refer to Note IV.Taxation.

V. Notes to the consolidated financial statements (Continued)

36. Selling expenses

Items	2015	2014
Freight	3,733	186,528
Commission fee	—	22,333
Staff costs	37,923	53,579
Depreciation	720	676
Transportation	5,022	8,947
Storage charges	79	7,317
Sales service fees	5,332	8,266
Business promotion fee	902	1,856
Office expense	2,307	5,468
Others	6,297	17,410
Total	62,315	312,380

37. General and administrative expenses

Items	2015	2014
Repair and maintenance	353,271	868,640
Staff costs	918,775	1,246,792
Integrated service	1,642,645	1,705,068
Research and development expenses	448,185	524,879
Taxes	174,291	238,614
Transportation	84,040	88,696
Rental expenses	74,486	73,754
Depreciation and amortization	41,408	83,801
Consultation	4,669	66,056
Property insurance	11,615	19,246
Others	289,760	452,344
Total	4,043,145	5,367,890

38. Finance costs

Items	2015	2014
Interest expenses	340,679	646,557
Less:Interest capitalized	32,239	17,908
Less: Interest income	38,267	63,620
Exchange loss, net	334,117	152,034
Bank charges and others	52,800	89,502
Total	657,090	806,565

Notes:

The Group'sinterest expenses are bank loan interest repayable within five years.

The capitalized interest is reckoned in construction in progress.Thecapitalised rate used to calculate capitalized borrowing costis 3.12%-5.86% in 2015(2014: 2.89%-6.0%).

V. Notes to the consolidated financial statements (Continued)

39. Impairment losses on assets

Items	2015	2014
(1) Provision for bad debts	171,376	69,891
(2) Provision for decline in the value of inventories	—	40,996
(3) Impairment losses on fixed assets	—	845,949
(4) Impairment losses on intangible assets	—	178,575
Total	171,376	1,135,411

40. Investment income

Items	2015	2014
Investment income from long-term equity investments under equity method	-11,958	-3,709
Investment income from available-for-sale financial assets	642	2,050
Interest income from entrusted loan investment	2,406	—
Total	-8,910	-1,659

41. Non-operating income

(1) Breakdown of non-operating income

Items	2015	2014	Recognised as non-recurring income
Total gains from disposal of non-current assets	28,751	1,172,552	28,751
Including:Gains from disposal of fixed assets	10,127	17,596	10,127
Others (a)	18,624	1,145,141	18,624
Government grants (b)	381,690	440,062	111,106
Penalty income	4,238	4,746	4,238
Waived payables	35,404	68,567	35,404
Asset inventory surplus	1,169	10,082	1,169
Compensation received	3,217	276	3,217
Others	17,443	13,764	17,443
Total	471,912	1,710,049	201,328

(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 in the previous period increased 1,145,141,000 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,except for those generated from the consumption tax refund. TheIncoming Equities's 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.

V. Notes to the consolidated financial statements (Continued)

41. Non-operating income (Continued)

(2) Breakdown of government grants

Items	2015	2014	Related to assets/income
Consumption tax refund	270,584	348,139	Related to income
National special research	43,194	54,325	Related to income
Labor insurance fee refund	3,671	15,919	Related to income
Pension allowance	919	6,347	Related to income
Subsidies of reemployment	712	5,322	Related to income
Industry support fund	14,749	2,376	Related to income
National 863 project	1,501	1,354	Related to income
Subsidies of stable post	1,334	—	Related to income
Bonded financial subsidies	31,053	—	Related to income
Other government grants	12,955	4,329	Related to income
Major nationalspecial funds of cementing technology for ultra deep horizontal wells	189	6	Related to assets
Environmental protection projects funding	—	611	Related to assets
Special equipment asset allocation	—	1,183	Related to assets
Other government grants	829	151	Related to assets
Total	381,690	440,062	

42. Non-operating expenses

Items	2015	2014	Recognised as non-recurring income
Loss on disposal of non-current assets	28,489	32,053	28,489
Including:Loss on disposal of fixed assets	28,489	32,053	28,489
Donation	9,375	656	9,375
Loss on fixed assets written off	9,127	4,096	9,127
Penalty	20	18,028	20
Compensation	11,959	17,286	11,959
Others	32,647	46,637	32,647
Total	91,617	118,756	91,617

43. Income tax expense

(1) Details of income taxes expenses

Items	2015	2014
Current tax in accordance with tax laws and related regulations	527,816	917,090
Deferred income tax	-46,395	57,623
Total	481,421	974,713

V. Notes to the consolidated financial statements (Continued)

43. Income tax expense (Continued)

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Items	2015	2014
Profit before income tax	505,740	2,206,680
Taxation calculated at the statutory tax rate (Total profit 25%)	126,435	551,670
Effect of other tax rates used by certain subsidiaries	-18,015	-89,145
Adjustments of current tax in previous years	72,017	47,615
Equity method accounting for the joint venture and associates' profit or loss	2,990	927
Non-taxable income (expressed in "-")	—	—
Non-deductible costs, expenses and losses	213,209	62,553
Effect on the change in statutory tax rate on opening balance of deferred tax	—	—
Reversal of previously recognized deferred tax assets	—	73,783
Effect of utilization of unrecognised tax losses and deductible temporary differences	-82,204	-43,374
Effect of unrecognised tax losses and deductible temporary differences	236,966	416,702
Tax effect on research and development expenses (expressed in "-")	-69,977	-43,020
Others	—	-2,998
Income tax expense	481,421	974,713

44. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	2015	2014
Amount paid on behalf	1,147,490	981,195
Government grants	398,028	440,268
Temporary receipt and payment	346,649	344,439
Guarantee	1,028,462	818,930
Compensation	4,995	32,789
Deposits	108,324	113,051
Others	171,007	160,268
Total	3,204,955	2,890,940

(2) Cash paid for other operating activities

Items	2015	2014
Temporary receipt and payment	168,886	184,838
Repair and maintenance expenses	303,271	612,901
Guarantee	647,970	928,793
Travelling expenses	83,982	89,264
Motor vehicle expenses	15,069	198,264
Handling charges	34,904	71,499
Conference expenses	8,547	11,672
Deposits	83,270	86,208
Integrated service	1,642,386	862,319
Others	163,615	373,879
Total	3,151,900	3,419,637

V. Notes to the consolidated financial statements (Continued)

44. Notes to Cash Flow Statement (Continued)

(3) Cash received from other investing activities

Items	2015	2014
Interest of bank deposits	—	2,656
Collection of time deposits	—	20,000
Others	—	8,457
Total	—	31,113

(4) Cash paid for other investing activities

Items	2015	2014
Disposal of Outgoing Business	—	71,933
Total	—	71,933

(5) Cash received from other financing activities

Items	2015	2014
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 to for the 2012 restructuring	25,932	—
Total	25,932	1,303,683

(6) Cash paid for other financing activities

Items	2015	2014
Finance lease expenses	21,190	8,000
Notes acceptance fees	136	177
Exchange loss from dollar loan replacement	11,508	—
Recapitalization fund paid to the Sinopec group	1,400,000	—
Payment of funds from restructuring and business combinations	360,305	—
Internal deposits payment of the company which is not included in the scope of consolidation due to transfer	—	104,327
Total	1,793,139	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	2015	2014
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	24,319	1,231,967
Add: Provision for impairment losses on assets	171,376	1,135,411
Depreciation of fixed assets	3,922,511	4,360,235
Amortization of intangible assets	18,937	22,103
Amortization of long-term deferred expenses	2,342,209	2,622,426
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	-262	-1,140,498
Losses on retirement of fixed assets (Gain as in "-")	9,375	4,096
Fair value losses (Gain as in "-")	—	—
Finance costs (Income as in "-")	648,779	607,789
Investment losses(Income as in "-")	8,910	1,659
Decrease in deferred tax income assets (Increase as in "-")	-30,751	63,650
Increase in deferred income tax liabilities (Decrease as in "-")	-15,644	-6,027
Decrease in inventories (Increase as in "-")	-2,833,004	812,934
Decrease in operating receivables (Increase as in "-")	1,296,286	-1,772,162
Increase in operating payables (Decrease as in "-")	-2,951,091	-1,190,587
Others	-36,021	-6,861
Net cash flows from operating activities	2,575,929	6,746,135
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	1,993,209	1,201,754
Less: Opening balance of cash	1,201,754	1,694,094
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net decrease/(increase) in cash and cash equivalents	791,455	-492,340

V. Notes to the consolidated financial statements (Continued)

45. Supplement information to Cash Flow Statement (Continued)

(2) Composition of cash and cash equivalents

Items	2015	2014
1. Cash	1,993,209	1,201,754
Including:Cash in hand	9,221	15,636
Cash at bank	1,983,693	1,154,823
Other monetary funds	295	31,295
2. Cash equivalents		—
3. Closing balance of cash and cash equivalents	1,993,209	1,201,754
4. Restricted cash	18,381	12,143
5. Balance of cash on hand and at bank	2,011,590	1,213,897

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 Note VI.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 22,171,408,000, 300,982,000,1,112,416,000 and 84,928,000 in 2014. Capital reserve decreased by 20,215,327,000 in 2014 in accordance with the net assets of the merging parties enjoyed in merger date.

47. Restricted asstes

Items	2015	Restricted reasons
Cash at bank and on hand	18,381	Guarantee
Total	18,381	—

48. Foreign currency items

Items	Original currency	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,393,943
Including: USD	148,673	6.4936	965,468
EUR	131	7.0952	925
BRL	1,475	1.6805	2,478
DZD	1,141,930	0.0607	69,302
KWD	6,293	21.3605	134,432
KZT	241,150	0.0191	4,613
SAR	45,013	1.7318	77,955
Others			138,770
Accounts receivable			5,096,697
Including: USD	575,606	6.4936	3,737,753
EUR	5,879	7.0952	41,710
BRL	44,558	1.6805	74,880
DZD	1,506,289	0.0607	91,415
KWD	19,723	21.3605	421,284
KZT	5,791,365	0.0191	110,789
SAR	289,362	1.7318	501,130
Others			117,736

V. Notes to the consolidated financial statements (Continued)

48. Foreign currency items (Continued)

Items	Original currency	Exchange rate	Amount (RMB)
Other receivables			1,399,505
Including: USD	162,756	6.4936	1,056,870
EUR	333	7.0952	2,360
BRL	34,691	1.6805	58,298
DZD	62,670	0.0607	3,803
KWD	4,191	21.3605	89,517
KZT	18,557	0.0191	355
SAR	82,480	1.7318	142,842
Others			45,460
Accounts payable			1,013,133
Including: USD	100,485	6.4936	652,508
EUR	386	7.0952	2,735
BRL	24,096	1.6805	40,493
DZD	120,187	0.0607	7,294
KWD	2,170	21.3605	46,348
KZT	555,731	0.0191	10,631
SAR	121,911	1.7318	211,131
Others			41,993
Other payables			265,402
Including: USD	13,644	6.4936	88,602
EUR	252	7.0952	1,786
BRL	318	1.6805	535
DZD	137,767	0.0607	8,361
KWD	1,205	21.3605	25,732
KZT	52,779	0.0191	1,010
SAR	59,680	1.7318	103,356
Others	—	—	36,020
Dividend payable	621,000	6.4936	4,033
Short-term loans			6,884,988
Including: USD	1,060,273	6.4936	6,884,988
Long-term loans			538,969
Including: USD	83,000	6.4936	538,969

VI. Changes in scope of consolidation

There are no changes in scope of consolidation for the year ended 31 December 2015.

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	Ways of acquisition
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 South West Oil Engineering Company Limited	China	Chengdu Sichuan	Petroleum engineering and technical services	100.00		Business combination under common control
Sinopec Oil Engineering Company Limited	China	Beijing	Geophysical prospecting	100.00		Business combination under common control
Sinopec Oil Engineering and Construction Corporation	China	Beijing	Engineering and Construction	100.00		Business combination under common control
Sinopec Shanghai Offshore Oil Engineering Company Limited	China	Shanghai	Offshore Petroleum Engineering	100.00		Business combination under common control
Sinopec International Petroleum Service Corporation	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
① Joint ventures						
SinoFTS Petroleum Services Ltd. (SinoFTS)	Beijing	Beijing	Petroleum service	55.00		Equity method
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	Beijing	Beijing	Oilfield Service	50.00		Equity method

The Group holds 55% shareholding of and 50% voting rights of SinoFTS. Both parties 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	Closing balance	Opening balance	Closing balance	Opening balance
Current assets	119,001	131,990	58,786	41,072
Included: Cash and cash equivalents	100,495	95,106	15,963	39,838
Non-current assets	253,812	136	5,402	1,823
Total assets	372,813	132,126	64,188	42,895
Current liabilities	-16,995	163	29,642	1,293
Non-current liabilities	64,620	—	—	—
Total liabilities	47,625	163	29,642	1,293
Net assets	325,188	131,963	34,546	41,602
Shareholder's equity	178,853	72,579	17,273	20,801
Carrying amount of equity investment in joint ventures	177,155	72,579	17,273	20,801

	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	For the year ended 31 December		For the year ended 31 December	
Items	2015	2014	2015	2014
Revenue	2,104	—	39,465	476
Finance costs	-1,747	218	-1,414	66
Income tax expense	—	—	—	—
Net profit	-15,393	-3,262	-7,056	-4,219
Other comprehensive income	—	—	—	—
Total comprehensive income	-15,393	-3,262	-7,056	-4,219
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	14,494	14,490
Equity contributed to the Group		
Net profit	37	195
Other comprehensive income	—	—
Total comprehensive income	37	195
Associates:		
Total investment from the Group	7,478	128
Equity contributed to the Group:		
Net profit	—	—
Other comprehensive income	—	—
Total comprehensive income	—	—

(4) The Group has signed the investment contracts, which the unpaid amount is RMB129,625,000 as at 31 December 2015.

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 payable, 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 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. 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.

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk.

(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 2015 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 2015	31 December 2014
Fixed interest rate financial instruments		
Financial instruments		
Cash and cash equivalents	**419,649**	1,612
Financial liabilities		
Short-term borrowings	**5,185,324**	4,350,000
Long-term borrowings	**—**	50,000
Long-term payables	**68,514**	85,310
Floating interest rate financial instruments		
Financial assets		
Cash and cash equivalents	**1,591,941**	1,196,649
Financial liabilities		
Short-term borrowings	**6,884,988**	7,539,709
Long-term borrowings	**688,969**	558,723

VIII. Financial instruments and risk management (Continued)

1. Objectives and policies of financial risk management (Continued)

(2) Interest rate risk (Continued)

As at 31 December 2015, it is estimated that a general increase or decrease of 50 basis points in variable interest rates, while all other variables held constant, would decrease or increase the Group's net profit and shareholder's equity for the year by approximately RMB28,402,000 (2014: RMB30,369,000).

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.

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 2015	As at 31 December 2014	As at 31 December 2015	As at 31 December 2014
USD	8,169,100	8,774,380	5,760,091	4,085,862
SAR	314,487	820,080	721,927	1,148,857
KWD	72,080	334,830	645,233	320,063
BRL	41,028	151,082	135,656	259,693
Others	109,830	185,797	627,238	759,752
Net exposure in RMB	8,706,525	10,266,169	7,890,145	6,574,227

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 agreements or currency swap agreements to mitigate the foreign currency risk. The Group has not entered into any forward exchange agreements or currency swap agreements in the year ended 2015 and 2014.

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 2015		As at 31 December 2014	
Appreciation in USD	5%	-90,338	5%	175,819
Depreciation in USD	-5%	90,338	-5%	-175,819
Appreciation in SAR	5%	15,279	5%	-12,329
Depreciation in SAR	-5%	-15,279	-5%	12,329
Appreciation in KWD	5%	21,493	5%	554
Depreciation in KWD	-5%	-21,493	-5%	-554
Appreciation in BRL	5%	3,549	5%	-4,073
Depreciation in BRL	-5%	-3,549	-5%	4,073

VIII. Financial instruments and risk management (Continued)

1. Objectives and policies of financial risk management (Continued)

(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.

(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 2015				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,011,590	—	—	—	2,011,590
Notes receivable	141,132	—	—	—	141,132
Accounts receivable	27,121,127	—	—	—	27,121,127
Interests receivable	6	—	—	—	6
Other receivables	2,432,785	—	—	—	2,432,785
Non-current assets due within one year	1,132,169	—	—	—	1,132,169
Other current assets	82,062	—	—	—	82,062
Total assets	32,920,871	—	—	—	32,920,871
Financial liabilities:					
Short-term borrowings	12,163,321	—	—	—	12,163,321
Notes payable	1,284,745	—	—	—	1,284,745
Accounts payable	28,909,101	—	—	—	28,909,101
Employee benefits payable	187,561	—	—	—	187,561
Tax payable	2,612,168	—	—	—	2,612,168
Interest payables	14,823	—	—	—	14,823
Other payables	5,473,434	—	—	—	5,473,434
Non-current liabilities due within 1 year	89,443	—	—	—	89,443
Long-term borrowings	32,895	161,936	83,427	584,583	862,841
Long-term payables	—	17,360	39,712	—	57,072
Financial lease payables of unrecognized financial expenses	4,720	3,418	2,929	—	11,067
Total liabilities	50,772,209	182,714	126,068	584,583	51,665,574

VIII. Financial instruments and risk management (Continued)

1. Objectives and policies of financial risk management (Continued)

(4) Liquidity risk (Continued)

Items	At 31 December 2014				
	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	19,700	34,720	15,020	—	69,440
Financial lease payables of unrecognized financial expenses	4,394	8,137	2,930	—	15,461
Total liabilities	50,589,062	112,857	17,950	428,723	51,148,592

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 2015	At 31 December 2014
Short-term borrowings	12,070,312	11,889,709
Long-term borrowings due within 1 year	70,000	110,000
Long-term payables due within 1 year	17,360	15,870
Long-term borrowings	618,969	498,723
Long-term payables	51,154	69,440
Less: cash and cash equivalents	1,993,209	1,201,754
Net debt	10,834,586	11,381,988
Shareholder's equity	24,636,953	18,696,138
Total equity	35,471,539	30,078,126
Debt to equity ratio	30.54	37.84

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 2015 and 31 December 2014, 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.	274.866 billion	65.22	65.22

The Company's ultimate controlling party is Sinopec Group.

Changes of registered capital of parent company during the reporting period:

At 1 January 2015	Increase in the year	Decrease in the year	At 31 December 2015
274.866 billion	—	—	274.866 billion

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 BayshorePtroleum Service Co., LTD	Joint venture
QianjiangHengyun Motor Vehicle Performance Testing Corporation	Joint venture

X. Related parties and transaction (Continued)

4. Other related parties

Names of other related parties	Relationships with the Group
China Petroleum & Chemical Corporation	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 Co., LTD	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 & Transportation Company	Controlled by Sinopec Group
Sinopec Shanghai Offshore Petroleum Bureau	Controlled by Sinopec Group
Sinopec International Petroleum Exploration And Production Corporation	Controlled by Sinopec Group
Sinopec Finance Co., LTD	Controlled by Sinopec Group
Sinopec Century Bright Capital Investment Limited	Controlled by Sinopec Group
Sinopec Assets Operating And Management Company	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 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries	Purchases of materials and equipments	Based on normal commercial terms or relevant agreements	9,327,661	26,495,430

Sales of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	252,591	500,386

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering services

Sales of rendering services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries	Total		37,502,329	50,878,618
	Geophysical exploration	Based on normal commercial terms or relevant agreements	3,349,333	3,416,262
	Drilling	Based on normal commercial terms or relevant agreements	17,000,572	26,550,235
	Logging and mud-logging	Based on normal commercial terms or relevant agreements	2,168,197	3,678,595
	Special down-hole service	Based on normal commercial terms or relevant agreements	5,557,226	6,425,577
	Engineering & construction	Based on normal commercial terms or relevant agreements	8,963,471	9,866,461
	Other services	Based on normal commercial terms or relevant agreements	463,530	941,488

Purchase of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries	Cost of construction and installation	Based on normal commercial terms or relevant agreements	—	10,595

(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 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	1,602,780	1,663,942
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	244,567	170,623

(4) Technology research and development service

Sale of technology research and development service:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Sinopec Group and its subsidiaries		Based on normal commercial terms or relevant agreements	275,613	276,520

(5) Details of related party leases

② 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	152,312	111,469

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(6) Related party guarantee

① The group as guarantor

Guarantor	Type of guarantee	Amount of guarantee	Start date	Maturity date	Status of Guarantee
Sinopec Group	Performance guarantee	USD210,000,000	June 2013	November 2015	Complete

② The group as guarantee

Guarantee	Type of guarantee	Amount of guarantee	Start date	Maturity date	Status of Guarantee
Sinopec International Oil Engineering Company Limited	Performance guarantee	USD588,000,000	May 2015	November 2018	Incomplete

(7) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Subsidiaries of Sinopec Group	Deposit interest income	Based on normal commercial terms or relevant agreements	1,602	1,786
	Entrusted loans interest income	Based on normal commercial terms or relevant agreements	2,406	—
	Loan interest expense	Based on normal commercial terms or relevant agreements	335,616	590,854
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	56,746,079	75,802,555
	Payment of the loan	Based on normal commercial terms or relevant agreements	56,543,528	79,664,319
	Entrusted loans	Based on normal commercial terms or relevant agreements	1,097,000	—
	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

(8) Security fund

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2015	Amount of the year ended 31 December 2014
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	89,215	141,221
	Return on security fund	Based on normal commercial terms or relevant agreements	42,806	183,416

(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	Based on normal commercial terms or relevant agreements	—	7,400

(10) Remuneration of key management personnel

The Group has 31 key management personnel for the year ended 31 December 2015 and 21 for the year ended 31 December 2014.

Items	For the year ended 31 December 2015	For the year ended 31 December 2014
Remuneration	7,079	2,525
Retirement scheme contribution	526	258
Total	7,605	2,783

X. Related parties and transaction (Continued)

6. Receivables from and payables to related parties

(1) Amounts receivable of related parties

Items	Related party	As at 31 December 2015		As at 31 December 2014	
		Balance	Provision for bad debt	Balance	Provision fo bad debt
Bank deposit	Sinopec Finance Co., LTD	17,745	—	88,538	—
	Sinopec Century Bright Capital Investment Limited	940,413	—	441,467	—
	CITIC Bank	1	—	65	—
Amounts receivable	Sinopec Group and its subsidiaries	17,797,091	—	19,519,440	—
	Joint ventures of the Group	1,078	—	31	—
	Joint ventures and associates of SINOPEC GROUP	283,281	—	110,437	—
Prepayments	Sinopec Group and its subsidiaries	16,460	—	59,842	—
Other receivables	Sinopec Group and its subsidiaries	251,127	—	133,714	—
	Joint ventures of the Group	308	—	396	—
	Joint ventures and associates of Sinopec Group	1,570	—	50,000	—

(2) payables to related parties

Items	Related party	As at 31 December 2015	As at 31 December 2014
Amounts payable	Sinopec Group and its subsidiaries	2,071,793	2,096,826
	Joint ventures of the Group	31,983	505
	Joint ventures and associates of Sinopec Group	81,400	17,876
Advances from customres	Sinopec Group. and its subsidiaries	199,376	191,719
	Joint ventures and associates of Sinopec Group	4,860	143,462
Other payables	Sinopec Group and its subsidiaries	3,785,680	5,546,881
Short-term borrowings	Sinopec Finance Co., LTD	2,145,000	4,350,000
	Sinopec Century Bright Capital Investment Limited	9,925,312	7,502,995
Interest payable	Sinopec Group and its subsidiaries	14,823	19,880
Long-term loan	Sinopec Finance Co., LTD	150,000	180,000
	Sinopec Century Bright Capital Investment Limited	51,949	—

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 2015	As at 31 December 2014
Land and buildings, plant & machineries	803,406	1,658,430

XI. Commitments or contingencies (Continued)

1. Principal commitments (Continued)

(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 2015	As at 31 December 2014
Within one year	280,765	66,864
Between 1 and 2 yeas	31,728	19,315
The third year	19,271	18,299
After three years	80,626	6,046
Total amount	412,390	110,524

(3) Investment commitments

The Group had outstanding commitments of RMB129,625,000 in respect of its investment in Sinopec Petroleum Services Limited and Zhong Wai Energy Service Co., Limited as at 31 December 2015 not provided for in the financial statements (2014: 240,685,000).

(4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2015.

2. Contigency

(1) Contingent liabilities due to pending actions

In the ordinary course of business, the group will involve in a number of disputes, lawsuits or claims with customers, subcontractors, suppliers etc. 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 2015, there is no contingent liability from guarantee provided for other entities.

As at 31 December 2015, Sinopec Oilfield Service Corporation, which is the subsidiary of the Company, has been provided a guarantee amount of USD 588,000,000 (2014: Nil).

(3) 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, 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, the 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 2015. 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

As at 30 March 2016, 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	2015	2014
Revenue of discontinued operations	—	15,487,726
Less:Cost and expense of discontinued oprations	—	16,606,532
The profit of discontinued oprations	—	-1,118,806
Less:Income tax expense of discontinued oprations	—	73,783
Net profit of discontinued oprations	—	-1,192,589
Including:The profit of discontinued oprations attributable to shareholders of the parent company	—	-1,192,589

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 Sinope Corp on 22 December 2014.According to the Confirmations,the Company transfered Outgoing Business to Sinopec Corp. since 31 December 2014, the Company’s fiber business was terminated.

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,drillingengineering,logging and mud logging,special down-hole operations,engineeringconstruction,chemical fiber and chemical fiber raw materials. The segment information is prepared based on the financial information of the Company’s daily management requirements. TheCompany’s executive management reviews reportable segments’ financial information periodically for the purposes of allocatingresources 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.

XIII. Other significant events(Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2015 and at 31 December 2015	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Chemical fiber and chemical fiber raw materials	Others	Elimination	Total
Revenue	5,345,616	29,249,674	3,304,253	7,120,835	15,771,973	—	2,085,280	-2,528,297	60,349,334
Including:External revenue	5,340,826	28,743,959	2,474,434	6,928,401	15,614,180	—	1,247,534	—	60,349,334
Including: Inter-segment revenue	4,790	505,715	829,819	192,434	157,793	—	837,746	-2,528,297	—
Including: Major business revenue	5,289,948	29,066,783	3,275,667	7,108,460	15,536,587	—	1,761,529	-2,528,297	59,510,677
Cost of sales	4,883,742	26,830,204	2,900,796	6,304,450	14,641,316	—	1,536,749	-2,528,297	54,568,960
Including:Major business cost	4,853,641	26,683,336	2,883,015	6,300,783	14,366,346	—	1,429,314	-2,528,297	53,988,138
Operating expenses	444,535	2,307,056	386,514	404,669	1,556,946	—	546,299	—	5,646,019
Operating profit/(loss)	17,339	112,414	16,943	411,716	-426,290	—	2,234	—	134,356
Total assets	6,271,544	43,881,210	3,460,699	11,398,121	20,978,881	—	15,996,289	-16,678,967	85,307,777
Total liabilities	3,466,176	21,716,987	1,041,834	4,934,069	21,549,797	—	24,640,928	-16,678,967	60,670,824
Supplementary information:									
Capital expenditure	257,639	3,028,207	128,318	1,231,968	74,710	—	28,055	—	4,748,897
Depreciation and amortization	611,900	4,166,114	409,753	575,674	249,253	—	270,961	—	6,283,655
Impairment loss on assets	23,335	22,576	14,435	32,666	85,228	—	-6,864	—	171,376

For the year ended 31 December 2014 and at 31 December 2014	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Chemical fiber and chemical fiber raw materials	Others	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 revenue	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 revenue	—	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
Cost of sales	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
Total 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
Total 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 on assets	16,483	28,199	-72	458	48,922	1,037,361	4,060	—	1,135,411

XIII. Other significant events(Continued)

5. Segment information (Continued)

(2) Other Segment Information

① External revenue of goods and services

Items	2015	2014
Geophysics	5,340,826	5,125,933
Drilling engineering	28,743,959	39,278,362
logging and mud logging	2,474,434	4,190,143
Special down-hole operations	6,928,401	8,510,428
Engineering construction	15,614,180	20,143,747
Chemical fiber and chemical fiber raw materials	—	15,306,447
Others	1,247,534	1,925,981
Total	60,349,334	94,481,041

② Geographical information

For the year ended 31 December 2015 and at 31 December 2015	The PRC	Other countries or regions	Total
External revenue	46,441,077	13,908,257	60,349,334
Non-current assets	30,424,478	5,372,257	35,796,735

For the year ended 31 December 2014 and at 31 December 2014	The PRC	Other countries or regions	Total
External revenue	77,496,189	16,984,852	94,481,041
Non-current assets	30,239,883	5,231,124	35,471,007

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 2015			At 31 December 2014		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	—	—	—	—
RMB	—	—	—	—	—	—
Cash at banks:	—	—	419,118	—	—	—
RMB	—	—	419,118	—	—	—
Total	—	—	419,118	—	—	—

As at 31 December 2015, there is no deposit in the related party of China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance").

As at 31 December 2015, there is no deposits pledged to banks for issuing bankers' acceptances.

2. Other receivables

	At 31 December 2015	At 31 December 2014
Other receivables	5,157,515	—
Less: provision for bad debts	—	—
Net amount	5,157,515	—

XIV. Notes to parent company's financial statements (Continued)

2. Other receivables (Continued)

(1) Other receivables disclosed by categories:

Type	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	5,157,515	100	—	—	5,157,515
Subtotal	5,157,515	100	—	—	5,157,515
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	5,157,515	100	—	—	5,157,515

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	—	—	—	—	—
Subtotal	—	—	—	—	—
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	—	—	—	—	—

① At 31 December 2015 and 2014, there is no other receivables that individually significant and with provision for bad and doubtful debts made individually.

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

Type	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net carrying amount
Within 1 year	5,157,515	100	—	—	5,157,515
Over 3 years	—	—	—	—	—
Total	5,157,515	100	—	—	5,157,515

Type	At 31 December 2014				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net carrying amount
Within 1 year	—	—	—	—	—
Over 3 years	—	—	—	—	—
Total	—	—	—		—

(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)

3. Long-term equity investments

Items	At 31 December 2015	At 31 December 2014
Investments in subsidiaries	20,215,327	20,215,327
Less:provision for impairment of long-term equity investment	—	—
Total	20,215,327	20,215,327

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

(1) Investment in 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	—	—

4. Other payables

Items	At 31 December 2015	At 31 December 2014
The net profit or loss during the material assets reorganization	1,119,802	1,479,207
Others	—	39,000
Total	1,119,802	1,518,207

As at 31 December 2015, other payables with aging over 1 year of RMB1,119,802 (2014: 0) are net profit/loss during material assets reorganization due to Sinopec Group which are unsettled.

5. Share capital (Unit: thousand shares)

At 31 December 2015:

Items	At 1 January 2015	Changes in current (+、-)			At 31 December 2015
		Issued shares	Write off Repurchase of shares	Subtotal	
Held by state-owned legal person (A share)	10,259,328	—	—	—	10,259,328
RMB public shares (A share)	450,000	1,333,333	—	1,333,333	1,783,333
Foreign shares listed overseas (H share)	2,100,000	—	—	—	2,100,000
Total	12,809,328	1,333,333	—	1,333,333	14,142,661

At 31 December 2014:

Items	At 1 January 2014	Changes in current (+、-)			At 31 December 2014
		Convert capital reserve into share capital	Others	Subtotal	
Held by state-owned legal person (A share)	3,450,000	9,224,328	-2,415,000	6,809,328	10,259,328
RMB public shares (A share)	450,000	—	—	—	450,000
Foreign shares listed overseas (H share)	2,100,000	—	—	—	2,100,000
Total	6,000,000	9,224,328	-2,415,000	6,809,328	12,809,328

XIV. Notes to parent company’s financial statements (Continued)

5. Share capital (Unit: thousand shares) (Continued)

As mentioned in Note I, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those noncirculating 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).

Approved by “Approval to the Material Assets Reorganization of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Coporation for Asset Acquisition and Subsequent A Share Placement” (CSRC Permit [2014] No. 1370) issued by China Securities Regulatory Committee, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co, Ltd on 13 February 2015. The net proceeds from the issuing were approximately RMB5,962,517,000 The new shares are limited tradable shares with lock-up period of 12 months and had been traded on the market since 3 March 2016.

6. Capital reserve

At 31 December 2015:

Items	At 1 January 2015	Increase for the period	Decrease for the period	At 31 December 2015
Share premium	7,064,165	4,619,184	—	11,683,349
Other capital reserve	67,969	—	—	67,969
Total	7,132,134	4,619,184	—	11,751,318

As referred in Note V. 29, the net proceeds from the issuing were approximately RMB5,952,517,000 in February 2015, RMB4,619,184,000 was recorded in capital reserves.

At 31 December 2014:

Items	At 1 January 2014	Increase for the period	Decrease for the period	At 31 December 2014
Share premium(Note V. 29)	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) from Sinopec Corp. for cancellation and issued the Consideration Shares to Sinopec Group in order to acquire its100% equity interest.

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 9,872,096,000 due to the difference between the payment of shares and initial investment cost, decreased 3,886,756,000 due to the difference between repurchase of shares and payment of the price.The net increase in share premium is 5,985,340,000.

XIV. Notes to parent company's financial statements (Continued)

7. Surplus reserve

Items	At 1 January 2015	Increase for the period	Decrease for the period	At 31 December 2015
Statutory surplus reserve	200,383	—	—	200,383
Total	200,383	—	—	200,383

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, any may be converted into share capital by issuing new shares.

8. Retained earnings

Items	2015	2014	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	-1,444,725	-252,136	
Add:Net profit attributable to parent company	22,452	-1,192,589	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Retained earnings at the end of the year	-1,422,273	-1,444,725	

9. Revenue and cost of sales

	2015		2014	
Items	Revenue	Cost	Revenue	Cost
Principal business	—	—	15,083,301	15,189,058
Other business	—	—	404,425	368,069
Total	—	—	15,487,726	15,557,127

The Company was engaged in chemical fibre. Analysis by products is as follows:

(1) Principal business

	2015		2014	
Industry	Revenue	Cost	Revenue	Cost
PET chip	—	—	5,594,940	5,669,555
Bottle-grade polyester chips	—	—	2,875,749	2,849,471
Staple fibre and hollow fibre	—	—	6,268,957	6,106,781
Filament	—	—	162,376	223,161
Others	—	—	181,279	340,090
Total	—	—	15,083,301	15,189,058

(2) Principal business revenue (Classified by location)

Area	2015	2014
The PRC	—	14,607,141
Hong Kong, Macao, Taiwan and overseas	—	476,160
Total	—	15,083,301

XIV. Notes to parent company's financial statements (Continued)

10. Business tax and surcharges

Items	2015	2014
Business tax	29	466
Urban maintenance and construction tax	2	8,295
Education surtax	1	5,926
Total	32	14,687

Note: The provision and payment standards of business tax and surcharges refer to Note IV.Taxation.

11. Selling expenses

Items	2015	2014
Freight	—	182,318
Commission fee	—	22,330
Others	—	25,534
Total	—	230,182

12. General and administrative expenses

Items	2015	2014
Repair and maintenance	—	255,739
Staff costs	—	308,631
Community service fee	—	41,126
Taxes	2,976	39,254
Research and development expenses	—	33,572
Depreciation and amortization	—	28,432
Others	464	154,224
Total	3,440	860,978

13. Finance costs

Items	2015	2014
Interest expenses	—	85,115
Less: Interest income	25,949	51,078
Exchange losses/(gains)	17	363
Bank charges and others	8	2,403
Total	-25,924	36,803

The Company's interest expenses are bank loan interest repayable within five years.

14. Impairment losses on assets

Items	2015	2014
(1) Provision for bad debts	—	—
(2) Provision for decline in the value of inventories	—	12,837
(3) Impairment losses on fixed assets	—	845,949
(4) Impairment losses on intangible assets	—	178,575
Total	—	1,037,361

XIV. Notes to parent company's financial statements (Continued)

15. Investment income

Items	2015	2014
Investment income from long-term equity investments under equity method	—	168

16. Non-operating income

(1) Breakdown of non-operating income

Items	2015	2014	Recognised as non-recurring income
Total gains from disposal of non-current assets	—	1,145,989	—
Including:Gains from disposal of fixed assets	—	848	—
Others(a)	—	1,145,141	—
Government grants	—	2,466	—
Others	—	10,557	—
Total	—	1,159,012	

(a) The Company sold all the assets and liabilities of the fiber business to Sinopec Corp. in December 2014 in accordance with the assets disposal agreement between the Company and Sinopec Corp. dated 12 September 2014.The non-operating income of 1,145,141,000 represented the difference between transfer price and carrying amount of net assets.

(2) Breakdown of government grants

Items	2015	2014	Related to assets/income
Environmental protection projects funding	—	611	Related to assets
Special equipment asset allocation	—	1,183	Related to assets
Other government grants related to assets	—	151	Related to assets
National research	—	—	Related to income
Other government grants related to income	—	521	Related to income
Total	—	2,466	

17. Non-operating expenses

Items	2015	2014	Recognised as non-recurring income
Loss on disposal of non-current assets	—	6,477	—
Including:Loss on disposal of fixed assets	—	6,477	—
Others	—	22,097	—
Total	—	28,574	—

18. Income tax expense

(1) Details of income taxes expenses

Items	2015	2014
Current tax in accordance with tax laws and related regulations	—	—
Deferred income tax	—	73,783
Total	—	73,783

XIV. Notes to parent company's financial statements (Continued)

18. Income tax expense (Continued)

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Items	2015	2014
Profit before income tax	22,452	-1,118,806
Taxation calculated at the statutory tax rate	5,613	-279,702
Equity method accounting for the joint venture and associates' profit or loss	—	-42
Non-deductible costs, expenses and losses	—	864
Effect of utilization of unrecognised tax losses and deductible temporary differences	—	73,783
Effect of unrecognised tax losses and deductible temporary differences	-5,613	281,878
Others	—	-2,998
Income tax expense	—	73,783

19. Notes to Cash Flow Statement

(1) Cash paid for other operating activities

Items	2015	2014
Freight	—	182,318
Commission fee	—	22,330
Community service fee	—	41,126
Research and development expenses	—	33,572
Transactions with subsidiaries	5,153,614	—
Others	43,887	114,601
Total	5,197,501	393,947

(2) Cash received from other investing activities

Items	2015	2014
Interest of bank deposits	—	2,656
Collection of time deposits	—	20,000
Others	—	8,457
Total	—	31,113

(3) Cash paid for other investing activities

Items	2015	2014
Funds setted out for selling business	—	71,933
Total	—	71,933

(4) Cash received from other financing activities

Items	2015	2014
Temporary borrowings	—	800,000
Interest received from selfraised funds special deposit	25,932	—

(5) Cash paid for other financing activities

Items	2015	2014
Price difference payment due to the sales of assets and delivery price of share repurchase	360,305	—

XIV. Notes to parent company's financial statements (Continued)

20. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information		2015	2014
1.	Reconciliation of net profits to cash flows from operating activities:		
	Net profit	22,452	-1,192,588
	Add: Provision for impairment losses on assets	—	1,037,361
	Depreciation of fixed assets	—	472,236
	Amortization of intangible assets	—	7,723
	Amortization of long-term deferred expenses	—	135,503
	Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	—	5,628
	Losses on retirement of fixed assets (Gain as in "-")	—	—
	Finance costs (Income as in "-")	—	73,228
	Investment losses(Income as in "-")	—	-168
	Decrease in deferred tax income assets (Increase as in "-")	—	73,783
	Increase in deferred income tax liabilities (Decrease as in "-")	—	—
	Decrease in inventories (Increase as in "-")	—	225,108
	Decrease in operating receivables (Increase as in "-")	-5,157,515	413,611
	Increase in operating payables (Decrease as in "-")	-65,446	-1,449,989
	Others	—	-1,446
	Net cash flows from operating activities	-5,200,509	-200,010
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	419,118	—
	Less: Opening balance of cash	—	85,797
	Add: Closing balance of cash equivalents	—	—
	Less: Opening balance of cash equivalents	—	—
	Net decrease/(increase) in cash and cash equivalents	419,118	-85,797

(2) Composition of cash and cash equivalents

Items		2015	2014
1.	Cash	419,118	—
	Including:Cash in hand	—	—
	Other monetary funds	419,118	—
2.	Closing balance of cash and cash equivalents	419,118	—
3.	Add: restricted cash	—	—
4.	Closing balance of monetary funds	419,118	—

XV. Supplementary information

1. Details of non-recurring gains or losses

Items	2015
Gain or loss on disposal of non-current assets	262
Government grants recognised in profit or loss for the year	111,106
Gain from entrusted loan investment	2,406
Non-operating income/(expenses) except the above	-1,656
Total non-recurring gains or losses	112,118
Less: Effects of income tax on non-recurring gains or losses	29,131
Net non-recurring gains or losses	82,987
Less: Effects of non-recurring gains or losses attributable to the minority shareholders of the Company (after tax)	—
Non-recurring gains or losses attributable to the shareholders of the Company	82,987

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)
		(RMB/share)	(RMB/share)
Net profit attributable to the Company's ordinary equity shareholders	0.10	0.002	0.002
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-0.24	-0.004	-0.004

Earnings per share	2015	2014
Net loss attributable to the Company's ordinary equity shareholders	24,478	1,229,753
Including: Net profit of continuing operations	24,478	2,383,343
Net profit of discontinuing operations	—	(1,153,590)
Basic earnings per share	0.002	0.08
Including: Basic earnings per share of continuing operations	0.002	0.16
Basic earnings per share of discontinuing oprations	—	(0.08)
Diluted earnings per share	0.002	0.08
Including: Diluted earnings per share of continuing operations	0.002	0.16
Diluted earnings per share of discontinuing oprations	—	(0.08)

The details of discontinuing oprations refer to Note XIII.4

XV. Supplementary information (Continued)

3. Differences between PRC ASBE and IFRS accounting standards

(1) Reconciliation of differences between PRC ASBE and IFRS financial statements

Unit: RMB'000

	Net profit attributable to owners the Company ("–" for losses)		Total equity attributable to owners of the Company	
	For the year ended 31 December 2015	For the year ended 31 December 2014	**As at 31 December 2015**	As at 31 December 2014
Based on PRC ASBE	**24,478**	1,229,753	**24,638,094**	18,697,120
Adjusted items and amounts in accordance with IFRS:				
Government grants (a)		33,023		
Special reserve (b)	**-36,021**	-5,468		
Based on IFRS	**-11,543**	1,257,308	**24,638,094**	18,697,120

(2) Notes:

(a) Government grants

Under PRC ASBE, 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 difference causes last year's net profit in financial statement prepared under IFRS an increase of RMB2,831,000 than the net profit in financial statement prepared under PRC ASBE; At assets closing date, outgoing business's net assets in financial statement prepared in accordance with PRC ASBE has a difference in amount of RMB30,192,000 with the net assets in financial statement prepared compliance with IFRS, as all the assets and liabilities of outgoing business has transferred to CPC, the unamortized government grants forms the transfer income of RMB30,192,000 under IFRS.

(b) Special reserve

In accordance to PRC ASBE, 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 IFRS, 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.

Sinopec Oilfield Service Corporation

30 March 2016

Grant Thornton
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Independent Auditor's Report

To the Shareholders of Sinopec Oilfield Service Corporation

(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 151 to 214, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance 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 compliance 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

30 March 2016

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015	2014
		RMB'000	RMB'000
Continuing operations:			
Revenue	4	60,349,334	78,993,315
Cost of sales and business taxes		(55,317,074)	(70,675,350)
Gross profit		5,032,260	8,317,965
Selling expenses		(62,315)	(82,198)
General and administrative expenses		(4,043,145)	(4,506,911)
Finance income/(expenses) - net	6	(654,684)	(769,762)
Impairment losses on assets	7	(171,376)	(98,050)
Investment income	8	642	2,050
Share of loss from joint ventures	21(a)	(11,958)	(3,877)
Operating profit		89,424	2,859,217
Other income	9	471,912	551,036
Other expenses	10	(91,617)	(90,181)
Profit before income tax	11	469,719	3,320,072
Income tax expense	12	(481,421)	(900,930)
(Loss)/Profit for the year from continuing operations		(11,702)	2,419,142
Discontinued operations:			
Loss for the year from discontinued operations	13	—	(1,159,620)
(Loss)/Profit for the year		(11,702)	1,259,522
Other comprehensive income for the year, net of tax		—	—
Total comprehensive (expense)/income for the year		(11,702)	1,259,522
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company			
– Continuing operations		(11,543)	2,416,928
– Discontinued operations		—	(1,159,620)
		(11,543)	1,257,308
Non-controlling interests			
– Continuing operations		(159)	2,214
– Discontinued operations		—	—
		(159)	2,214
Total comprehensive (expense)/income for the year		(11,702)	1,259,522
		RMB	RMB
(Loss)/Earning per share for (loss)/profit attributable to owners of the Company (presented in RMB per share)	14		
Basic and diluted			
– Continuing operations		(0.001)	0.159
– Discontinued operations		—	(0.076)
		(0.001)	0.083

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	18	31,718,367	31,080,430
Other non-current assets		4,775,091	5,285,204
Prepaid land leases	19	104,954	51,107
Intangible assets	20	77,249	41,243
Interests in joint ventures	21(a)	208,922	107,871
Interests in associates	21(b)	7,478	128
Available-for-sale financial assets	22	40,494	40,494
Deferred income tax assets	37	187,430	156,679
Total non-current assets		37,119,985	36,763,156
Current assets			
Inventories	26	1,978,726	1,950,590
Notes and trade receivables	23	27,262,259	28,284,441
Prepayments and other receivables	24	4,144,668	3,102,072
Amounts due from customers for contract works	25	12,790,549	9,981,552
Restricted cash	27	18,381	12,143
Cash and cash equivalents	28	1,993,209	1,201,754
Total current assets		48,187,792	44,532,552
Total assets		85,307,777	81,295,708
Equity			
Share capital	29	14,142,661	12,809,328
Reserves		10,495,433	5,887,792
Equity attributable to owners of the Company		24,638,094	18,697,120
Non-controlling interests		(1,141)	(982)
Total equity		24,636,953	18,696,138
Liabilities			
Non-current liabilities			
Long term borrowings	36	670,123	568,163
Deferred income	32	59,008	43,951
Special payables	33	1,051	2,647
Deferred income tax liabilities	37	31,251	46,895
Total non-current liabilities		761,433	661,656
Current liabilities			
Notes and trade payables	34	30,193,846	30,913,607
Deposits received and other payables	35	9,508,867	12,012,183
Amounts due to customers for contract works	25	7,804,513	6,564,119
Short term borrowings	36	12,157,672	12,015,579
Current income tax payable		244,493	432,426
Total current liabilities		59,909,391	61,937,914
Total liabilities		60,670,824	62,599,570
Total equity and liabilities		85,307,777	81,295,708
Net current liabilities		(11,721,599)	(17,405,362)
Total assets less current liabilities		25,398,386	19,357,794

Chairman of the Board:
JIAO Fangzheng

Director, Deputy General Manager:
ZHOU Shiliang

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(i))	RMB'000 (Note 31(i))	RMB'000 (Note 31(ii))	RMB'000 (Note 31(iii))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	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 (Notes 29 and 46)	(2,415,000)	(3,886,756)	—	—	(1,392)	—	(6,303,148)	—	(6,303,148)
Issued of share capital (Notes 29 and 44)	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 44)	—	(1,118,903)	—	—	—	—	(1,118,903)	—	(1,118,903)
Adjustment for business combination under common control	—	(20,215,327)	—	—	—	—	(20,215,327)	—	(20,215,327)
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)
At 31 December 2014 and 1 January 2015	**12,809,328**	**4,207,063**	**67,969**	**200,383**	**295,568**	**1,116,809**	**18,697,120**	**(982)**	**18,696,138**
Total comprehensive loss	**—**	**—**	**—**	**—**	**—**	**(11,543)**	**(11,543)**	**(159)**	**(11,702)**
Transactions with owners:									
Issued of share capital (Note 29)	**1,333,333**	**4,619,184**	**—**	**—**	**—**	**—**	**5,952,517**	**—**	**5,952,517**
Appropriation of specific reserve	**—**	**—**	**—**	**—**	**951,980**	**(951,980)**	**—**	**—**	**—**
Utilisation of specific reserve	**—**	**—**	**—**	**—**	**(988,001)**	**988,001**	**—**	**—**	**—**
Total transactions with owners	**1,333,333**	**4,619,184**	**—**	**—**	**(36,021)**	**36,021**	**5,952,517**	**—**	**5,952,517**
At 31 December 2015	**14,142,661**	**8,826,247**	**67,969**	**200,383**	**259,547**	**1,141,287**	**24,638,094**	**(1,141)**	**24,636,953**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash flows from operations	39	3,331,534	5,136,021
Income tax paid		(715,749)	(634,661)
Net cash generated from operating activities		2,595,785	4,501,360
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,745,155)	(2,467,629)
Proceeds from disposal of property, plant and equipment		26,518	—
Payment of prepaid land leases		(55,361)	—
Purchases of intangible assets		(53,429)	(22,760)
Increase in investments in joint ventures		(113,042)	(97,254)
Increase in investments in associates		(7,350)	—
Disposal of Outgoing Business	45	—	(71,933)
Dividends received from joint ventures		33	24
Borrowings received		—	168,651
Lend out of in entrusted loans		(1,097,000)	—
Interests received		40,673	12,542
Investments income received from available-for-sale financial assets		642	2,050
Acquisitions of non-controlling interests of subsidiaries		—	(52,512)
Net cash used in investing activities		(5,003,471)	(2,528,821)
Cash flows from financing activities			
Proceeds from borrowings		55,567,800	78,120,590
Repayments of borrowings		(56,227,818)	(80,504,514)
Interests paid		(333,053)	(543,535)
Issue of shares		5,952,517	—
Payment of funds from restructuring and business combinations		(360,305)	—
Payment to Sinopec Group for capital contribution		(1,400,000)	—
Receipt of funds from restructuring and business combinations		—	503,683
Distributions to Sinopec Group and non-controlling interests		—	(41,103)
Net cash generated from/(used in) financing activities		3,199,141	(2,464,879)
Net increase/(decrease) in cash and cash equivalents		791,455	(492,340)
Cash and cash equivalents at beginning of year		1,201,754	1,694,094
Cash and cash equivalents at end of year	28	1,993,209	1,201,754

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation ("SSC") 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'') were 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 Sinopec Oilfield Service Co., Ltd. (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 Basis of presentation

Immediate before the Reorganisation and SOSC Specialisation Restructuring (Please refer to 2014 annual report for details), 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 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 2014 comparative consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, as if SOSC existed in the Group since 1 January 2014 and remains unchanged throughout the period.

As the Reorganisation has been completed on 30 December 2014, the comparative 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.

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 2015, the Group has net current liabilities of approximately RMB11,721,599,000 (2014: RMB17,405,362,000). 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 are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. 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.

1.3 Financial statements

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved and authorised for issue by the Board of Directors on 30 March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the 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 Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

In addition, the amendments to the Listing Rules relating to disclosure of financial information with reference to the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the financial statements.

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.

The IASB has issued a number of new and revised IFRS. The Group has adopted all these revised IFRS, which are relevant to the Group and effective for the accounting period beginning on or after 1 January 2015:

Annual Improvements Project	Annual Improvements 2010-2012 Cycle
Annual Improvements Project	Annual Improvements 2011-2013 Cycle

The adoption of the revised IFRS had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The revised accounting standards issued but not yet effective for the accounting period ended 31 December 2015 which are relevant to the Group but the Group has not early adopted are set out below:

IAS 27 Amendment	Equity Method in Separate Financial Statements[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
IAS 1 Amendment	Disclosure Initiative[1]
Annual Improvements Project	Annual Improvements 2012-2014 Cycle[1]

[1] Accounting periods beginning on or after 1 January 2016
[2] Accounting periods beginning on or after 1 January 2018
[3] Accounting periods beginning on or after 1 January 2019

- The release of IFRS 9 "Financial Instruments" (2014) represents the completion of the project to replace IAS 39. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

  The Group has started to assess the impact of IFRS 9 but are not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

  – the classification and measurement of the Group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.

  – an expected credit loss-based impairment will need to be recognised on the Group's trade receivables, unless classified as at fair value through profit or loss in accordance with the new criteria.

- IFRS 15 "Revenue from Contracts with Customers" contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

  (i) Identify the contract with the customer;

  (ii) Identify the performance obligations in the contract;

  (iii) Determine the transaction price;

  (iv) Allocate the transaction price to the performance obligations; and

  (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for accounting periods beginning on or after 1 January 2018.

The Group is yet to assess IFRS 15's full impact.

- IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases. In contrast, the Standard does not include significant changes to the requirements for accounting by lessors. The Standard supersedes IAS 17 Leases and its associated interpretative guidance. It is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted for entities that have also adopted IFRS 15 Revenue from Contracts with Customers. The Group is yet to assess IFRS 16's full impact. Other than that, none of the non effective IFRS or interpretation from IFRS interpretation committee is expected to have material impact on the Group's accounting policies and Group's financial statements.

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 Note 1.2, 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) 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 values.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (which includes any other unsecured receivables that, in substance, form part of the Group's net investment in the associate), 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;

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements (Continued)

(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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets (Continued)

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.

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, held-to-maturity investments, loans and receivables, available-for-sale financial assets. Financial assets are initially recognised at fair value. In the case of financial assets at fair value through profit or loss, 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

Financial assets at fair value through profit or loss 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 trade 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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and those not classified as above mentioned. Available-for-sale 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 available-for-sale 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 available-for-sale 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 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 fair value through profit or loss

Financial liabilities at fair value through profit or loss 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 available-for-sale 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 available-for-sale 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 values 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

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Inventories 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 "amounts due from customers for contract works". For contracts whose progress billings exceeds costs incurred to date plus recognised profits (less recognised losses), the balance is presented as the "amounts due to customers for contract works".

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.16 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Deferred tax assets and deferred tax liabilities (Continued)

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.

2.18 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 related to theories of oil-gas exploration and development, oil-gas exploration and development experiments, pilot tests for oil-gas exploration, researches of softwares, etc; Expenditure on the development phase is related to applications of oil-gas exploration and development technology, pilot tests of oil-gas development, adaptability of technologies in a development process, software developments, etc.

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

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Operating leases and finance leases (Continued)

(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.

2.25 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 significant risks of causing material adjustments to the carrying amounts of assets and liabilities in 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 an 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.

(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.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(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. The related information is set out in Note 41.

(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 Notes 12 and 41.

4 REVENUE

The Group's revenue is as follows:

	2015	2014
	RMB'000	RMB'000
Geophysics	5,340,826	5,125,933
Drilling engineering	28,743,959	39,278,362
Logging and mud logging	2,474,434	4,190,143
Special downhole operations	6,928,400	8,510,428
Engineering construction	15,614,180	20,143,747
Others	1,247,535	1,744,702
	60,349,334	78,993,315

5 SEGMENT INFORMATION

The Group identifies its operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group 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 2015 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 2015									
Segment revenue and results									
Revenue from external customers	5,340,826	28,743,959	2,474,434	6,928,400	15,614,180	—	1,247,535	—	60,349,334
Inter-segment income	4,790	505,715	829,819	192,435	157,793	—	837,745	(2,528,297)	—
Segment revenue	5,345,616	29,249,674	3,304,253	7,120,835	15,771,973	—	2,085,280	(2,528,297)	60,349,334
Reportable segment profit/(loss)	17,138	77,768	16,943	411,716	(426,822)	—	(7,319)	—	89,424
Other income	31,553	238,196	21,322	30,653	47,074	—	103,114	—	471,912
Other expenses	(6,129)	(48,846)	(5,912)	(7,424)	(20,879)	—	(2,427)	—	(91,617)
Profit/(loss) before income tax	42,562	267,118	32,353	434,945	(400,627)	—	93,368	—	469,719
Discontinued operations									—
Profit before income tax and discontinued operations									469,719
Income tax expense									(481,421)
Loss for the year from continuing operations									(11,702)
Loss for the year from discontinued operations									—
Loss for the year									(11,702)

	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 2015									
Supplementary information									
Depreciation and amortisation									
– Property, plant and equipment	515,899	2,223,171	275,624	434,714	220,867	—	252,236	—	3,922,511
– Prepaid land leases	—	525	417	126	446	—	—	—	1,514
– Intangible assets	788	3,643	2,422	1,194	4,718	—	4,658	—	17,423
Capital expenditure									
– Property, plant and equipment	256,947	2,991,540	128,297	1,173,991	63,226	—	26,108	—	4,640,109
– Prepaid land leases	—	—	—	55,361	—	—	—	—	55,361
– Intangible assets	692	36,668	21	2,616	11,484	—	1,948	—	53,429
– Long-term investment	—	—	—	—	—	—	120,392	—	120,392
Impairment loss on trade receivables	21,823	23,225	14,402	36,989	49,049	—	2,906	—	148,394
Impairment loss on/(Reversal of) other receivables	1,512	(649)	33	(4,323)	36,179	—	(9,770)	—	22,982
Reversal of expected loss on contracts work-in-progress	—	—	—	—	(4,128)	—	—	—	(4,128)
As at 31 December 2015									
Assets									
Segment assets	6,271,544	43,881,210	3,460,699	11,398,121	20,978,881	—	15,996,289	(16,678,967)	85,307,777
Liabilities									
Segment liabilities	3,466,176	21,716,987	1,041,834	4,934,069	21,549,797	—	24,640,928	(16,678,967)	60,670,824

5 SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities (Continued)

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 on/(reversals of) 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)

(b) Geographical information

The following table sets out information about the geographical location. Revenue is based on the location in 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	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	46,441,077	62,484,623	30,848,215	31,339,091
Other countries	13,908,257	16,508,692	6,043,846	5,226,892
	60,349,334	78,993,315	36,892,061	36,565,983

(c) Major customer

For the years ended 31 December 2015 and 2014, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2015	2014
	RMB'000	RMB'000
Customer A	38,030,533	51,655,524

Revenue from this customer was 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

	2015	2014
	RMB'000	RMB'000
Finance income		
Interest income from entrusted loans	2,406	—
Interest income		
– Sinopec Group and its subsidiaries	1,602	1,056
– Third-party banks and other financial institutions	36,665	11,486
	40,673	12,542
Finance expenses		
Interest expenses on bank loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	(335,616)	(558,865)
– Third-party banks and other financial institutions	(5,063)	(2,578)
Capitalisation of interest expenses for qualifying assets (i)	32,239	17,908
Exchange losses, net	(334,117)	(151,670)
Bank and other charges	(52,800)	(87,099)
	(695,357)	(782,304)
	(654,684)	(769,762)

Note:
(i) Qualifying assets represent property, plant and equipment, its related interest expenses had been capitalised at rates of 3.12% to 5.86% (2014: 2.89% and 6.0%) per annum.

7 IMPAIRMENT LOSSES ON ASSETS

	2015 RMB'000	2014 RMB'000
Expected losses on contracts work-in-progress	—	28,158
Impairment loss on trade and other receivables	171,376	69,892
	171,376	98,050

8 INVESTMENT INCOME

	2015 RMB'000	2014 RMB'000
Gain on disposal of available-for-sale financial assets	642	2,050

9 OTHER INCOME

	2015 RMB'000	2014 RMB'000
Gain on disposal of property, plant and equipment	10,126	26,562
Gain on disposal of other non-current assets	18,625	—
Government grants	381,690	437,596
Waived payables	35,404	68,551
Penalty income	4,238	4,596
Compensation received	3,217	276
Asset inventory surplus	1,169	1,460
Others	17,443	11,995
	471,912	551,036

10 OTHER EXPENSES

	2015 RMB'000	2014 RMB'000
Loss on disposal of property, plant and equipment	28,480	25,577
Loss on scraps of assets	9,127	4,096
Penalty	20	18,028
Donation	9,375	356
Compensation	11,959	17,286
Others	32,656	24,838
	91,617	90,181

11 PROFIT BEFORE INCOME TAX

Profit before income tax from continuing operations is stated after charging/(crediting) the followings:

	2015 RMB'000	2014 RMB'000
Staff costs, including directors and supervisors emoluments (Note 17)	15,915,588	16,544,212
Retirement benefit plan contribution (included in the above mentioned staff costs)		
– Municipal retirement scheme costs	1,273,687	1,263,764
– Supplementary retirement scheme costs	344,299	341,750
Cost of goods sold	13,821,642	20,874,350
Depreciation and amortisation		
– Property, plant and equipment	3,922,511	3,887,999
– Prepaid land leases	1,514	1,584
– Intangible assets	17,423	12,796
Operating lease expenses		
– Property, plant and equipment	1,621,573	1,703,161
Provision for/(Reversal of) impairment losses		
– Trade and other receivables	171,376	69,892
– Expected loss on contracts work-in-progress	(4,128)	28,158
Rental income from property, plant and equipment less relevant expenses	(12,806)	(8,297)
Research and development expenses	448,185	491,307
Losses/(Gains) on disposal/write-off of property, plant and equipment	18,354	(985)
Auditors' remuneration	6,892	11,250
Exchange losses, net	334,117	151,670

12 INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current tax		
PRC enterprise income tax	276,816	671,916
Overseas enterprise income tax	251,000	245,174
	527,816	917,090
Deferred income tax		
Origination and reversal of temporary difference (Note 37)	(46,395)	(16,160)
Income tax expense	481,421	900,930

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2015 and 2014 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 the PRC's western development project can enjoy 15% preferential tax rate during the period, for the years ended 31 December 2015 and 2014, the majority of the companies of the Group are subject to 25% income tax rate.

Taxes in other countries are calculated according to the tax laws where the related companies of the Group operate.

12 INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expenses and profit before income tax calculated at the statutory tax rate is as follows:

	2015	2014
	RMB'000	RMB'000
Profit before income tax	469,719	3,320,072
Taxation calculated at the statutory tax rate	117,430	830,018
Income tax effects of:		
Difference in overseas profits tax rates	(18,015)	(89,144)
Non-deductible expenses	222,214	63,043
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(82,204)	(43,374)
Effect of unrecognised tax losses and deductible temporary differences	236,966	134,823
Adjustments of current tax in previous years	72,017	47,615
Equity method accounting for the joint venture and associates' profit or loss	2,990	969
Tax effect on research and development expenses	(69,977)	(43,020)
Income tax expense	481,421	900,930

13 DISCONTINUED OPERATIONS

As set out the Reorganisation in Note 1.1 and the basis of presentation in Note 1.2, 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	2015	2014
		RMB'000	RMB'000
Revenue		—	15,487,726
Cost of sales and business taxes		—	(15,827,606)
Gross loss		—	(339,880)
Selling expenses		—	(230,182)
General and administrative expenses		—	(605,240)
Finance income/(expenses) - net		—	(36,803)
Impairment losses on assets		—	(1,037,361)
Share of profit from joint ventures		—	168
Operating loss		—	(2,249,298)
Other income		—	16,702
Other expenses		—	(28,574)
Loss before income tax		—	(2,261,170)
Income tax expense		—	(73,783)
Gain on disposal of Outgoing Business	45	—	1,175,333
Loss for the year from discontinued operations		—	(1,159,620)

13 DISCONTINUED OPERATIONS (Continued)

(b) Cash flows of the discontinued operations is as follows:

	2015 RMB'000	2014 RMB'000
Net cash used in operating activities	—	(200,011)
Net cash generated from investing activities	—	46,522
Net cash generated from financing activities	—	140,964
Net cash used in the discontinued operations	—	(12,525)

14 (LOSS)/EARNINGS PER SHARE

(a) Basic

For the years ended 31 December 2015 and 2014, the basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company, and as if the 9,224,327,662 shares issued under the Reorganisation for acquisition of SOSC were in issue since 1 January 2014.

	2015 RMB'000	2014 RMB'000
(Loss) /Profit for the year attributable to owners of the Company (RMB'000)		
– Continuing operations	(11,543)	2,416,928
– Discontinued operations	—	(1,159,620)
	(11,543)	1,257,308
Weighted average number of ordinary shares in issue	13,981,930,401	15,224,327,662
Basic (loss)/earnings per share (RMB)		
– Continuing operations	(0.001)	0.159
– Discontinued operations	—	(0.076)
	(0.001)	0.083

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2015 and 2014, and therefore the diluted (loss)/earnings per share for the years ended 31 December 2015 and 2014 were the same as the basic (loss)/earnings per share.

15 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2015 (2014: Nil).

16 DIRECTORS', SUPERVISORS' 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 2015

	Fee	Salary, allowance and bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:				
LU Liyong (i)	—	—	—	—
SUN Zhihong (i)	—	—	—	—
LONG Xingping (i)	—	—	—	—
GUAN Diaosheng (i)	—	—	—	—
SUN Yuguo (i)	—	—	—	—
SHEN Xijun (i)	—	—	—	—
LI Jianping (i)	—	—	—	—
YUAN Zhengwen (iii)	—	509	37	546
ZHU Ping (x)	—	509	41	550
ZHOU Shiliang (ii)	—	509	41	550
	—	1,527	119	1,646
Non-executive Directors:				
JIAO Fangzheng (ii)	—	—	—	—
LI Lianwu (ii)	—	—	—	—
ZHANG Hong (ix)	—	—	—	—
	—	—	—	—
Independent non-executive Directors:				
SHI Zhenhua (i)	—	—	—	—
QIAO Xu (i)	—	—	—	—
YANG Xiongsheng (i)	—	—	—	—
CHEN Fangzheng (i)	—	—	—	—
JIAO Bo (ii)	183	—	—	183
ZHANG Huaqiao (ii)	183	—	—	183
WONG, Kennedy Ying Ho (iv)	100	—	—	100
PAN Ying (vi)	17	—	—	17
	483	—	—	483

16 DIRECTORS', SUPERVISORS' AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows: (Continued)

(i) For the year ended 31 December 2015 (Continued)

	Fee	Salary, allowance and bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors:				
CAO Yong (i)	—	—	—	—
SUN Shaobo (i)	—	—	—	—
SHAO Bin (i)	—	—	—	—
CHU Bing (i)	—	—	—	—
ZHANG Jixing (v)	—	—	—	—
ZOU Huiping (ii)	—	—	—	—
WEN Dongfen (ii)	—	—	—	—
ZHANG Qin (ii)	—	—	—	—
CONG Peixin (ii)	—	—	—	—
WANG Chunjiang (v)	—	129	10	139
XU Weihua (ii)	—	610	29	639
DU Guangyi (ii)	—	530	22	552
HU Guoqiang (vii)	—	316	41	357
DU Jiang-bo (viii)	—	—	—	—
	—	1,585	102	1,687
	483	3,112	221	3,816

Notes:
(i) Resigned on 9 February 2015.
(ii) Appointed on 9 February 2015.
(iii) Appointed on 9 February 2015 and deceased on 6 December 2015.
(iv) Appointed on 9 February 2015 and resigned on 3 August 2015.
(v) Appointed on 9 February 2015 and resigned on 28 April 2015.
(vi) Appointed on 16 December 2015.
(vii) Appointed on 28 April 2015.
(viii) Appointed on 16 June 2015.
(ix) Resigned on 9 February 2015 and re-appointed on 16 June 2015.
(x) Appointed on 9 February 2015 and resigned on 11 March 2016.

Mr. ZHU Ping is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

16 DIRECTORS', SUPERVISORS' 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 2014

	Fee	Salary, allowance and bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive 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
	—	1,050	105	1,155
Independent non-executive Directors:				
SHI Zhenhua	50	—	—	50
QIAO Xu	50	—	—	50
YANG Xiongsheng	50	—	—	50
CHEN Fangzheng	50	—	—	50
	200	—	—	200
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

Notes:
(i) Resigned on 3 April 2014.
(ii) Appointed on 18 June 2014.

Mr. LU Liyong and Mr. XIAO Weizhen are also the general managers of the Company and their emoluments disclosed above included their remuneration of serving as the general managers.

16 DIRECTORS', SUPERVISORS' 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 2015 and 2014 are as follows:

	2015	2014
Director or supervisor	4	—
Non-director or supervisor	1	5
	5	5

The aggregate of the emoluments in respect of the highest paid non-director or supervisor are as follows:

	2015	2014
	RMB'000	RMB'000
Salaries, allowances and bonus	562	2,904
Contributions to pensions plans	41	257
	603	3,161

The emoluments of the one (2014: five) highest paid individuals who are non-director or supervisor are within the following bands:

	2015	2014
Nil to HK$1,000,000	1	5

17 EMPLOYMENT BENEFITS

	2015	2014
	RMB'000	RMB'000
Salaries, wages and other benefits	14,297,602	14,938,698
Contribution to pension plans (a)		
– Municipal retirement scheme costs	1,273,687	1,263,764
– Supplementary retirement scheme costs	344,299	341,750
	15,915,588	16,544,212

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 2015, the Group and its employees pay 20% and 8% (2014: 20% and 8%) of salaries 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

For the year ended 31 December 2015

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2015	1,121,780	55,274,704	1,482,548	57,879,032
Additions	23,061	2,587,105	2,029,943	4,640,109
Disposals/Write-off	(4,491)	(728,956)	—	(733,447)
Transferred from construction in progress	129,316	577,733	(707,049)	—
At 31 December 2015	1,269,666	57,710,586	2,805,442	61,785,694
Accumulated depreciation				
At 1 January 2015	338,888	26,075,169	—	26,414,057
Depreciation	42,870	3,879,641	—	3,922,511
Reversal upon disposals/write-off	(4,092)	(642,509)	—	(646,601)
At 31 December 2015	377,666	29,312,301	—	29,689,967
Accumulated impairment loss				
At 1 January 2015	8,624	280,657	95,264	384,545
Reversal upon disposals/write-off	(123)	(7,062)	—	(7,185)
At 31 December 2015	8,501	273,595	95,264	377,360
Carrying amounts				
At 31 December 2015	883,499	28,124,690	2,710,178	31,718,367

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the year ended 31 December 2014

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2014	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				
At 1 January 2014	1,864,390	32,648,077	—	34,512,467
Depreciation	143,410	4,217,959	—	4,361,369
Reversal upon disposals/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				
At 1 January 2014	76,459	956,145	95,264	1,127,868
Impairment losses	—	1,024,524	—	1,024,524
Reversal upon disposals/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

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

Recognised depreciation is analysed as follows:

	2015	2014
	RMB'000	RMB'000
Continuing operations:		
Cost of sales	3,890,615	3,839,813
Selling expenses	720	637
General and administrative expenses	31,176	47,549
	3,922,511	3,887,999
Discontinued operations:		
Cost of sales	—	451,489
Selling expenses	—	39
General and administrative expenses	—	21,842
	—	473,370
	3,922,511	4,361,369

As at 31 December 2015, assets under finance leases with carrying amounts of RMB67,855,000 (2014: RMB74,550,000) are included in "Oil engineering equipment and others" of property, plant and equipment.

19 PREPAID LAND LEASES

	2015	2014
	RMB'000	RMB'000
At 1 January	51,107	339,238
Additions	55,361	—
Amortisation	(1,514)	(8,174)
Write-off	—	(105,627)
Transfer to Sinopec Group and its subsidiaries	—	(23,283)
Disposal of Outgoing Business	—	(151,047)
At 31 December	104,954	51,107

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.

Recognised amortisation is analysed as follows:

	2015	2014
	RMB'000	RMB'000
Continuing operations:		
Cost of sales	440	8
General and administrative expenses	1,074	1,576
	1,514	1,584
Discontinued operations:		
General and administrative expenses	—	6,590
	1,514	8,174

20 INTANGIBLE ASSETS

For the year ended 31 December 2015

	Computer softwares	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2015	111,471	15,524	126,995
Additions	11,424	42,005	53,429
Disposals	(4,179)	—	(4,179)
At 31 December 2015	118,716	57,529	176,245
Accumulated amortisation			
At 1 January 2015	72,291	13,461	85,752
Amortisation	16,035	1,388	17,423
Reversal upon disposals	(4,179)	—	(4,179)
At 31 December 2015	84,147	14,849	98,996
Carrying amounts			
At 31 December 2015	34,569	42,680	77,249

For the year ended 31 December 2014

	Computer softwares	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2014	88,705	15,207	103,912
Additions	22,766	317	23,083
At 31 December 2014	111,471	15,524	126,995
Accumulated amortisation			
At 1 January 2014	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:

	2015	2014
	RMB'000	RMB'000
Continuing operations:		
Cost of sales	8,884	6,552
General and administrative expenses	8,539	6,244
	17,423	12,796

21 INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures

	2015	2014
	RMB'000	RMB'000
At 1 January	107,871	599,337
Increase in investment	113,042	97,285
Disposal of Outgoing Business	—	(585,018)
Share of total comprehensive expense	(11,958)	(3,709)
Dividend paid	(33)	(24)
At 31 December	208,922	107,871

The interests in each joint venture are as follows:

	2014	2013
	RMB'000	RMB'000
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun")	1,111	1,108
Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering")	13,383	13,382
Zhong Wei Energy Service Co. Limited ("Zhong Wei")	17,273	20,801
SinoFTS Petroleum Services Limited ("SinoFTS")	177,155	72,580
	208,922	107,871

The details of joint ventures of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actaul interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	The PRC	2,100 (2014: 2,100)	—	49.10% (2014: 49.10%)	Transportation services/The PRC
Sinopec Gulf Petroleum Engineering Services, LLC	Kuwait	27,312 (2014: 27,312)	—	49.00% (2014: 49.00%)	Oilfield service/Kuwait
Zhong Wei Energy Service Co. Limited	The PRC	305,000 (2014: 305,000)	—	50.00% (2014: 50.00%)	Oilfield technical service/The PRC
SinoFTS Petroleum Services Limited	The PRC	—	55,000 (2014: 55,000)	55.00% (2014: 55.00%)	Petroleum technical service/ The PRC

The above joint ventures are unlisted and established as limited companies. The above joint ventures are accounted for using equity method.

Notes:

(i) The decision of financial and operating strategies requires unanimous consent from the Group 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 2015 and 2014, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

21 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(a) Interests in joint ventures (Continued)

The detailed financial information of the major joint venture (SinoFTS Petroleum Services Limited) of the Group is as follows:

	2015	2014
	RMB'000	RMB'000
Cash and cash equivalents	100,495	95,106
Current assets	164,750	131,990
Non-current assets	253,812	136
Total assets	418,562	132,126
Current liabilities	(28,754)	(163)
Non-current liabilities	(64,620)	—
Total liabilities	(93,374)	(163)
Net assets	325,188	131,963
Share of equity by the Group (55.00%) (2014: 55.00%)	178,853	72,580

	2015	2014
	RMB'000	RMB'000
Revenue	2,104	—
Depreciation and amortisation	123	3
Interest income	293	52
Loss for the year and total comprehensive expense for the year	(15,393)	(3,262)
Share of total comprehensive expense (55.00%) (2014: 55.00%)	(8,466)	(1,794)

The summarised financial information of other non-major joint ventures of the Group is as follows:

	2015	2014
	RMB'000	RMB'000
Loss for the year and total comprehensive expense for the year	(6,982)	(4,024)

(b) Interests in associates

	2015	2014
	RMB'000	RMB'000
At 1 January	128	128
Increase in investments	7,350	—
At 31 December	7,478	128

21 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(b) Interests in associates (Continued)

The details of associate of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Sinopec International Trading (Nigeria) Company Limited ("International Trading")	Nigeria	—	100 (2014:100)	20.00% (2014: 20.00%)	Oil exploration/Nigeria
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	The PRC	1,000 (2014: N/A)	—	35.00% (2014: N/A)	Oil and natural gas exploration/ The PRC
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	The PRC	1,000 (2014: N/A)	—	20.00% (2014: N/A)	Oil and natural gas exploration/ The PRC
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	The PRC	5,000 (2014: N/A)	—	37.00% (2014: N/A)	Oil and natural gas exploration/ The PRC

The above associates are unlisted and established as limited companies. The above associates are accounted for using equity method.

Notes:

(i) Commitments and contingent liabilities of the associates
As at 31 December 2015 and 2014, there is no material contingent liability and commitment between the Group with its associates or associates themselves.

(ii) Ordos North, Xinjiang North and Huajiang Oil did not have operating activity since the incorporation.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015	2014
	RMB'000	RMB'000
At 1 January	40,494	41,494
Transfer	—	(1,000)
At 31 December	40,494	40,494

Available-for-sale financial assets include the following:

	2015	2014
	RMB'000	RMB'000
Unlisted securities:		
Equity securities – the PRC	40,494	40,494

Unlisted investments represent the Groups' equity interests in 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.

As at 31 December 2014, 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 RMB1,000,000 of available-for-sale financial assets.

23 NOTES AND TRADE RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables		
– Sinopec Group and its subsidiaries	17,797,091	19,519,440
– Joint ventures	1,078	31
– Sinopec Group and its associates and joint ventures	283,281	110,437
– Third parties	9,617,468	8,864,442
	27,698,918	28,494,350
Less: Provision for impairment	(577,791)	(429,415)
Trade receivables - net	27,121,127	28,064,935
Notes receivables	141,132	219,506
Notes and trade receivables - net	27,262,259	28,284,441

As at 31 December 2015 and 2014, the Group's notes and trade receivables were approximately their fair values.

All notes receivables of the Group are bank's acceptance bills and commercial acceptance bills and usually collected within six months from the date of issue.

As at 31 December 2015 and 2014, none of the Group's notes receivables were pledged as collateral or overdue.

The Group usually provides customers with credit term in the range of 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 does not hold any collateral as security.

Ageing analysis of impaired notes and trade receivables based on invoice date is as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	23,814,935	26,429,277
1 to 2 years	2,613,848	1,459,465
2 to 3 years	600,288	159,149
Over 3 years	233,188	236,550
	27,262,259	28,284,441

Ageing analysis of impaired notes and trade receivables based on due date is as follows:

	2015 RMB'000	2014 RMB'000
Not yet due	21,758,477	24,170,252
Over due within 3 months	1,316,086	941,716
Over due 3 months but within 6 months	694,806	655,878
Over due 6 months but within 1 year	3,066,529	2,177,361
Over due 1 year but within 2 years	361,772	286,615
Over due over 2 years	64,589	52,619
	27,262,259	28,284,441

23 NOTES AND TRADE RECEIVABLES (Continued)

The movements of provision for impairment on trade receivables are as follows:

	2015	2014
	RMB'000	RMB'000
At 1 January	429,415	385,093
Provisions	187,610	133,494
Reversal	(39,216)	(83,868)
Receivables write-off as uncollectible	(18)	(2,517)
Transfer	—	(2,787)
At 31 December	577,791	429,415

24 PREPAYMENTS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Prepayments (i)	474,961	675,042
Other receivables (ii)		
Petty cash funds	66,734	125,405
Guarantee deposits	780,753	718,477
Disbursement of funds	1,150,581	755,768
Temporary payment	451,067	358,245
Escrow payments	9,680	16,559
Loans	10,000	10,000
Deposits	48,525	64,015
Export tax refund receivables	2,823	2,839
Value-added tax to be offset	82,062	168,076
Entrusted loans (iii)	1,097,000	—
Others	369,022	584,120
	4,543,208	3,478,546
Less: Provision for impairment	(398,540)	(376,474)
Prepayments and other receivables - net	4,144,668	3,102,072

Notes:

(i) As at 31 December 2015, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB16,460,000 (2014: RMB59,842,000).

(ii) As at 31 December 2015, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB1,348,127,000 (2014: RMB133,714,000), the joint ventures of the Group amounting to RMB308,000 (2014: RMB396,000) and the associates and joint ventures of Sinopec Group amounting to RMB1,570,000 (2014: RMB50,000,000).

(iii) As at 31 December 2015, the Group, which acted as the principal, entered into four entrusted loan arrangements with Sinopec Finance Company Limited, which acted as the agent, to provide funds to a subsidiary of the Sinopec Group. The entrusted loans held by the Group as of the reporting date are unsecured, current and due within one year and borne fixed interest rates of 3% - 4% per annum.

(iv) The amounts due from related parties are unsecured, interest free and repayable on demand.

(v) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2015 and 2014 approximate their fair values.

24 PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The movements of provision for impairment on other receivables are as follows:

	2015	2014
	RMB'000	RMB'000
At 1 January	376,474	359,148
Provisions	58,775	38,926
Reversal	(35,793)	(18,661)
Reversal upon disposal of Outgoing Business	—	(1,294)
Other receivables write-off as uncollectible	(916)	(312)
Transfer	—	(1,333)
At 31 December	398,540	376,474

25 CONTRACT WORK-IN-PROGRESS

	2015	2014
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	66,456,134	51,989,462
Less: Expected loss on contracts	(24,030)	(28,158)
Less: Progress billings	(61,446,068)	(48,543,871)
Contract work-in-progress	4,986,036	3,417,433
Representing:		
Amounts due from customers for contract works	12,814,579	10,009,710
Less: Expected loss on contracts	(24,030)	(28,158)
Net amounts due from customers for contract works	12,790.549	9,981,552
Amounts due to customers for contract works	(7,804,513)	(6,564,119)
	4,986,036	3,417,433

	2015	2014
	RMB'000	RMB'000
Contract revenue recognised as revenue during the year	46,780,617	60,377,611

26 INVENTORIES

	2015	2014
	RMB'000	RMB'000
Raw materials	1,732,626	1,743,628
Finished goods	76,995	99,015
Work in progress	141,177	89,322
Turnover materials	33,895	24,917
Others	1,757	1,432
	1,986,450	1,958,314
Less: Provision for impairment	(7,724)	(7,724)
	1,978,726	1,950,590

For the years ended 31 December 2015 and 2014, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB13,821,642,000 and RMB34,355,091,000 respectively.

27 RESTRICTED CASH

	2015	2014
	RMB'000	RMB'000
Letter of credit guarantee deposits	3,048	3,201
Guarantee deposits	15,333	8,942
	18,381	12,143

As at 31 December 2015 and 2014, restricted cash represents the deposits in banks with initial maturity due for six months which are letter of credit guarantee deposits and guarantee deposits.

As at 31 December 2015 and 2014, 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

	2015	2014
	RMB'000	RMB'000
Cash on hand	9,221	15,635
An initial term less than three months:		
– Sinopec Finance Company Limited	17,745	88,538
– Sinopec Century Bright Capital Investment Company Limited	940,413	441,467
– China CITIC Bank	1	65
– Third party banks and other financial institutions	1,025,829	656,049
	1,993,209	1,201,754

As at 31 December 2015 and 2014, 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 the Group's cash and cash equivalents.

29 SHARE CAPITAL

	2015		2014	
	Number of shares	Share capital	Number of shares	Share capital
	Share	RMB'000	Share	RMB'000
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1.00 each	10,259,327,662	10,259,328	10,259,327,662	10,259,328
– Social public A shares of RMB1.00 each	1,783,333,333	1,783,333	450,000,000	450,000
– H shares of RMB1.00 each	2,100,000,000	2,100,000	2,100,000,000	2,100,000
	14,142,660,995	14,142,661	12,809,327,662	12,809,328

29 SHARE CAPITAL (Continued)

	Number of shares Share	Share capital RMB'000
At 1 January 2014	6,000,000,000	6,000,000
Repurchase of share capital (i)	(2,415,000,000)	(2,415,000)
Issued share capital (i)	9,224,327,662	9,224,328
At 31 December 2014 and 1 January 2015	12,809,327,662	12,809,328
Issued share capital (ii)	1,333,333,333	1,333,333
At 31 December 2015	14,142,660,995	14,142,661

Notes:

(i) 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).

(ii) 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 issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd at RMB4.50 per share on 13 February 2015. After deduction of issuance costs of RMB47,483,000, the net proceeds from the issuing were approximately RMB5,962,516,700. 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. The new shares are limited tradable shares with lock-up period of 12 months and had been traded on the market since 3 March 2016.

30 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

(i) The statement of financial position of the Company

	2015 RMB'000	2014 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries	20,215,327	20,215,327
Total non-current assets	20,215,327	20,215,327
Current assets		
Other receivables	5,157,515	—
Cash and cash equivalents	419,118	—
Total current assets	5,576,633	—
Total assets	25,791,960	20,215,327
Equity		
Share capital	14,142,661	12,809,328
Reserves	10,529,428	5,887,791
Total equity	24,672,089	18,697,119
Liabilities		
Current liabilities		
Other payables	1,119,871	1,518,208
Total current liabilities	1,119,871	1,518,208
Total liabilities	1,119,871	1,518,208
Total equity and liabilities	25,791,960	20,215,327
Net current assets/(liabilities)	4,456,762	(1,518,208)
Total assets less current liabilities	24,672,089	18,697,119

Chairman of the Board:

JIAO Fangzheng

Director, Deputy General Manager:

ZHOU Shiliang

30 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

(ii) The statement of changes in equity of the Company

	Share capital	Share premium	Capital reserve	Surplus reserve	Specific reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 and 1 January 2015	**12,809,328**	**6,504,174**	**28,339**	**200,383**	**—**	**(845,105)**	**18,697,119**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**22,453**	**22,453**
Total transactions with owners:							
– Issued of share capital	**1,333,333**	**4,619,184**	**—**	**—**	**—**	**—**	**5,952,517**
At 31 December 2015	**14,142,661**	**11,123,358**	**28,339**	**200,383**	**—**	**(822,652)**	**24,672,089**

The distributable profits of the Company are as follows:

	2015	2014
	RMB'000	RMB'000
Distributable profits	—	—

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

	2015	2014
	RMB'000	RMB'000
At 1 January	43,951	102,612
Government grants received during the year	396,747	441,789
Recognised in the statement of comprehensive income for the year	(381,690)	(442,893)
Disposal of Outgoing Business	—	(57,557)
At 31 December	59,008	43,951

Deferred income mainly related to income from the national special research government grants.

33 SPECIAL PAYABLES

	2015	2014
	RMB'000	RMB'000
At 1 January	2,647	7,380
Increase during the year	2,400	—
Decrease during the year	(3,996)	(4,733)
At 31 December	1,051	2,647

The Group received the compensation of relocation due to public interest of urban planning, reservoir construction, shantytowns and subsidence governance relocation, and the funding due to construction of welding technology service platform for petroleum equipment.

34 NOTES AND TRADE PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables		
– Sinopec Group and its subsidiaries	2,071,793	2,096,826
– Joint ventures	31,983	505
– Sinopec Group and its associates and joint ventures	81,400	17,876
– Third parties	26,723,925	27,941,958
	28,909,101	30,057,165
Notes payables	1,284,745	856,442
	30,193,846	30,913,607

As at 31 December 2015 and 2014, the carrying amounts of the Group's notes and trade payables were approximately their fair values.

Ageing analysis of notes and trade payables based on invoice date is as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	21,307,084	23,843,263
1 to 2 years	5,574,874	5,054,013
2 to 3 years	2,148,850	1,141,614
Over 3 years	1,163,038	874,717
	30,193,846	30,913,607

35 DEPOSITS RECEIVED AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Deposits received (i)		
Advances for construction and service	1,459,457	1,853,049
Salaries payables	187,561	288,285
Other tax payables	2,367,675	2,523,352
Interest payables (ii)	14,823	20,028
Other payables (iii)		
Guarantee deposits	497,300	409,207
Deposits	156,200	161,140
Disbursement of funds	291,281	339,054
Temporary receipts	370,126	369,576
Escrow payments	30,549	28,437
Withheld payments	85,841	169,590
Sinopec Group capital restructuring funds	2,600,000	4,000,000
Payable of profit arising during major assets restructuring	1,118,902	1,479,207
Others	329,152	371,258
	9,508,867	12,012,183

Notes:
(i) As at 31 December 2015, deposits received included related party balances: Sinopec Group and its subsidiaries amounting to RMB199,376,000 (2014: RMB191,719,000) and the associates and joint ventures of Sinopec Group amounting to RMB4,860,000 (2014: RMB143,462,000).
(ii) As at 31 December 2015, interest payables included related party balances: Sinopec Group and its subsidiaries amounting to RMB14,823,000 (2014: RMB19,880,000).
(iii) As at 31 December 2015, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB3,785,680,000 (2014: RMB5,546,881,000).
(iv) Amounts due to related parties are unsecured, interest free and repayable on demand.

36 BORROWINGS

	2015 RMB'000	2014 RMB'000
Current liabilities		
Bank loans (i)	—	36,714
Loans from Sinopec Finance Company Limited (ii)	2,215,000	4,460,000
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	9,925,312	7,502,995
Finance lease liabilities (iii)	17,360	15,870
	12,157,672	12,015,579
Non-current liabilities		
Bank loans (i)	487,020	428,723
Loans from Sinopec Finance Company Limited (ii)	80,000	70,000
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	51,949	—
Finance lease liabilities (iii)	51,154	69,440
	670,123	568,163
	12,827,795	12,583,742

(i) Bank loans

The bank loans of the Group are repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	—	36,714
Over 5 years	487,020	428,723
	487,020	465,437

As at 31 December 2015, the annual interest rates of the bank loans are in the range of 5.63% to 5.79% (2014: 2.42% to 5.60%).

(ii) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	12,140,312	11,962,995
1 to 2 years	131,949	70,000
	12,272,261	12,032,995

As at 31 December 2015, loans from related parties are unsecured and their annual interest rates are in the range of 1.48% to 7.6% (2014: 1.55% to 6.15%).

36 BORROWINGS (Continued)

(iii) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	2015 RMB'000	2014 RMB'000
Total minimum lease payments		
– Within 1 year	21,441	20,264
– 1 to 2 years	20,778	22,080
– 2 to 5 years	37,362	58,427
	79,581	100,771
Future finance charges on finance leases	(11,067)	(15,461)
Present value of finance lease liabilities	68,514	85,310

	2015 RMB'000	2014 RMB'000
Present value of minimum lease payments:		
– Within 1 year	17,360	15,870
– 1 to 2 years	17,360	17,360
– 2 to 5 years	33,794	52,080
	68,514	85,310
Less: Portion due within one year included under current liabilities	(17,360)	(15,870)
Portion due after one year included under non-current liabilities	51,154	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:

	2015 RMB'000	2014 RMB'000
Deferred income tax assets	187,430	156,679
Deferred income tax liabilities	(31,251)	(46,895)
Deferred income tax assets, net	156,179	109,784

The movement of the deferred income tax account is as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	109,784	215,523
Credited/(Charged) to profit or loss (Note 12)	46,395	(57,623)
Charged to equity	—	(48,116)
At 31 December	156,179	109,784

37 DEFERRED INCOME TAX (Continued)

The movement of deferred income tax assets/(liabilities) during the years ended 31 December 2015 and 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Deferred income	Provision for impairment on assets	Accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	15,970	202,687	1,718	220,375
Charged to:				
Profit or loss	(7,980)	(53,998)	(1,718)	(63,696)
At 31 December 2014 and 1 January 2015	7,990	148,689	—	156,679
Credited to:				
Profit or loss	3,777	26,974	—	30,751
At 31 December 2015	11,767	175,663	—	187,430

Deferred income tax liabilities

	Accelerated depreciation allowance	Revaluation on assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2014	—	4,852	4,852
(Credited)/Charged to:			
Profit or loss	1,193	(7,266)	(6,073)
Equity	—	48,116	48,116
At 31 December 2014 and 1 January 2015	1,193	45,702	46,895
Credited to:			
Profit or loss	(769)	(14,875)	(15,644)
At 31 December 2015	424	30,827	31,251

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:

	2015	2014
	RMB'000	RMB'000
Tax losses not recognised as deferred income tax assets	4,605,881	4,015,385

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 2015 and 2014 not provided for in the financial statements are as follows:

	2015	2014
	RMB'000	RMB'000
Contracted but not provided for	803,406	1,658,430

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2015 and 2014 are as follows:

	2015	2014
	RMB'000	RMB'000
Within 1 year	280,765	66,864
1 to 2 years	31,728	19,315
2 to 3 years	19,271	18,299
Over 3 years	80,626	6,046
Total	412,390	110,524

The Group leases various residential properties, office and equipments under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 26 years, with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

(c) Investment commitments

As at 31 December 2015, the Group has outstanding commitments of RMB129,625,000 in respect of its investment in SinoFTS Petroleum Services Limited and Zhong Wai Energy Service Co. Limited (2014: RMB240,685,000 in respect of its investment in SinoFTS Petroleum Services Limited and Zhong Wai Energy Service Co. Limited).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2015.

39 CASH GENERATED FROM OPERATIONS

	2015	2014
	RMB'000	RMB'000
Profit/(Loss) before income tax		
– Continuing operations	469,719	3,320,072
– Discontinued operations	—	(2,261,170)
	469,719	1,058,902
Adjustments for:		
– Depreciation of property, plant and equipment	3,922,511	4,361,369
– Losses on disposal/write-off of property, plant and equipment	18,354	4,644
– Amortisation of prepaid land leases	1,514	8,174
– Losses on disposal/write-off of prepaid land leases	—	105,627
– Amortisation of intangible assets	17,423	12,796
– Interest income	(40,673)	(12,542)
– Interest expense	308,440	543,535
– Share of loss from joint ventures	11,958	3,709
– Provision for impairment on trade receivables	148,394	49,626
– Provision for impairment on other receivables	22,982	20,265
– Reversal of inventories	—	(45,689)
– (Reversal of)/Provision for expected loss on contracts work-in-progress	(4,128)	28,158
– Gain from disposal of available-for-sale financial assets	(642)	(2,050)
Cash flows from operating activities before changes in working capital	4,875,852	6,136,524
Changes in working capital:		
– Other non-current assets	510,113	(362,960)
– Inventories	(28,136)	232,334
– Notes and trade receivables	873,788	(2,049,353)
– Prepayments and other receivables	4,904	37,723
– Restricted cash	(6,238)	21,549
– Contract work-in-progress	(1,564,475)	2,072,584
– Deferred income	15,057	(1,104)
– Specific payables	(1,596)	(4,733)
– Notes and trade payables	(719,761)	1,406,127
– Deposits received and other payables	(647,974)	(2,352,670)
Cash generated from operations	3,311,534	5,136,021

40 SIGNIFICANT NON-CASH TRANSACTIONS

For the year ended 31 December 2014, for the business combinations under common control (Note 44), disposal of Outgoing Business (Note 45) and share repurchase (Note 46) 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 2015, 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, the 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 2015. 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

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2015 and 2014.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	2015 RMB'000	2014 RMB'000
Continuing operations		
Purchases of materials		
– Sinopec Group and its subsidiaries	9,237,661	13,547,400
Sales of products		
– Sinopec Group and its subsidiaries	252,591	63,030
Rendering of engineering services		
– Sinopec Group and its subsidiaries	37,502,329	50,878,618
Receiving of community services		
– Sinopec Group and its subsidiaries	1,602,780	1,663,942
Receiving of integrated services		
– Sinopec Group and its subsidiaries	244,567	163,643
Rendering of technology development services		
– Sinopec Group and its subsidiaries	275,613	276,520
Rental expenses		
– Sinopec Group and its subsidiaries	152,312	111,469
Deposits interest income		
– Sinopec Group and its subsidiaries	1,602	1,056
Interest income from entrusted loans		
– Sinopec Group and its subsidiaries	2,046	—
Loans interest expenses		
– Sinopec Group and its subsidiaries	335,616	558,865
Borrowings obtained		
– Sinopec Group and its subsidiaries	56,746,079	72,102,555
Borrowings repaid		
– Sinopec Group and its subsidiaries	56,543,528	75,264,319
Safety and insurance fund expenses		
– Sinopec Group	89,215	97,481
Safety and insurance fund refund		
– Sinopec Group	42,806	96,590

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

	2015	2014
	RMB'000	RMB'000
Discontinued operations:		
Purchases of materials		
– Sinopec Group and its subsidiaries	—	12,948,030
Sales of products		
– Sinopec Group and its subsidiaries	—	437,356
Commission fees		
– Sinopec Corp. and its subsidiaries	—	24,775
Construction fees		
– Sinopec Group and its subsidiaries	—	10,595
Miscellaneous expenses		
– Sinopec Group and its subsidiaries	—	6,980
Deposits interest income		
– Sinopec Group and its subsidiaries	—	730
– China CITIC Bank	—	683
	—	1,413
Loans interest expenses		
– Sinopec Group and its subsidiaries	—	31,989
Safety and insurance fund expenses		
– Sinopec Group and its subsidiaries	—	43,740
Safety and insurance fund refund		
– Sinopec Group and its subsidiaries	—	86,826
Borrowings obtained		
– Sinopec Group and its subsidiaries	—	3,700,000
Borrowings repaid		
– Sinopec Group and its subsidiaries	—	4,400,000
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:

	2015	2014
	RMB'000	RMB'000
Fee	483	280
Salaries, allowances and bonus	6,596	2,245
Contributions to pension plans	526	258
	7,605	2,783

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2015	2014
	Number of individuals	Number of individuals
RMB0 to RMB500,000	11	3
RMB500,001 to RMB1,000,000	3	—
	14	3

(c) Related party guarantee

Sinopec Group provided performance guarantee to the Group amounting to USD210,000,000. The guarantee period is from June 2013 to November 2015. As at 31 December 2015, the Group did not have any related party guarantee.

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.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 equivalents, 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 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 interest-bearing borrowings, and therefore could have a material adverse effect on the Group'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 2015 and 2014, 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:

	2015		2014	
	%	**RMB'000**	%	RMB'000
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 27 and 28)	**1.1% - 1.54%**	**419,649**	3%	1,612
Borrowings (Note 36)	**3.92% - 7.6%**	**5,253,838**	1.55% - 7.5%	4,485,310
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 27 and 28)	**0.01% - 0.35%**	**1,591,941**	0.35%	1,196,649
Borrowings (Note 36)	**1.48% - 6.15%**	**7,573,957**	1.3% - 5.6%	8,098,432

As at 31 December 2015, it is estimated that a general increase of 50 basis points in variable interest rates, with all other variables held constant, would increase the Group's net loss and decrease the shareholder's equity for the year by approximately RMB28,402,000 (2014: decrease the Group's net profit and the shareholder's equity by RMB30,369,000).

As at 31 December 2015 and 2014, a general decrease of 50 basis points in variable interest rates as at 31 December 2015 and 2014 would have had the same magnitude but of opposite effect on the above borrowings, on the basis that all other variables remain constant.

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 last year.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 the PRC 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 financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

As at 31 December 2015	USD	SAR	KWD	BRL	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	965,468	77,955	134,432	2,478	213,609
Trade and other receivables	4,794,623	643,972	510,801	133,178	413,629
Trade and other payables	(745,143)	(314,487)	(72,080)	(41,028)	(109,830)
Borrowings	(7,423,957)	—	—	—	—
Net exposure in RMB	(2,409,009)	407,440	573,153	94,628	517,408

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

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 Group may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2015 and 2014, 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 net loss/profit in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2015 and 2014:

	2015	2014
	RMB'000	RMB'000
Decrease in net loss/increase in net profit/(increase in net loss/decrease in net profit)		
– USD	90,338	175,819
– SAR	(15,279)	(12,329)
– KWD	(21,493)	554
– BRL	(3,549)	(4,073)

As at 31 December 2015 and 2014, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect, on the basis that all other variables remain constant.

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 trade receivables 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 trade receivables. 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 cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2015						
Restricted cash and cash and cash equivalents	**2,011,590**	—	—	—	**2,011,590**	**2,011,590**
Trade and other receivables	**30,909,281**	—	—	—	**30,909,281**	**30,874,112**
Trade and other payables	**(38,487,749)**	—	—	—	**(38,487,749)**	**(38,487,749)**
Borrowings	**(12,289,452)**	**(182,714)**	**(121,076)**	**(584,583)**	**(13,177,825)**	**(12,827,795)**
	(17,856,330)	**(182,714)**	**(121,076)**	**(584,583)**	**(18,744,703)**	**(18,429,842)**
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)

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

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 consolidated statement of financial position) less cash and cash equivalents. Total capital is the sum of total equity and net liabilities as shown in the consolidated statement of financial position. Total equity includes the equity attributable to shareholders of the parent and non-controlling interests.

At the reporting date, the gearing ratio is set out as below:

	2015 RMB'000	2014 RMB'000
Total borrowings (Note 36)	12,827,795	12,583,742
Less: Cash and cash equivalents (Note 28)	(1,993,209)	(1,201,754)
Net debts	10,834,586	11,381,988
Total equity	24,636,953	18,696,138
Total capital	35,471,539	30,078,126
Gearing ratio	31%	38%

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 2015 and 2014, financial assets and liabilities of the Group measured at amortised cost mainly represent: cash and cash equivalents, trade and other receivables, borrowings and trade and other payables. The carrying amounts of these financial assets and liabilities are not materially different from those measured at fair values.

44 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 SOSC to the Company (the "Acquisition").

Pursuant to the Acquisition Agreement, the aggregate consideration for the Acquisition is approximately RMB24,075,495,000 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 RMB2.61 per share (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 9,224,327662 A shares were issued to Sinopec Group.

As at 30 December 2014, the net asset value of SOSC was approximately RMB20,215,327,000, which was recognised in the Company's statement of financial position as "investment in subsidiaries" (Notes 21(c) and 30). The nominal value of shares of RMB9,224,328,000 was recognised in "share capital" account. The differences between the nominal value of the share capital and the net assets value of RMB10,990,999,000 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 RMB1,118,903,000. 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 1.2, for the purposes of the consolidated statement of comprehensive income, the Oilfield Business was classified as "continuing operations".

45 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 RMB6,491,426,000 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

46 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 RMB2.61 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 RMB6,303,150,000.

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 RMB2,415,000,000 was offset with "share capital". The difference between nominal value and consideration of the repurchased shares approximated RMB3,880,150,000 is recognised and offset with "share premium" and "specific reserve".

47 POST BALANCE SHEET EVENTS

As at 30 March 2016, there are no other material events after reporting date to be disclosed in the Group.

48 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2015, the Group has direct and indirect interests in the following principal subsidiaries:

Name	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	The PRC/Limited Company	4,000,000	100%	—	Petroleum engineering and technical services/The PRC
Sinopec Shengli Oil Engineering Company Limited	The PRC/Limited Company	700,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Zhongyuan Oil Engineering Company Limited	The PRC/Limited Company	450,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Henan Oil Engineering Company Limited	The PRC/Limited Company	250,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Jianghan Oil Engineering Company Limited	The PRC/Limited Company	250,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Jiangsu Oil Engineering Company Limited	The PRC/Limited Company	250,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec East China Oil Engineering Company Limited	The PRC/Limited Company	200,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec North China Oil Engineering Company Limited	The PRC/Limited Company	200,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Southwest Oil Engineering Company Limited	The PRC/Limited Company	300,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering Geophysical Company Limited	The PRC/Limited Company	300,000	—	100%	Geophysical exploration/The PRC
Sinopec Oil Engineering and Construction Corporation	The PRC/Limited Company	500,000	—	100%	Construction/The PRC
Sinopec Shanghai Offshore Oil Engineering Company Limited (Formerly known as"Sinopec Shanghai Offshore Petroleum Bureau")	The PRC/Limited Company	2,000,000	—	100%	Offshore oil engineering technology service/The PRC
Sinopec International Petroleum Service Corporation	The PRC/Limited Company	700,000	—	100%	Petroleum engineering and technical services/The PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Section 12 Documents Available for Inspection

The following documents are available for inspection at the office address of the Company from 31 March 2016 (Thursday) 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 in 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 IFRS signed by Grant Thornton Hong Kong Limited;
4. Original copy of 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 2015 and the First Quarter Report and the Third Quarter Report from 2002 to 2015 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.