

Interim Report 2016



**SSC**

**中石化石油工程技术服务有限公司**  
**Sinopec Oilfield Service Corporation**

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



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# IMPORTANT NOTES

1. 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 Interim Report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this Interim Report.
2. The 2016 Interim Report has been approved at the twelfth meeting of the eighth session of the Board. Seven Directors attended the meeting. Mr. Zhang Huaqiao, the Independent Director, was absent from the meeting, but had authorized Ms. Jiang Bo, the Independent Director, to attend the meeting by proxy and to exercise their voting rights on his behalf.
3. The interim financial statements of the Company for 2016, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises (“**PRC ASBE**”) and International Financial Report Standards (“**IFRS**”), are unaudited. But the interim financial statements of the Company for 2016, which have been prepared in accordance with the International Financial Report Standards (“**IFRS**”) has been reviewed by Grant Thornton Hong Kong Limited.
4. Mr. Jiao Fangzheng, Chairman, Mr. Sun Qingde, Vice Chairman and General Manager, Mr. Wang Hongchen, Chief Financial Officer, and Mr. Song Daoqiang, Manager of the Accounting Department of the Company, hereby warranted the authenticity and completeness of the interim financial statements contained in the Interim Report.
5. According to the Articles of Association of the Company, the Board resolved that no semi-annual cash dividend was paid for the year ended 31 December 2016, and no issue of bonus shares by way of capitalization of common reserves.
6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Interim Report, the company can not make a substantive commitment to investors, the Company would ask investors to notice the investment risks.
7. There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purpose.
8. The Company did not provide external guarantees made in violation of required decision-making procedures.

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# Section 1 Definitions

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

Company	Means	Sinopec Oilfield Service Corporation (中石化石油工程技术服务有限公司), a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and listed H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033)
Group	Means	The Company and its subsidiaries
Board	Means	The board of Directors of the Company
Articles of Association	Means	The articles of association of the Company, as amended, modified or supplemented from time to time
CPC	Means	China Petrochemical Corporation, a wholly State-owned company established in the PRC and the holding company of Sinopec
Sinopec	Means	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, the subsidiary of CPC.
A Share	Means	Shares in the share capital of the Company of par value RMB 1.00 each which are listed on the SSE
H Share	Means	Overseas listed foreign Share(s) in the Share capital of the Company of par value at RMB 1.00 each which is(are) listed on the Main Board of the Stock Exchange
SSE	Means	Shanghai Stock Exchange
HKSE	Means	The Stock Exchange of Hong Kong Limited
Listing Rules	Means	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Means	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
CSRC	Means	China Securities Regulatory Commission
Material Assets Reorganization	Means	The company implemented material assets reorganization with Sinopec and China Petrochemical Corporation and offered non-public A shares for complementary private placement.
Geophysical exploration or geophysical	Means	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration.
Drilling	Means	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole.
Completion	Means	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	Means	Acquiring, analyzing and interpreting the data related to the geological characteristics and hydrocarbon potential by using special tools or equipment and technology.
Mud Logging	Means	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information.
Downhole Operation service	Means	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Two dimensional geophysical	Means	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis.
Three dimensional geophysical	Means	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells.
CSDC-Shanghai Branch	Means	China Securities Depository and Clearing Corporation Limited (CSDC) - Shanghai Branch
CNPC	Means	China National Petroleum Corporation
CNOOC	Means	China National Offshore Oil Corporation
Yanchang Petroleum Group	Means	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
PRC	Means	People's Republic of China

# Section 2 Company Profile

## 1. Company information

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

## 2. Contact persons and contact information

	Secretary to the board	Securities Affairs Representative
Name	Li Honghai	Wu Siwei
Address	Office of the board of directors, #9 Jishikou Road, Chaoyang District, Beijing, China.	
Telephone	86-10-59965998	
Fax	86-10-59965997	
E-mail	ir.ssc@sinopec.com	

## 3. The changes for the Company profile

Registered address	#22 Chaoyangmen North Street, Changyang District, Beijing, China
Post Code of Registered address	100728
Office address	#9 Jishikou Road, Chaoyang District, Beijing, China
Post Code of Office address	100728
Company Internet Website	<a href="http://ssc.sinopec.com">http://ssc.sinopec.com</a>
Email	ir.ssc@sinopec.com
Query index for the change during the reporting period	There was no change of the basic information of the Company during the reporting period

## 4. The changes for the disclosing information and inspection place

Domestic Newspapers disclosing information	China Securities, Shanghai Securities News, Securities Times
Internet website designated by CSRC to publish the Interim Report	<a href="http://www.sse.com.cn">www.sse.com.cn</a>
Internet website designated by HKSE to disclose information	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Place where the Interim Report available for inspection	Office of the board of director of the Company
Query index for the change during the reporting period	There was no change of information disclosure and place for access to information of the Company during the reporting period

## Section 2 Company Profile

### 5. Stock briefs

Share Type	Place of listing		Stock Code	Stock name
	listing	Stock name		before altering
A share	SSE	SINOPEC SSC	600871	—
H share	HKSE	SINOPEC SSC	1033	—

### 6. Registration changes during the reporting period

The registration date	8 June 2016
The registration place	Industry and Commerce Administration Bureau of Beijing
Unified Credit Record Number	911100006259082971
Taxation Registration Number	321081625908297
Organization Number	62590829-7
Query index for the change of registration during the reporting period	Internet website of Beijing Administration for Industry & Commerce

### 7. Other related information

The initial registration date of the Company:	31 December 1993
The initial registration place of the Company:	Yizheng, Jiangsu Province
<b>Auditors</b>	
Domestic:	Grant Thornton (Special General Partnership)
Address:	5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing
<b>Overseas</b>	
Overseas:	Grant Thornton Hong Kong Limited
Address:	Level 12, 28 Hennessy Road, Wanchai, Hong Kong
<b>Legal advisor</b>	
Overseas:	Herbert Smith Freehills LLP
	23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong
Domestic:	Beijing Haiwen & Partners
	20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing
<b>Share registrars and transfer office</b>	
H Share:	Hong Kong Registrars Limited
	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong
A Share:	China Securities Registration and Clearing Corporation Limited Shanghai Branch
	36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai

# Section 3 Financial Data and Financial Indicators

## 1. Key financial data and financial indicators prepared under IFRS (Unaudited)

	As at 30 June 2016	As at 31 December 2015	Increase/(Decrease)
	RMB'000	RMB'000	(%)
Total assets	77,477,260	85,307,777	(9.2)
Total Liabilities	57,278,533	60,670,824	(5.6)
Total equity attributable to equity shareholders of the Company	20,199,951	24,638,094	(18.0)
Net assets per share attributable to equity shareholders of the Company (RMB)	1.43	1.74	(17.8)

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/(Decrease)
	RMB'000	RMB'000	(%)
(Loss)/profit attributable to equity shareholders of the Company	(4,438,143)	(1,247,775)	Not applicable
Basic and diluted(loss)/earnings per share	RMB (0.314)	RMB (0.090)	Not applicable
Net cash used in operating activities	(3,242,833)	(1,397,163)	Not applicable
Return on net assets	(21.97%)	(5.33%)	Decreased by 16.64 percentage points
Net cash used in operating activities per share	RMB (0.229)	RMB (0.101)	Not applicable

## 2. Key financial data and financial indicators prepared under PRC ASBE (Unaudited)

### (1) Key financial data

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/decrease)
	RMB'000	RMB'000	(%)
Operating income	18,689,863	23,121,285	-19.2%
Operating Profit ("-" for losses)	-4,439,422	-1,349,881	Not applicable
Profit before income ("+" for losses)	-4,396,294	-1,197,310	Not applicable
Net profit attributable to equity shareholders of the Company ("+" for losses)	-4,509,421	-1,380,350	Not applicable
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("+" for losses)	-4,559,830	-1,401,445	Not applicable
Net cash inflow from operating activities ("-" for outflow)	-3,110,624	-1,371,422	Not applicable

	As at 30 June 2016	As at 31 December 2015	Increase/(Decrease)
	RMB'000	RMB'000	(%)
Total assets	77,477,260	85,307,777	-9.2
Total equity attributable to equity shareholders of the Company	20,199,951	24,638,094	-18.0

# Section 3 Financial Data and Financial Indicators

## (2) Key financial indicators

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Increase/decrease)
			(%)
Basic earnings per share (RMB) ("-" for losses)	-0.319	-0.101	Not applicable
Diluted earnings per share (RMB) ("-" for losses)	-0.319	-0.101	Not applicable
Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for losses)	-0.322	-0.102	Not applicable
Weighted average return on net assets	-20.15%	-6.56%	Decreased by 13.59 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	-20.39%	-6.66%	Decreased by 13.73 percentage points

## 3. Extraordinary gain and loss items and amount (figures are based on the interim financial report prepared in accordance with the PRC ASBE)

Extraordinary gain and loss items	Amount
	(RMB'000)
Disposal of non-current assets	405
Government grants recognized in profit or loss during the current period	25,605
Gains and losses from entrusted loans	15,549
Other non-operating income and expenses excluding the aforesaid items	17,118
Effect of income tax	-8,268
Total	50,409

## 4. Differences between the interim financial reports of the Company prepared in accordance with the PRC ASBE and IFRS (Unaudited)

	Net profit attributable to equity shareholders of the Company ("-" for losses)		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2016	For the six months ended 30 June 2015	As at 30 June 2016	As at 1 January 2016
	RMB'000	RMB'000	RMB'000	RMB'000
<b>PRC ASBE</b>	-4,509,421	-1,380,350	20,199,951	24,638,094
<b>Adjustment of items and amount in accordance with the IFRS:</b>				
<b>Specific reserve (a)</b>	71,278	132,575	—	—
<b>IFRS</b>	-4,438,143	-1,247,775	20,199,951	24,638,094

Explanations for the related differences

### (a) Specific reserve

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

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



# Section 4 Report of the Board of Directors

The board is pleased to present its report of the board of directors for perusal.

## 1. Review of results of operations and the business prospect of the Company during the reporting period

Financial figures, where applicable, contained herein have been extracted from the Company's unaudited interim financial report prepared in accordance with PRC ASBE.

### Interim results

During the six months ended 30 June 2016, affected by the tough market environment, both oilfield service workload and price of the Company has declined and the number of crews and equipments which stopped working further increased. As a result, the Company's consolidated turnover was RMB 18,689,863,000, decreased by 19.2% from the corresponding period of previous year i.e. RMB 23,121,285,000; net loss attributed to the equity shareholders was RMB 4,509,421,000 and basic net loss per share was RMB 0.319. In the corresponding period of previous year, the net loss attributed to equity shareholders was RMB 1,380,350,000 and basic net profit per share is RMB 0.101.

### Market review

In the first half of 2016, with the weak recovery of global economy, downward pressure on China's economy increased. Global crude oil prices continued to fluctuate at low levels, and the average price of crude oil in Brent, Dubai and Cinto was USD 39.5 per barrel, decreasing by 31.8% from the corresponding period of previous year. Affected by the factors above, international oil companies as well as domestic ones further reduced CAPEX for oilfield exploration. As a result, oilfield service industry faced with declined work volume, decreased service price and more crews and equipment stopped working. The oilfield service companies encountered more severe competitions. Global oilfield service industry has entered into the cold spell and main oilfield service companies in the industry generally suffered certain amounts of loss.

### Operation Review

In the face of overall loss in the oilfield service industry in the first half of 2016, the Company vigorously expanded markets outside Sinopec, and revenue from markets outside Sinopec accounted for over 50% of the total operating revenue for the first time. At the same time, revenue from overseas markets increased by 8.8% year-on year, despite of the depressed market situation. The Company spared no effort to tap potentials and enhance efficiency, strictly controlled the cost of projects. Meanwhile, it further accelerated the reform and restructuring, and stripped off low-end business. The Company has promoted the upgrade and application of technology research and development, adjusted scales and frequencies of investments moderately, surmounted difficulties, and managed to keep stable production and operation.

#### A. Geophysical service

The Company's operation revenue in geophysical service was RMB 2,046,124,000 in the first half of 2016, representing a decline of 4.6% from RMB 2,145,093,000 in the corresponding period of the previous year. The completed 2D seismic have accumulated for 8,653 kilometers, declined by 49.3% from the corresponding period last year; while the 3D seismic for 7,718 square kilometers, representing an increase of 32.9% over the corresponding period last year. Both of the qualified rates of data record in 2D seismic and 3D seismic are 100%. The Company has made great effort to meet the demand of oilfield exploration and production. With projectized engineering operations, we maintained sustainable increases in work efficiencies of seismic engineering as well as materials quality, providing strong supports to the upstream exploration and production. Meanwhile, the Company further expanded markets outside Sinopec and successively acquired 13 projects from China Geological Survey with contract value at RMB 110 million. The Company also obtained two-dimensional shallow sea seismic acquisition processing projects in Bangladesh for the first time, making new breakthrough in expanding overseas shallow sea markets.

#### B. Drilling service

The Company's operation revenue in drilling service was RMB 9,091,487,000 in the first half of 2016, representing a decline of 27.1% from RMB 12,473,028,000 in the corresponding period of the previous year. Its completed drilling footage was accumulated for 2,360 kilometers, representing a decline of 30.0% over the corresponding period of the previous year. Faced with the challenging circumstance that both domestic and international oil companies cut down their investments, the Company expanded markets with better quality, more advanced technology, higher efficiency and better services and launched Fuling Shale Gas Phase II project. The Company improved its offshore service quality and Exploration No. 7 Platform was successfully put into operation in drilling Wei Well No.6 and hydrocarbon flow was obtained. In addition, the Company has completed the drilling of Mashen Well No.1, the deepest well drilled in Asia with the depth of 8,418 meters, indicating the Company's ultra-deep well technology has reached the world's leading level.

# Section 4 Report of the Board of Directors

## C. Logging/mud logging service

The Company's operation revenue in logging/mud logging service was RMB 534,741,000 in the first half of 2016, a decline of 30.5% from RMB 769,351,000 in the corresponding period of previous year. Our completed logging projects have accumulated for 71,720,000 standard meters in the first half of 2016, representing a decline of 24.7% compared with the corresponding period of the previous year. Our completed mud logging projects have accumulated for 2,320,000 meters in the first half of 2016, representing a decline of 32.6% compared with the corresponding period of the previous year. To tackle the severe and challenging environments where the logging/mud logging workload declined sharply, the Company captured working opportunities with capabilities of providing proactive, high quality and efficient services and the overseas mud logging markets of the Company remained about the same compared with that of the first half of 2015. The Company completed the field test of high temperature (175°C) bearing MWD system in 1-7H ultra-deep horizontal well in Shunbei, indicating that we have made great progress in high-end measurements-while-drilling tools research & development.

## D. Downhole operation service

The Company's operation revenue in downhole operation was RMB 1,861,348,000 in the first half of 2016, with a year-on-year decline of 12.3% from RMB 2,122,757,000 at the corresponding period of the previous year. It has completed downhole operation for 2,048 wells, with a year-on-year decline of 16.0%. The Company efficiently completed the work of testing, fracturing and completion in Fuling Shale Gas Phase I project. And traction device has successfully replaced coiled tubing in the operation of transmission perforation with pressure for the first time. Meanwhile we have continuously developed well workover business in the Middle East.

## E. Engineering and construction service

The Company's operation revenue in engineering and construction service was RMB 4,615,478,000 in the first half of 2016, with a year-on-year decline of 7.5%, from RMB 4,987,120,000 at the corresponding period of the previous year. Due to the continuing decrease of investments in outbound markets, it has completed contracts valued of RMB 4.08 billion in the first six months of 2016, representing a year-on-year decline of 16.4%. Its newly signed contracts were valued at RMB 4.43 billion, with a year-on-year decline of 23.6%. The Company has successfully completed a series of significant projects with high efficiency and quality, such as Puguang safety regulation project, Guangxi LNG pipeline and Jintan gas storage, etc.

## F. International business service

The Company's operation revenue in international business service was RMB 6,800,223,000 in the first half of 2016, representing a year-on-year increase of 8.8%, from RMB 6,250,362,000 at the corresponding period last year and accounted for 36.4% of the total revenue of the first half of 2016. The Company has been firmly executing internationalization strategy and after years of development, the Company has formulated 5 large-scaled markets in the Middle East, Africa, the Americas, Central Asia, Mongolia and the Southeast Asia. Its newly signed contracts in the overseas markets valued USD 1.71 billion, representing a year-on-year increase of 2.4%. Our business scale in key markets continuously increased. For example, in the Middle East, we had entered into several new contracts valuing at USD 800 million. In Africa, we have entered into new contracts valuing at USD 490 million. In Americas, we have entered into new contracts valuing at USD 330 million.

## G. Research & development

In the first half of 2016, focusing on major projects such as construction of deep shale gas produce capacity and exploration project of ultra-deep hydrocarbon resources in Shuntuo and Shunnan, Tarim Basin of Xinjiang, the Company has provided service for exploration and development and improved its technical service ability. 195 domestic and foreign patents were granted, and 229 domestic and foreign patents were filed in the first half of 2016. At the same time, it enhanced the application research of integrated engineering technologies for shale gas reservoir E&P, developed 14 series core technologies and basically constructed engineering technology system with independent intellectual property rights on safe optimal-fast drilling technique in shale gas wells, high efficiency special operations, identification and evaluation, and environmental protection. The technology of water-base drilling fluid for shale gas horizontal well made great breakthrough, which has independent intellectual property rights. The deepest well in Asia, Mashen No.1 has been completed, which is 8,418 meters in depth. Coal-fired power plant flue gas CO<sub>2</sub> capture, transport and use of flooding supporting proprietary technology Habitat takes the leading level in domestic research.

## H. Internal reforms and management

In the first half of 2016, the Company focused on optimizing the consolidation of internal resources and achieved more synergistic effect. The Company completed the restructuring of 4 regional subsidiaries including Sinopec Huadong Oil Engineering Company Limited, Sinopec Jiangsu Oil Engineering Company Limited, Sinopec Huabei Oil Engineering Company Limited and Sinopec Henan Oil Engineering Company Limited. The Company has enhanced the cost-based management among the staff. By cutting down the cost of human resources, procurement, operation, rental fees and maintenance, etc., the Company reduced cost by RMB 440 million. The Company has also improved the management of employment and remuneration, formulated administration measures for human resources optimization and allocation, vigorously promoted the stripping of low-end business and temporary employment, and make efforts to cut off the number of employment and reduce the cost of human resources. Meanwhile, the Company further enhanced the operation safety, environmental protection and risk control.

# Section 4 Report of the Board of Directors

## (1) Main business analysis of the Company

### A. Changes in the relevant items of financial statements

	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Change
	RMB'000	RMB'000	(%)
Operating income	18,689,863	23,121,285	-19.2
Operating costs	21,069,363	22,305,940	-5.5
Selling and distribution expenses	24,797	25,343	-2.2
General and administrative expenses	1,562,419	1,560,959	0.1
Net financial expense ("-" for income)	210,096	203,506	3.2
Net cash inflow from operating activities ("-" for outflow)	-3,110,624	-1,371,422	Not applicable
Net cash inflow from investing activities ("-" for outflow)	-164,727	-446,519	Not applicable
Net cash inflow from financing activities ("-" for outflow)	3,653,747	3,614,062	1.1
Research and development expenditure	70,157	54,808	28.0

Reasons for the changes:

- The change in operating income was mainly due to the decrease of the workload and price of oil service business.
- The change in net cash outflow from operating activities was mainly due to the increase in operational loss caused by the decrease of the workload and price of oil service business and increase in contract work-in-progress in the first half of 2016.
- The change in the net cash outflow from investing activities was mainly due to the decrease in capital expenditure and the recovering of entrusted loans.
- The change in research and development expenditure was mainly due to the increase of investment in science and technology in the first half of 2016.

### B. Other

- The specific information about the change of Company's profit structure or its profit resource
  - Applicable  Not applicable
- The analysis and information about the implementation progress of the Company's financing and Material Assets Reorganization activities during the earlier time.
  - Applicable  Not applicable

## Section 4 Report of the Board of Directors

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

#### A. Statement of operation by industry and products

Industry	Operating Income for the first half of 2016 RMB'000	Operating cost for the first half of 2016 RMB'000	Gross Profit Margin (%)	Increase/(decrease) in operating income as compared with last year (%)	Increase/(decrease) in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	2,046,124	2,381,867	-16.4	-4.6	14.7	Decreased by 19.6 percentage points
Drilling	9,091,487	10,851,274	-19.4	-27.1	-11.8	Decreased by 20.8 percentage points
Logging/Mud logging	534,741	786,035	-47.0	-30.5	8.7	Decreased by 53.0 percentage points
Downhole operation	1,861,348	2,128,123	-14.3	-12.3	12.6	Decreased by 25.2 percentage points
Engineering and Construction	4,615,478	4,428,326	4.1	-7.5	-8.5	Increased by 1.2 percentage points
Other	297,461	301,921	-1.5	-23.3	-7.4	Decreased by 17.4 percentage points
<b>Total</b>	<b>18,446,639</b>	<b>20,877,546</b>	<b>-13.2</b>	<b>-19.4</b>	<b>-5.8</b>	<b>Decreased by 16.4 percentage points</b>

#### B. Statement of operation by regions

Region	Operating income for the first half of 2016	Increase/(decrease) as compared with the corresponding period of last year
	RMB'000	(%)
Mainland China	11,646,416	-30.0
Hong Kong, Macau, Taiwan and overseas	6,800,223	8.8

### (3) Core competitiveness

- The Company has the service ability to cover all the oilfield service chains. It can provide the whole services from exploration to development and production for the oilfield, resulting in bringing the value to the oil company.
- The Company has over 50 years of experience for oilfield service, and is the biggest provider of petroleum engineering services and oilfield technical integrated services in China, with strong execution capabilities. It has some representative projects, such as Puguang gas field, Fuling shale gas, Yuanba gas field project, and Tahe oil field project.
- The Company has advanced technology of exploration and development and strong abilities of research & development. It has a number of advanced technologies with independent intellectual property rights, which can continuously bring higher value-added services.
- The Company has the experienced management and high efficient and well organized operation team.
- The Company has a stable growing customer base. It has the solid customer base such as CPC in the domestic China, and the growing number of client overseas.

# Section 4 Report of the Board of Directors

## (4) Analysis of investments situation

### A. Foreign equity investment

#### a. Securities investment

During the reporting period, there was no investment in securities.

#### b. Interest in other listed securities held by the Company

During the reporting period, the Company did not hold equity shares of other listed companies.

#### c. Equities of financial institutions held by the Company

During the reporting period, the Company did not hold any shares of financial institutions such as commercial banks, securities companies, insurance companies, trust companies and future companies.

### B. Entrusted financing and derivatives investment of non-financial companies

During the reporting period, the Company had no entrusted financing, other investments and financing and derivatives investment items.

### C. Fund raising and the usage

#### a. General usage of Fund Raising

Unit: RMB'000

Year	Type of Fund Raising	Total Amount of Fund Raised	Amount of the used Fund during the reporting period	Amount of the used Fund accumulated	Total amount of unused Fund Raising	The usage of the remaining Fund
2015	Non-Public Offering	5,952,517	311,237	4,570,610	1,381,907	Mainly used for commitment item
<b>Total</b>	/	5,952,517	311,237	4,570,610	1,381,907	/

#### General Usage of Fund Raised

On 28 April 2016, the Company held the tenth meeting of the eighth session of the Board and approved the proposal to use part of the unutilized raising fund as the working capital of the Company. Please refer to the announcements dated 29 April 2016 published on the website of SSE (<http://www.sse.com.cn>), China Securities, Shanghai Securities News, Securities Times and HKSE.

# Section 4 Report of the Board of Directors

## b. Commitment items of Fund Raising

Unit: RMB'000

The name of the commitment projects	Whether the project was changed	The propose investment amount of the fund raised	The invested amount of the raised fund during the reporting period	The accumulated actual invested amount of the raising fund	Whether meet the planned progress	The project progress	The expected return	Status of the return	Whether meet the expected return	The explanation on the unachieved progress and return	The reason for the changes and the explanation on the changed process of raising fund
Kuwait rig project	no	1,600,000	224,831	919,881	Yes	57.49%		Not applicable		No	No
Project of building 25m working platform	no	466,000	46,357	297,393	Yes	63.82%		Not applicable		No	No
Project of purchasing 8000HP multipurpose working vessel	no	195,000	34,000	171,960	Yes	88.18%		Not applicable		No	No
Project of purchasing LOGIQ Imaging Logging System	no	120,000	4,999	112,199	Yes	93.50%		Not applicable		No	No
Project of purchasing downhole testing equipment	no	139,000	—	139,000	Yes	100%		Not applicable		No	No
Project of purchasing Top Drive equipment	no	110,000	—	110,000	Yes	100%		Not applicable		No	No
Project of purchasing Coiled Tubing equipment	no	80,000	—	70,800	Yes	88.50%		Not applicable		No	No
Project of purchasing pipe construction equipment	no	530,000	1,050	36,860	No	6.95%		Not applicable	See the notes below		No
Supplement the liquidity	no	2,712,517	—	2,712,517	Yes	100%		Not applicable		No	No
Total	/	5,952,517	311,237	4,570,610	/	/		/	/	/	/

Note: The Xin Yue Zhe pipeline project, which is the corresponded project of the project of purchasing pipe construction equipment, got approved by the government in the second half of 2015. Relevant party of the project is now optimizing the project's construction scheme and profit based on the approval. And the project is estimated to begin construction in the first half of 2017. So the pipe construction equipment purchased by the raising fund will be regarded as the equipment procurement of pipeline construction scheme designated by the relevant party.

## c. Change Item of Fund Raising

Applicable  Not applicable

## D. Information on the Company's subsidiaries and shareholding companies

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Net profit	Main Business
			RMB'000	RMB'000	RMB'000	RMB'000	
Sinopec Oilfield Service Corporation	RMB 4 billion	100	76,583,881	60,841,443	15,742,438	-4,509,034	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited*	RMB 700 million	100	13,521,791	10,505,912	17,038,209	-1,498,806	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited*	RMB 450 million	100	12,111,113	8,705,256	3,405,857	-1,071,266	Petroleum engineering technical service
Sinopec Jiangnan Oil Engineering Company Limited*	RMB 250 million	100	7,063,928	5,308,971	1,754,957	78,007	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited*	RMB 860 million	100	3,119,985	2,200,901	919,084	-415,275	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited*	RMB 890 million	100	5,867,583	3,273,799	2,593,784	-312,212	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited*	RMB 300 million	100	6,330,296	2,796,354	3,533,942	-278,104	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited*	RMB 300 million	100	4,702,747	3,515,429	1,187,318	-458,783	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation*	RMB 500 million	100	20,052,501	21,061,568	-1,009,067	-445,868	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited*	RMB 2 billion	100	6,017,709	1,897,485	4,120,224	-113,984	Offshore Oil Engineering Technology Service
Sinopec International Oil Engineering Company Limited*	RMB 700 million	100	3,518,372	2,511,105	1,007,267	26,097	Petroleum engineering technical service

Note: The Company holds shares through Sinopec Oilfield Service Co., Ltd.

# Section 4 Report of the Board of Directors

## E. Progress of projects financed by non-public raised proceeds

Unit: RMB'000

Name of the main project	Amount of the project	Project Progress (%)	Investment amount in the reporting period	The cumulative amount of actual in vestment	Project Earnings
Shengli 90m Drilling Platform	700,000	49.2	74	344,105	Under Construction
Updating of the workover rigs in Kuwait	186,890	0.1	104	104	Under Construction
Transformation of the drilling rigs in Algeria	122,200	49.0	59,895	59,895	Under Construction
<b>Total</b>	<b>1,009,090</b>	<b>/</b>	<b>60,073</b>	<b>404,104</b>	<b>/</b>

## 2. Profit allocation or capital accumulation fund turn add plans

### (1) Implementation or adjustment of the profit distribution plan during the reporting period

Due to that the undistributed profit of the Company at the end of 2015 was negative, the Board proposed that the profit distribution for 2015 be not carried out, as approved by 2015 AGM held on 6 June 2016. During the reporting period, no profit distribution plan was supposed to be implemented.

### (2) Internal dividends for 2016 and proposal on issue of shares by capitalizing the common reserves

In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ended 31 December 2016, and no issue of bonus shares by way of capitalization of common reserves.

## 3. Market prospects and operation arrangements in the second half of 2016

### (1). Market prospects in the second half of 2016

The slow recovery of the world's economy is highly uncertain in the second half of 2016. China's economy has been under great downward pressure. The supply and demand situation of the global crude oil market will continue to be easy, meanwhile, the international oil prices will probably keep fluctuating at low levels. Affected by these factors, domestic and international oil companies apparently lack desire for investment and no obvious improvement will appear for workload and service prices. The global oilfield service markets will remain weak, and the market environment will be increasingly severe. Nevertheless, China's economy will operate in a reasonable range and help increase the demand for petroleum and petrochemical products. Moreover, thanks to the implementation of national strategy of 'Belt and Road', more investment on development of national energy and resources will be made in place nearby the Belt and the Silk Road. Thus the Company will find new opportunities.

### (2). Operation arrangements in the second half of 2016

The Company continues to encounter the complicated and challenging environments. But it will place focus on improving quality and efficiency and spare no effort to expand markets outside Sinopec. At the same time, it will accelerate deepening the internal reform and optimize management system and mechanism. The Company will make further efforts to cut down the cost and enhance technology innovation so as to pursue better operating performance.

#### A. Geophysical service

The Company will continue the high-quality and efficient service for domestic and international oil companies in the second half of 2016. It will accelerate introducing and developing new technologies to adapt to oil companies' low cost requirement of exploration and obtain more workload. Meanwhile, it will contribute new growth points by vigorously expanding new business markets, including that of non-seismic, geophysical mapping and measuring, etc. The Company will continue to broaden the overseas market including Africa, the Middle East and South America, etc., and make efforts to acquire more excellent geophysical projects. It plans to complete 2D seismic acquisition for 6,400 kilometers, while 3D for 7,093 square kilometers in the second half of the year.

#### B. Drilling service

The Company will continue to consolidate the market shares inside Sinopec Group in the second half of 2016. In traditional markets, it aims to increase market shares. It will maintain sound cooperation with Petro China, CNOOC, and Yanchang Petroleum Company, etc. The Company will actively promote shale gas development technology and intensify the development of unconventional domestic markets such as shale gas, geothermal, coal-bed gas market, etc. Stable development of markets in the Middle East, Africa, Central Asia and Southeast Asia will be maintained to promote scale operation and form integrated competitive advantage. At the same time, the Company will enhance the development of lump-sum drilling projects. According to the changes of markets, progress will be made to adjust team structures and equipment layouts. In addition, it will improve operating efficiency and reduce the operating cost. The Company plans to complete drilling footage accumulated for 2,580,000 meters in the second half of 2016.

# Section 4 Report of the Board of Directors

## C. Logging/Mud Logging Services

The Company will continue the investment on technology R&D, leverage hi-tech equipment and excellent operation teams to provide customers with complete logging/mud logging service. It will promote and apply the integrated service technologies of logging/mud logging as well as directional well drilling. It also aims to enlarge the markets at home and abroad. At the same time, it will promote technologies of multi-stage perforation and develop unconventional markets in China. In overseas markets, it will leverage strengths in providing integrated oilfield services to enlarge the international markets. It plans to complete logging with accumulated for 70,530,000 standard meters and mud logging footage with 2,350,000 meters in the second half of 2016.

## D. Downhole operation service

The Company has accumulated exploration and development experiences from the shale gas projects in Fuling and western Sichuan. Its leading technologies include staged fracturing in ultra-long horizontal wells, coiled tubing snubbing operation and acid gas fields operation, etc. In China, it aims to leverage the leading technologies above to explore conventional and unconventional oil and gas markets. At the same time, it will further develop the completion test technology of super deep oil and gas reservoir with high temperature and high pressure to provide support for the exploration of deep and super deep oil and gas reservoirs in western regions such as Tarim, etc. Meanwhile, it will guarantee the successful operation of the workover business in Kuwait and Saudi Arabia and make efforts to expand overseas markets. In next half of the year, it plans to complete downhole operation service for 1,760 wells.

## E. Engineering and construction service

In China, the Company aims to raise its market shares through strengthened management of domestic operations and project cost control, to catch available opportunities for developing and producing natural gas and oil (gas) storage projects, and production capabilities built for offshore oilfields. It will continue to enhance the management of subcontracting projects and sub-contractors so as to reduce loss of benefits. In the overseas market, it aims to adjust the market distribution, improve the marketing development quality and strengthen the risk controls. In the second half of the year, it plans to sign new contracts valued RMB 7.6 billion and complete contracts valued RMB 8.6 billion.

## F. International business service

The Company will continue the firm implementation of internationalization strategy in the second half of 2016. To achieve that, firstly it will accelerate centralized management of overseas business to adapt to the requirements of international development. At the same time, it will make efforts to guarantee the maintenance and upgrade of key customers to gradually expand market shares and enhance the scale operation. Thirdly, it will develop the high-tech and high value-added markets and focus on expanding markets of horizontal well, underbalanced drilling, acid fracturing, drilling fluid, gas well drilling, deep and ultra-deep well drilling, etc. Meanwhile, it will keep close track of "Belt and Road" markets and vigorously promote infrastructure projects and oil-gas construction projects. Moreover, it works to deepen the cooperation with Sinopec International Exploration and Production Corporation (SIPC) and increase the market shares in Sinopec invested projects overseas. In next half of the year, it will make efforts to increase the value of newly signed contracts and plans to complete contracts valued USD 1 billion.

## G. Research & development

In the second half of 2016, the Company will continue to provide service for major exploration projects, vigorously tackle key technical problems and constantly improve its core competitiveness. Based on the integrated technology of Fuling Shale Gas Phase I project, it will tackle key technical problems on plug staged fracturing technology of deep shale gas, providing technical support for Fuling Shale Gas Phase II project. Aimed at ultra-deep HT/HP gas reservoir in Shuntuo and Shunnan, Tarim Basin, the Company will make research on drilling and completion techniques for ultra-deep wells, advanced MWD technology, logging techniques and matching technology of engineering equipment. In addition, it will develop instruments and tools matched for SINOLOG900 Ultra-Speed Networked Logging System, and carry forward the research of advanced logging methods including multi-frequency dielectric logging, isotope mud logging technology, etc. Meanwhile, the Company will promote the application of SINOWS Advanced Comprehensive Logging Instrument and technologies of vibroseis high efficient acquisition, and increase the transformation of technical achievements. At present, the Company has obtained the right to drill Chuanshen Well No. 1, which will refresh the records in Asia with designed depth of 8,690 meters.

## H. Internal Reform and Management

In the second half of 2016, the Company will deepen internal reform and continuously optimize restructuring. According to the general strategy of "Standardization and Simplification", it will accelerate specialized restructuring, decrease homogeneous development, streamlining management and improving the market-oriented operation management system. The Company will strengthen performance assessment and project management, and enhance the restraints of the assessment. At the same time, it will make further efforts to deepen precision management and continuously reinforce total cost management during the whole process. The Company will try its best to cut down cost to the fullest at crucial aspects so as to achieve the target of cost saving which was set at the beginning of this year. Meanwhile the Company will accelerate business consolidation and structural adjustment and make breakthroughs in improving competitiveness and achieving scale development in new business such as geographic information mapping, energy conservation and environmental protection business, pipeline operation & maintenance, etc.

## I. Capital Expenditure

The Company has made the capital expenditure plan of RMB 900 million in the first half of 2016. Considering the fact that the total capital expenditures for 2016 should not exceed RMB 2.7 billion, the Company will make moderate capital expenditure arrangement for the second half of 2016 according to the practical production situation. That will be spent on high-end business development, offshore engineering equipment manufacturing, key labs establishment, safe production governance and environmental protection projects. It plans to continue the efficiency-oriented operation for improvement of quality as well as profit. Also it will place focuses on safe production, environmental protection, and development of low-Carbon green economy. At the same time, it will continue to achieve sustainable development and further accelerate the resource allocation, development transformation, and market structure adjustment, so as to increase the share of high-end business revenue and strengthen its competitiveness.



# Section 4 Report of the Board of Directors

## 4. Other matters of disclosure

(1) Warnings on potential fluctuation from the net profit to the loss for the period from the beginning of the year to the end of next reporting period or significant changes as compared with the same period of the preceding year

Applicable  Not applicable

(2) Explanations by the Board and Supervisory Committee of the Company on Non-standard Auditing Report of the accounting firm

Applicable  Not applicable

(3) Assets, liabilities, equities and cash flow (Extracted from the financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”))

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

### A. Assets, liabilities and shareholders’ equity analysis

	As at 30 June 2016	As at 31 December 2015	Change
	RMB’000	RMB’000	RMB’000
<b>Total assets</b>	<b>77,477,260</b>	<b>85,307,777</b>	<b>-7,830,517</b>
<b>Current assets</b>	<b>42,265,732</b>	<b>48,187,792</b>	<b>-5,922,060</b>
<b>Non-current assets</b>	<b>35,211,528</b>	<b>37,119,985</b>	<b>-1,908,457</b>
<b>Total liabilities</b>	<b>57,278,533</b>	<b>60,670,824</b>	<b>-3,392,291</b>
<b>Current liabilities</b>	<b>56,443,121</b>	<b>59,909,391</b>	<b>-3,466,270</b>
<b>Non-current liabilities</b>	<b>835,412</b>	<b>761,433</b>	<b>73,979</b>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>20,199,951</b>	<b>24,638,094</b>	<b>-4,438,143</b>

As at 30 June 2016 the Group’s total assets was RMB 77,477,260,000 and total liabilities was RMB 57,278,533,000. The total equity attributable to shareholders of the Company was RMB 20,199,951,000. Compared with the Balance Sheet as of 31 December 2015 (“Compared with that of the end of last year”), the change and its main reasons were as follow:

Total assets was RMB 77,477,260,000, decreased by RMB 7,830,517,000 compared with that of the end of last year, including that (i) current assets was RMB 42,265,732,000, decreased by RMB 5,922,060,000 compared with that of the end of last year, due to the decreasing revenue of the first half of this year caused the decreasing receivable accounts and trade account receivables by RMB 9,086,352,000; and (ii) non-current assets was RMB 35,211,528,000, decreased by RMB 1,908,457,000 compared with that of the end of last year due to the decrease of property, plants and equipments by RMB 1,426,609,000 as the Group had recognized the provision for depreciation and amortization of fixed assets and petroleum engineering special tools.

The total liabilities was RMB 57,278,533,000, decreased by RMB 3,392,291,000 compared with that of the end of last year, including that (i) current liabilities was RMB 56,443,121,000, decreased by RMB 3,466,270,000 compared with that of the end of last year due to the decrease of Company’s notes payable and trade account payable and project-related accounts payable of the first half of 2016 by RMB 3,244,292,000 and RMB 2,756,592,000 respectively, and the increase of short-term borrowing by RMB 3,777,633,000; and (ii) non-current liabilities was RMB 835,412,000, increased by RMB 73,979,000 compared with that of the end of last year mainly due to the increase of long-term borrowing by RMB 70,042,000.

Total equity attributable to shareholders of the Company was RMB 20,199,951,000, decreased by RMB 4,438,143,000 compared with that of the end of last year mainly due to the loss attributable to shareholders of the Company in the first half of 2016 as RMB 4,438,143,000.

As at 30 June 2016, the Group’s liability rate (Total liability/Total asset) was 73.9%, comparing with 71.1% as at 31 December 2015.

# Section 4 Report of the Board of Directors

## B. Cash flow analysis

The main items of cash flow of the Company in the first half of 2016 and the first half of 2015 showed in the following table.

Main items of cash flow	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash outflow from operating activities	(3,242,833)	(1,397,163)
Net cash outflow from investing activities	(9,533)	(430,646)
Net cash inflow from financing activities	3,663,555	3,615,689
Increase in cash and cash equivalents	411,189	1,787,880
Cash and cash equivalents at the beginning of the year	1,993,209	1,201,754
Cash and cash equivalents at the end of the interim year	2,404,398	2,989,634

In the first half of 2016, the Group's net cash outflow from operating activities was RMB 3,242,833,000, representing an increase of cash outflow by RMB 1,845,670,000 as compared with the corresponding period of last year. This was mainly due to the operational losses caused by the decline of workover and price of oil field service, and increase in contract work-in-progress during the reporting period.

In first half of 2016, the Group's net cash outflow from investing activities was RMB 9,533,000, a decrease of cash outflow by RMB 421,113,000 as compared with the corresponding period of last year. It was mainly due to the decrease of capital expenditure by RMB 234,892,000 as compared with the corresponding period of last year and the recovering of entrusted loans by RMB 197,000,000 in the first half of 2016.

In the first half of 2016, the Group's net cash inflow from financing activities was RMB 3,663,555,000, an increase of cash inflow by RMB 47,866,000 compared with the corresponding period of last year. It was mainly due to the sharp increase of net borrowings by RMB 4,283,550,000 in the first half of 2016 and the fund raised by non-public offering in the first half of 2015.

## C. Borrowings from Bank and Related Companies

As at 30 June 2016, the Group's borrowings from bank and related companies were RMB 16,615,333,000 (as at 31 December 2015: RMB 12,759,281,000), including the short-term borrowings of RMB 15,917,945,000 and the long-term borrowings due over one-year of RMB 697,388,000. As at 30 June 2016, approximately 58.9% of the borrowings were denominated in Renminbi (as at 31 December 2015: 41.8%) and approximately 41.1% were denominated in US Dollars (as at 31 December 2015: 58.2%).

## D. Gearing ratio

As at 30 June 2016, the gearing ratio of the Group was 41.4% (As at 31 December 2015: 30.5%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

## E. Assets pledge

For the six months ended 30 June 2016, there was no pledge on the Group's assets.

## F. Foreign Exchange Risk Management

It is set forth in note 8 of the interim financial statements prepared in accordance with the PRC ASBE.

# Section 5 Significant Events

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

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

## 2. Insolvency and restructuring

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

## 3. Acquisitions, disposals and mergers

During the reporting period, the Company was not involved in any Acquisitions, disposals and mergers.

## 4. Stock option incentive scheme and its effect

During the reporting period, the Company's controlling shareholder, China Petrochemical Corporation, proposed that, according to its undertakings made in "Report on the connected transaction in relation to major assets sales, repurchase of shares, issue of shares as the consideration for assets purchasing and subsequent fund raising of Sinopec Yizheng Chemical Limited Company", subject to compliance with the relevant regulations of the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and China Securities Regulatory Commission ("CSRC"), the Board to make a proposal for A share option incentive scheme as soon as possible.

On 29 March 2016, the eighth meeting of the eighth session of the Board was held and approved the proposal of "Sinopec Oilfield Service Corporation A share option incentive scheme (Draft)". The related details were disclosed in the announcements dated 30 March 2016 on Shanghai Securities News, China Securities, Securities Times and the website of SSE and HKSE.

## 5. Information on connected transactions

The Company's material connected transactions for the year ended 30 June 2016 are as follows:

(1) The material connected transactions relating to daily operation during the reporting period are as follows:

The nature of the transaction classification	Connected parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipment	China Petrochemical Corporation and its subsidiaries	1,780,318	37.6
Sales of products	China Petrochemical Corporation and its subsidiaries	50,172	90.9
Rendering Engineering services	China Petrochemical Corporation and its subsidiaries	9,119,567	48.8
Receiving of community services	China Petrochemical Corporation and its subsidiaries	786,120	100.0
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	18,045	100.0
Rental expenses	China Petrochemical Corporation and its subsidiaries	26,670	16.7
Loan interest expenses	China Petrochemical Corporation's subsidiaries	219,946	98.5
Borrowings obtained	China Petrochemical Corporation's subsidiaries	27,052,059	100.0
Borrowings repaid	China Petrochemical Corporation's subsidiaries	23,206,326	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	44,114	100.0
Safety and insurance fund refund	China Petrochemical Corporation	43,990	100.0

The Company considers that it is necessary to enter into the above connected transactions with the selected connected parties and it would continue to occur. The agreements of connected transactions were based on the needs of the Group's operations and actual market situation. Purchasing materials and equipment from China Petrochemical Corporation and its subsidiaries will ensure the stable and safe supply of the Group's materials. The fact of providing engineering service to China Petrochemical Corporation and its subsidiaries is decided by the history of the operating system of China's petroleum development and by the history of China Petrochemical Corporation's development, the China Petrochemical Corporation and its subsidiaries constitute the Company's main business income source, and the borrowed funds from China Petrochemical Corporation can satisfy the Group's capital needs under the situation of the fund shortage, so it is beneficial to the Company. The above transactions were mainly based on the market price or the price decided by open bidding or negotiation, which were fair, equal and open, beneficial to the development of Company's main business, and ensure the maximization of the shareholders' interests. The above connected transactions have no adverse effects on the profits of the Company or the independence of the Company.

## Section 5 Significant Events

(2) During the reporting period, there were no material connected transactions related to the transfer of assets or equity of the Company.

(3) The following is connected obligatory rights and debts during the reporting period:

Unit: RMB'000

Connected parties	Connected relation	Funds provided to connected party			Funds provided to the Company by connected party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
<b>China Petrochemical Corporation and its subsidiaries</b>	Controlling shareholders and its subsidiaries	18,064,678	-9,862,382	8,202,296	6,056,849	-84,610	5,972,239
<b>Sinopec Finance Company Limited</b>	Subsidiary companies of the controlling shareholders	—	—	—	2,295,000	3,344,000	5,639,000
<b>Sinopec Century Bright Capital Investment Limited</b>	Subsidiary companies of the controlling shareholders	—	—	—	9,977,261	501,732	10,478,993
<b>Total</b>		18,064,678	-9,862,382	8,202,296	18,329,110	3,761,122	22,090,232
<b>Amount of funds provided to the controlling shareholders and its subsidiaries by the Company during the reporting period</b>							—
<b>Balance of funds provided to the controlling shareholders and its subsidiaries by the Company</b>							8,202,296
<b>Causes of connected claims and debts</b>					Normal production and operation		
<b>Liquidation of connected claims and debts</b>					Strict execution of contracts and no delinquent account payable		
<b>Commitment about connected claims and debts</b>					None		
<b>Influence of connected claims and debts on the Company's performance and financial situation</b>					No material adverse effects		

During the reporting period, there were no occupancy of fund for non-operating purpose by the controlling shareholders and its subsidiaries.

The Board believed that the above connected transactions were entered into in the ordinary course of business and in normal commercial terms and in accordance with the terms of agreements governing these transactions. The terms are fair, reasonable and in accordance with the interests of shareholders as a whole. The above connected transactions are fully in compliance with the relevant rules and regulations of HKSE and the SSE.

For details of connected transactions during the reporting period, please refer to note 10 of the interim financial report prepared in accordance with PRC ASBE.

### 6. Material contracts and performance

#### (1) Trusteeship, sub-contracting and leasing items

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

#### (2) Guarantee

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

#### (3) Other material contracts

Save as disclosed in the report, during the reporting period, the Company did not enter into any material contract which requires disclosure.

# Section 5 Significant Events

## 7. Performance of undertaking

The special undertakings made by the Company and its shareholders holdings more than 5% and the performance of the undertakings as of 30 June 2016:

Undertaking Background	Undertaking Type	Undertaking party	Undertaking	Undertaking date and period	Is there deadline for performance of undertaking	Whether or not strictly and timely fulfill the undertaking
Undertaking regarding share reform	Others	China Petroleum & Chemical Corporation, CITIC Limited	Within 12 months from the date their non-tradable A shares in the Company become tradable on the stock market, they will propose that, subject to compliance with the relevant regulations of the SASAC, the Ministry of Finance and CSRC, the Board shall make a proposal for a share option incentive scheme, with the exercise price of the initial grant of share options being not less than the closing price of the A Shares of the Company on 30 May 2013, being RMB6.64 per share (such price will be subject to adjustment due to matters for exclusion of rights and dividends prior to the announcement of the draft share option incentive scheme.	Undertaking date: 20 August 2013 Period: one year	Yes	As at 19 August 2014, the Company does not have the conditions for the implementation of share incentive scheme due to the consecutive losses of operating results. China Petrochemical Corporation has undertaken to propose a share option incentive scheme after the completion of the Company's material assets reorganization subject to relevant regulations. On 29 March 2016, the eighth meeting of the eighth session of the Board was held and approved relevant proposals such as A Share Option Incentive Scheme (Draft) of the Company, etc.
Undertakings regarding the material assets reorganization	To solve horizontal competition	China Petrochemical Corporation	<p>The Non-Competition Undertaking</p> <p>1. China Petrochemical Corporation undertook that it would 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 exercise of its 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 of the material assets reorganization, China Petrochemical Corporation will find appropriate opportunity to sell the petroleum service business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the material assets reorganization, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.</p>	Undertaking date: 12 September 2014 Period: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

## Section 5 Significant Events

Undertaking Background	Undertaking Type	Undertaking party	Undertaking	Undertaking date and period	Is there deadline for performance of undertaking	Whether or not strictly and timely fulfill the undertaking
Commitments regarding the Material Assets Reorganization	To solve connected transactions	China Petrochemical Corporation	The Commitment of Regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Commitment date: 12 September 2014 Period: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Commitments regarding the Material Assets Reorganization	Others	China Petrochemical Corporation	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company.	Commitment date: 12 September 2014 Period: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

### 8. The situation of appointment and dismissal of the accounting firm

The Company didn't change its accounting firm during the reporting period.

As such, the ninth meeting of the eighth term Board of Directors of the Company has proposed to further appoint Grant Thornton (special general partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2016, and further appoint Grant Thornton (special general partnership) as the Company's auditor regarding internal control for 2016. Such proposal has been approved by the shareholders of the Company at the 2015 AGM.

### 9. Penalties on the Company and its Directors, Supervisors, senior management, shareholders who hold more than five per cent of the Company's shares, ultimate controller and remedies thereto

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

### 10. Improvement of corporate governance

During the reporting period, the Company was able to regulate its operations in accordance with domestic and overseas regulatory requirements. The corporate governance of the Company had nothing inconsistent with the regulatory requirements on corporate governance of listed companies laid down by the CSRC.

During the reporting period, 1) among the relationship of General Meeting, Board of Directors and Management level, there were clear division of rights and responsibilities, good performance of their respective duties and standard norms of operation; 2) the special committees of the Board carried out their work in accordance with their duties, and the independent directors played active roles in connected transactions, appointment of senior management and financial audit, etc.; 3) the Company continuously improve the quality of information disclosure and investor relations management. The disclosed information were real, accurate, complete and in-time; 4) trainings on performance of duty were meticulously organized for directors, supervisors and senior management.

# Section 5 Significant Events

## 11. Compliance with the Corporate Governance Code

For the six months ended 30 June 2016, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that:

Code provision A.5.1 provides that listed issuers should establish a nomination committee. As at the end of reporting period, the Company has not set up a nomination committee. Nonetheless, the requirements for nomination of directors are set out in detail in the Articles of Association of the Company. Pursuant to the Articles of Association, the candidates for independent directors may be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than one per cent of the issued shares of the Company. The candidates for the remaining directorship shall be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than three per cent of the issued shares of the Company. Directors of the Company shall be elected at general meeting of the Company for a term of office of not more than three years. Upon expiration of his term, each Director shall be entitled to be re-elected.

## 12. Compliance with the Model Code

The Company has adopted the Model Code as contained in Appendix 10 to the Listing Rules. After having specifically inquired from all the Directors, Supervisors and Senior Management, the Company confirms that its Directors, Supervisors and Senior Management have fully complied with the standards as set out in the Model Code.

## 13. Other significant events

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

Applicable  Not Applicable

On 30 March 2016, the Company held the ninth meeting of the eighth session of the Board of Directors, and approved the proposal of Changes in Accounting. "Announcement on Changes in Accounting Estimates" was disclosed on 30 March 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange and Hong Kong Stock Exchange. The changes in accounting lead to the decrease of depreciation and amortization expenses by RMB 396,342,000.

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

Applicable  Not Applicable

# Section 6 Changes in Share Capital and Information on Shareholders

## 1. Changes in share capital

(1) Details of the changes in share capital are as follows:

Unit: Share

	Before change		Increase/(decrease) (+/-)					After change	
	Numbers of shares	Percent (%)	New issue	Stock dividends	Conversion from Reserve	Others	Sub-total	Numbers of shares	Percent (%)
<b>I. Shares with selling restrictions:</b>	11,592,660,995	82.0	—	—	—	-1,333,333,333	-1,333,333,333	10,259,327,662	72.6
1.State-owned shares	—	—	—	—	—	—	—	—	—
2.Shares held by state-owned companies	10,259,327,662	72.6	—	—	—	—	—	10,259,327,662	72.6
3.Shares held by other domestic investors	1,333,333,333	9.4	—	—	—	-1,333,333,333	-1,333,333,333	—	—
4.Shares held by foreign investors	—	—	—	—	—	—	—	—	—
<b>II. Shares without selling restrictions</b>	2,550,000,000	18.0	—	—	—	+1,333,333,333	+1,333,333,333	3,883,333,333	27.4
1.RMB-denominated ordinary shares	450,000,000	3.2	—	—	—	+1,333,333,333	+1,333,333,333	1,783,333,333	12.6
2.Shares traded in non-RMB currencies and listed domestically	—	—	—	—	—	—	—	—	—
3.Shares listed overseas	2,100,000,000	14.8	—	—	—	—	—	2,100,000,000	14.8
4.Others	—	—	—	—	—	—	—	—	—
<b>III. Total shares</b>	14,142,660,995	100.0	—	—	—	—	—	14,142,660,995	100.0

Note for the changes in share capital:

During the reporting period, the Company's total number of shares remains the same but shareholding structure has changed. The change mainly results from the termination of the lock-up period of non-public issued 1,333,333,333 A shares with selling restrictions on 3 March 2016.



# Section 6 Changes in Share Capital 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 year	Number of shares with selling restrictions expired in the reporting period	Increase in number of shares with selling restrictions in the reporting period	Number of shares with selling restrictions at the end of the reporting period	Reasons for selling restrictions	Date when selling restrictions expired
China Petroleum Chemical Corporation	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 can not 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)	293,333,333	293,333,333	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Nanjing Ruisen Investment Management Partnership Enterprise (Limited Partnership)	133,333,333	133,333,333	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Darry Asset Management (Hangzhou) Co., Ltd.	133,333,333	133,333,333	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Hua An Fund- Minsheng Bank- Hua An Jifeng No. 11 Asset Management Plan	111,110,800	111,110,800	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Beixin Ruifeng Fund- ICBC- Fengqing No.33 Asset Management Plan	93,333,333	93,333,333	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Donghai Fund- Xingye Bank- Xinlong No.118 Multi-client Asset Management Plan	66,666,667	66,666,667	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	66,666,666	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	66,666,666	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- SPD Bank- Beijing Trust- Fengshou Financing No. 2015001 Trust Plan	32,311,326	32,311,326	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Beixin Ruifeng Fund- ICBC- Beixin Ruifeng Fund Fengqing No. 29 Asset Management Plan	26,666,667	26,666,667	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- Minsheng Bank- Shuguang No. 18 Asset Management Plan	24,938,272	24,938,272	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Minsheng Bank- Huaan Jifeng No.7 Asset Management Plan	22,777,500	22,777,500	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Beixin Ruifeng Fund- Ningbo Bank- Beixin Ruifeng Fund Fengqing No. 18 Asset Management Plan	22,222,222	22,222,222	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- Minsheng Bank- Shuguang No.15 Asset Management Plan	16,264,090	16,264,090	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Minsheng Bank- Huaan Jifeng No.6 Asset Management Plan	15,555,300	15,555,300	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- Minsheng Bank- Shuguang No.20 Asset Management Plan	14,962,963	14,962,963	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Xingye Bank- China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	13,333,300	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- Minsheng Bank- Fuchun Private Placement No. 221 Asset Management Plan	13,011,272	13,011,272	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- Minsheng Bank- Fuchun Private Placement No. 226 Asset Management Plan	12,740,204	12,740,204	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Minsheng Bank- Huaan Jifeng No.9 Asset Management Plan	11,556,000	11,556,000	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- China Everbright Bank- China Galaxy Securities Co., Ltd.	10,842,727	10,842,727	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- ICBC- China Foreign Economy and Trade Trust Co., Ltd.- Hengsheng Private Placement Investment Trust Plan	10,842,727	10,842,727	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Caitong Fund- ICBC- Fuchun Private Placement Asset management Plan	8,674,182	8,674,182	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Xingye Bank- Shanghai Renhe Zhiben Asset Management Co., Ltd.	8,445,080	8,445,080	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016
Huaan Fund- Minsheng Bank- Huaan Jifeng No.8 Asset Management plan	8,333,100	8,333,100	0	0	The Lockup Period for non-public offering was 12 months since 3 March 2015	3 March 2016

## Section 6 Changes in Share Capital and Information on Shareholders

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

# Section 6 Changes in Share Capital and Information on Shareholders

## 2. Information of Shareholders

### (1) Number of shareholders

As at 30 June 2016, the number of shareholders of the Company was 176,436, including 176,072 holders of A shares and 346 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules on the HKSE.

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

Shareholdings of the top ten shareholders					
Names of shareholders	Nature of shareholders	Number of shares held (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
<b>China Petroleum Chemical Corporation</b>	State-owned legal person	9,224,327,662	65.22	9,224,327,662	0
<b>Hong Kong Securities Clearing Company (Nominees) Limited* ("HKSCC (Nominees) Limited")</b>	Overseas legal person	2,085,950,496	14.75	0	0
<b>CITIC Limited</b>	State-owned legal person	1,035,000,000	7.32	1,035,000,000	0
<b>Darry Asset Management (Hangzhou) Co., Ltd.</b>	Other	133,333,333	0.94	0	133,333,300
<b>Beijing Harvest Yuanhe Investment Center (Limited Partnership)</b>	Other	124,007,660	0.88	0	Unknown
<b>Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan</b>	Other	66,666,666	0.47	0	Unknown
<b>Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan</b>	Other	66,666,666	0.47	0	Unknown
<b>Caitong Fund-Minsheng Bank-Shuguang No.15 Asset Management Plan</b>	Other	16,264,090	0.12	0	Unknown
<b>Hua'an Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.</b>	Other	13,333,300	0.09	0	Unknown
<b>Caitong Fund-Guangda Bank-China Galaxy Securites</b>	Other	10,842,727	0.08	0	Unknown

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
<b>HKSCC (Nominees) Limited*</b>	2,085,950,496	H Share
<b>Darry Asset Management (Hangzhou) Co., Ltd.</b>	133,333,333	A Share
<b>Beijing Harvest Yuanhe Investment Center (Limited Partnership)</b>	124,007,660	A Share
<b>Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan</b>	66,666,666	A Share
<b>Donghai Fund- Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan</b>	66,666,666	A Share
<b>Caitong Fund-Minsheng Bank-Shuguang No.15 Asset Management Plan</b>	16,264,090	A Share
<b>Hua'an Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.</b>	13,333,300	A Share
<b>Caitong Fund-Guangda Bank-China Galaxy Securites</b>	10,842,727	A Share
<b>Hua'an Fund-Minsheng Bank-Hua'anjifeng No.7 Hierarchical Asset Management Plan</b>	10,300,000	A Share
<b>Beixin Ruifeng Fund-Ningbo Bank-Beixinruifeng Fund Fengqing No.18 Asset Management Plan</b>	9,222,308	A Share

Statement on the connected relationship or activities in concert among the above-mentioned shareholders.

Except that "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, "Caitong Fund-Minsheng Bank-Shuguang No.15 Asset Management Plan" and "Caitong Fund-Guangda Bank-China Galaxy Securites" belong to Caitong Fund Management Limited Company, and "Hua'an Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd" and "Hua'an Fund-Minsheng Bank-Hua'anjifeng No.7 Hierarchical Asset Management Plan" belong to Caitong Fund Management Limited Company, there is no connected relationship or acting in concert among the above-mentioned shareholders.

Note: \* Agent for different clients

# Section 6 Changes in Share Capital and Information on Shareholders

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

Unit: share

Names of shareholders with selling restrictions	Number of shares with selling restrictions	Date when the shares could be traded through listing	Number of additional shares could be traded through listing	Selling restriction
<b>China Petroleum Chemical Corporation</b>	9,224,327,662	31 December 2017	9,224,327,662	3 years
<b>CITIC Limited</b>	1,035,000,000	20 August 2014	300,000,000 <sup>1</sup>	1 year <sup>2</sup>
		20 August 2015	300,000,000 <sup>1</sup>	2 years
		22 August 2016	435,000,000	3 years
<b>Statement on the connected relationship or activities in concert among the above-mentioned shareholders.</b>	There is no connected relationship or activities in concert among the above-mentioned shareholders.			

Note:

- According to the requirement of the "MOU of equity division reform for listed companies, No. 14 – the related matters about listing of outstanding shares with sale restrictions under share forming", it should be accounted under the Company's total equity of 6,000,000,000 shares of pre-Material Assets Reorganization.
- The restricted trade period of 1,035,000,000 restricted shares that CITIC Limited holds has ended on 22 August 2016. The related details were disclosed on 15 August 2016 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

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

So far as the directors are aware of, as at 30 June 2016, the persons other than a Director, Supervisor or senior management of the Company who had interests or short positions in the shares or underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

Name of shareholder	Number of share held	Per cent of shareholding in the Company's total issued share capital (%)	Per cent of shareholding in the Company's total issued domestic shares (%)	Per cent of shareholding in the Company's total issued H shares (%)	Short position
		(%)	(%)	(%)	(shares)
<b>China Petroleum Chemical Corporation</b>	9,224,327,662	65.22	76.60	Not Applicable	—
<b>CITIC Limited</b>	1,035,000,000	7.32	8.59	Not Applicable	—

As at 30 June 2016, so far as the Directors are aware of, save as disclosed above, no person (other than a Director, Supervisor or senior management of the Company) had an interest or short position in the shares of the Company according to the register of interests in shares and short positions kept by the Company pursuant to Section 336 of the SFO.

## 4. Information on changes of controlling shareholder and the ultimate controller

There was no change in the controlling shareholder or the ultimate controller of the Company during the reporting period.

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

During the reporting period, the Company had not purchased, sold or redeemed any of the Company's listed securities.

# Section 7 Directors, Supervisors and Senior Management

## 1. The Change of Shareholdings

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

The actual number of shares in the issued share capital of the Company held by the Directors, Supervisors and Senior Management as at the end of the Reporting Period are as follows:

Name	Title	Number of shares held at the beginning of the reporting period	Number of shares held at the end of the reporting period	Stock Option of the Company held	Reason for change
Jiao Fangzheng	Chairman	0	0	No	No Change
Sun Qingde	Vice Chairman, General Manager	0	0	No	No Change
Zhou Shiliang	Director, Deputy General Manager	0	0	No	No Change
Li Lianwu	Director	0	0	No	No Change
Zhang Hong	Director	0	0	No	No Change
Jiang Bo	Independent Non-Executive	0	0	No	No Change
Zhang Huaqiao	Independent Non-Executive	0	0	No	No Change
Pan Ying	Independent Non-Executive	0	0	No	No Change
Hu Guoqiang	Chairman of Supervisory Committee	0	0	No	No Change
Zou Huiping	Supervisor	0	0	No	No Change
Du Jiangbo	Supervisor	0	0	No	No Change
Zhang Qin	Supervisor	0	0	No	No Change
Cong Peixin	Supervisor	0	0	No	No Change
Xu Weihua	Supervisor	0	0	No	No Change
Du Guangyi	Supervisor	0	0	No	No Change
Zhang Yongjie	Deputy General Manager	0	0	No	No Change
Lu Baoping	Deputy General Manager	0	0	No	No Change
Liu Rushan	Deputy General Manager	0	0	No	No Change
Wang Hongchen	Chief Financial Manager	0	0	No	No Change
Zhang Jinhong	Deputy General Manager	0	0	No	No Change
Huang Songwei	Deputy General Manager	0	0	No	No Change
Li Honghai	Secretary to the board	0	0	No	No Change
Zhu Ping	Former Vice Chairman, General Manager	0	0	No	No Change
Geng Xianliang	Former Deputy General Manager	0	0	No	No Change
Wen Dongfen	Former Supervisor	0	0	No	No Change

### Directors', Supervisors' and Senior Management's rights to acquire interest or short position in shares or debentures

At 30 June 2016, none of the Directors or Supervisors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the HKSE by the Directors and Supervisors pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

# Section 7 Directors, Supervisors and Senior Management

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

Applicable  Not Applicable

## 2. Changes in Directors, Supervisors and Senior Management

Name	Position held	Change	Reason for change
Zhu Ping	Vice Chairman, General Manager	Resigned	Change of work
Geng Xianliang	Deputy General Manager	Resigned	Personal reasons
Sun Qingde	General Manager	Appointed as General Manager	Appointed by the Board of Directors
Sun Qingde	Director	Elected as Director	Elected at General Meeting
Sun Qingde	Vice Chairman	Elected as Vice Chairman	Elected by the Board of Directors
Wen Dongfen	Supervisor	Resigned	Change of work
Lu Baoping	Deputy General Manager	Appointed as Deputy Manager	Appointed by the Board of Directors

Due to the change of work, Mr. Zhu Ping had tendered his resignations as the Vice Chairman and General Manager, with effect from 11 March 2016. The Board expressed its sincere gratitude to Mr. Zhu Ping for his important contributions to the Company during the term of office.

Following the nomination by Chairman, the Board resolved that Mr. Sun Qingde was appointed as the General Manager of the Company. The term of office started from 11 March 2016 to the end of the eighth session of the Board.

Mr. Sun Qingde was elected as Executive Director of the eighth session of the Board at 2015 Annual General Meeting held on 6 June 2016. The term of Mr. Sun Qingde was started from 6 June 2016 to the end of the eighth session of the Board.

Mr. Sun Qingde was elected as Vice Chairman of the eighth session of the Board at the eleventh meeting of the eighth session of Board on 6 June 2016.

Mr. Geng Xianliang had tendered his resignation as the Deputy General Manager due to personal reasons with effect from 5 July 2016.

Due to the change of work, Ms. Wen Dongfen tendered her resignation as the Supervisor of the Company, with effect from 2 August 2016. The Company expressed its sincere gratitude to Ms. Wen Dongfen for her hard work and contributions to the Company during the term of office.

Following the nomination by General Manager, the Board resolved that Mr. Lu Baoping was appointed as the Deputy Manager of the Company. The term of office was from 30 August 2016 to the end of the eighth session of the Board.

## 3. Independent Non-executive Director and Audit Committee

As at 30 June 2016, the Company has three independent non-executive directors, one of whom is professional in the accounting field and has experience in financial management.

The Audit Committee of the Board of the Company has been founded. The members of the Audit Committee include Ms. Jiang Bo, Mr. Pan Ying and Mr. Li Lianwu. The main responsibilities of the audit committee are to review and supervise the Company's financial reporting procedures and internal control system, and to provide advice to the Board. The Audit Committee has reviewed and confirmed the interim results for the six-months ended on 30 June 2016.

# Section 8 Financial Reports

Prepared in accordance with PRC Accounting Standards for Business Enterprises

## CONSOLIDATED BALANCE SHEETS

Expressed in RMB thousand

Items	Notes	At 30 June 2016	At 31 December 2015
<b>Current assets:</b>			
Cash at bank and on hand	V.1	2,408,314	2,011,590
Financial assets at fair value through profit or loss		—	—
Notes receivable	V.2	472,451	141,132
Accounts receivable	V.3	17,703,456	27,121,127
Prepayments	V.4	577,458	460,035
Interest receivables		—	—
Dividend receivables		6	6
Other receivables	V.5	3,205,194	2,432,785
Inventories	V.6	16,460,463	14,769,275
Non-current assets due within one year	V.7	2,113,978	2,493,030
Other current assets	V.8	465,251	82,062
<b>Total current assets</b>		<b>43,406,571</b>	<b>49,511,042</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets	V.9	40,494	40,494
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	V.10	211,030	216,400
Investment property		—	—
Fixed assets	V.11	29,180,450	29,008,189
Construction in progress	V.12	1,111,308	2,710,178
Construction materials		—	—
Disposal of fixed assets		4,581	4,023
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	V.13	175,053	182,203
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses	V.14	3,158,757	3,447,818
Deferred income tax assets	V.15	189,016	187,430
Other non-current assets		—	—
<b>Total non-current assets</b>		<b>34,070,689</b>	<b>35,796,735</b>
<b>Total assets</b>		<b>77,477,260</b>	<b>85,307,777</b>

## CONSOLIDATED BALANCE SHEETS (Continued)

Expressed in RMB thousand

Items	Notes	At 30 June 2016	At 31 December 2015
<b>Current liabilities:</b>			
Short-term loans	V.16	15,852,320	12,070,312
Financial liabilities at fair value through profit or loss		—	—
Bills payable	V.17	1,647,022	1,284,745
Accounts payable	V.18	25,302,532	28,909,101
Advances from customers	V.19	6,805,402	9,263,970
Employee benefits payable	V.20	277,522	187,561
Taxes payable	V.21	618,730	2,612,168
Interest payables	V.22	33,946	14,823
Dividend payables		—	—
Other payables	V.23	5,771,185	5,473,433
Non-current liabilities due within one year	V.24	112,834	87,360
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>56,421,493</b>	<b>59,903,473</b>
<b>Non-current liabilities:</b>			
Long-term loans	V.25	697,388	618,969
Bonds payables		—	—
Long-term payables	V.26	64,405	57,072
Long-term employee benefits payable		—	—
Special payables	V.27	400	1,051
Estimated liabilities		—	—
Deferred income	V.28	64,663	59,008
Deferred income tax liabilities	V.15	30,184	31,251
Other non-current liabilities		—	—
<b>Total non-current liabilities</b>		<b>857,040</b>	<b>767,351</b>
<b>Total liabilities</b>		<b>57,278,533</b>	<b>60,670,824</b>
Share capital	V.29	14,142,661	14,142,661
Capital reserve	V.30	8,894,216	8,894,216
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve	V.31	330,825	259,547
Surplus reserve	V.32	200,383	200,383
Retained earnings	V.33	-3,368,134	1,141,287
Equity attributable to the parent company		20,199,951	24,638,094
Minority interests		-1,224	-1,141
<b>Total equity</b>		<b>20,198,727</b>	<b>24,636,953</b>
<b>Total liabilities and equity</b>		<b>77,477,260</b>	<b>85,307,777</b>

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 thousand

Items	Notes	At 30 June 2016	At 31 December 2015
<b>Current assets:</b>			
Cash at bank and on hand	XIV.1	510,189	419,118
Financial assets at fair value through profit or loss		—	—
Notes receivable		—	—
Accounts receivable		—	—
Prepayments		—	—
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	XIV.2	5,066,002	5,157,515
Inventories		—	—
Non-current assets due within one year		—	—
Other current assets		—	—
<b>Total current assets</b>		<b>5,576,191</b>	<b>5,576,633</b>
<b>Non-current assets:</b>			
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		—	—
<b>Total non-current assets</b>		<b>20,215,327</b>	<b>20,215,327</b>
<b>Total assets</b>		<b>25,791,518</b>	<b>25,791,960</b>

## BALANCE SHEETS (Continued)

Expressed in RMB thousand

Items	Notes	At 30 June 2016	At 31 December 2015
<b>Current liabilities:</b>			
Short-term loans		—	—
Financial liabilities at fair value through profit or loss		—	—
Bills payable		—	—
Accounts payable		—	—
Advances from customers		—	—
Employee benefits payable		—	—
Taxes payable		99	69
Interest payables		—	—
Dividend payables		—	—
Other payables	XIV.4	1,119,802	1,119,802
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>1,119,901</b>	<b>1,119,871</b>
<b>Non-current liabilities:</b>			
Long-term loans		—	—
Bonds payables		—	—
Long-term payables		—	—
Long-term employee benefits payable		—	—
Special payables		—	—
Estimated liabilities		—	—
Deferred income		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
<b>Total non-current liabilities</b>		<b>—</b>	<b>—</b>
<b>Total liabilities</b>		<b>1,119,901</b>	<b>1,119,871</b>
Share capital	XIV.5	14,142,661	14,142,661
Capital reserve	XIV.6	11,751,318	11,751,318
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve		—	—
Surplus reserve	XIV.7	200,383	200,383
Retained earnings	XIV.8	-1,422,745	-1,422,273
<b>Equity attributable to the parent company</b>		<b>24,671,617</b>	<b>24,672,089</b>
Minority interests		—	—
<b>Total equity</b>		<b>24,671,617</b>	<b>24,672,089</b>
<b>Total liabilities and equity</b>		<b>25,791,518</b>	<b>25,791,960</b>

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 thousand

Items	Notes	For the six months ended 30 June 2016	For the six months ended 30 June 2015
<b>1. Revenue</b>	V.34	18,689,863	23,121,285
Less: Cost of sales	V.34	21,069,363	22,305,940
Business taxes and surcharges	V.35	201,159	260,523
Selling expenses	V.36	24,797	25,343
General and administrative expenses	V.37	1,562,419	1,560,959
Finance costs	V.38	210,096	203,506
Impairment losses on assets	V.39	68,130	110,205
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	V.40	6,679	-4,690
Including: Investment income from investments in associates and joint ventures		-9,370	-4,732
<b>2. Operating profits (loss in "-")</b>		-4,439,422	-1,349,881
Add: Non-operating income	V.41	69,736	173,729
Including: Gains from disposal of non-current assets		6,084	18,396
Less: Non-operating expenses	V.42	26,608	21,158
Including: Losses on disposal of non-current assets		5,679	4,890
<b>3. Profit before income tax (loss in "-")</b>		-4,396,294	-1,197,310
Less: Income tax expense	V.43	113,210	183,115
<b>4. Profit for the year/period (loss in "-")</b>		-4,509,504	-1,380,425
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:			
– The owners' of SOSC		-4,509,421	-1,380,350
– Minority interests		-83	-75
<b>5. Other comprehensive income after tax</b>			
Other comprehensive income after tax for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
<b>6. Total comprehensive income</b>		-4,509,504	-1,380,425
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-4,509,421	-1,380,350
– Minority shareholders		-83	-75
<b>7. Earnings per share</b>			
– Basic		-0.32	-0.10
– Diluted		-0.32	-0.10

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 thousand

Items	Notes	For the six months ended 30 June 2016	For the six months ended 30 June 2015
<b>1. Revenue</b>		—	—
Less: Cost of sales		—	—
Business taxes and surcharges	XIV.9	34	32
Selling expenses		—	—
General and administrative expenses	XIV.10	2,750	4,410
Finance costs	XIV.11	-2,312	-10,834
Impairment losses on assets		—	—
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")		—	—
Including: Investment income from investments in associates and joint ventures		—	—
<b>2. Operating profits (loss in "-")</b>		-472	6,392
Add: Non-operating income		—	—
Including: Gains from disposal of non-current assets		—	—
Less: Non-operating expenses		—	—
Including: Losses on disposal of non-current assets		—	—
<b>3. Profit before income tax (loss in "-")</b>		-472	6,392
Less: Income tax expense	XIV.12	—	—
<b>4. Profit for the year/period (loss in "-")</b>		-472	6,392
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:			
– The owners' of SOSC		—	—
– Minority interests		—	—
<b>5. Other comprehensive income after tax</b>		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
<b>6. Total comprehensive income</b>		-472	6,392
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
<b>7. Earnings per share</b>			
– 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 thousand

Items	Notes	For the six months ended 30 June 2016	For the six months ended 30 June 2015
<b>1. Cash flows from operating activities:</b>			
Cash received from the sales of goods and provision of services		23,731,235	34,771,336
Tax refund received		10,127	50,800
Cash received from other operating activities	V.44	1,105,805	496,496
Subtotal of cash inflow from operating activities		24,847,167	35,318,632
Cash paid for the purchases of goods and receiving of services		17,785,051	25,004,722
Cash paid for employees and on behalf of employees		5,541,040	6,081,730
Taxes paid		2,425,996	3,490,444
Cash paid for other operating activities	V.44	2,205,704	2,113,158
Subtotal of cash outflow from operating activities		27,957,791	36,690,054
<b>Net cash flow from operating activities</b>	V.45	<b>-3,110,624</b>	<b>-1,371,422</b>
<b>2. Cash flows from investing activities:</b>			
Cash received from the investments		51,000	—
Cash received from the investment income		16,051	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,629	22,780
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities		—	—
Subtotal of cash inflow from investing activities		69,680	22,780
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		230,407	469,299
Cash paid for the investments		4,000	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		—	—
Subtotal of cash outflow from investing activities		234,407	469,299
<b>Net cash flow from investing activities</b>		<b>-164,727</b>	<b>-446,519</b>
<b>3. Cash flows from financing activities:</b>			
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		26,850,384	26,172,969
Cash received from issuance of bonds		—	—
Cash received for other financing activities	V.44	1,285	—
Subtotal of cash inflow from financing activities		26,851,669	32,126,969
Cash paid for repayments of borrowings		22,986,605	26,586,161
Cash paid for distribution of dividend, profit or payments of interests		200,224	156,752
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities	V.44	11,093	1,769,994
Including: Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		23,197,922	28,512,907
<b>Net cash flow from financing activities</b>		<b>3,653,747</b>	<b>3,614,062</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>		<b>32,793</b>	<b>-8,241</b>
<b>5. Net changes in cash and cash equivalents</b>		<b>411,189</b>	<b>1,787,880</b>
Add: Cash and cash equivalents at beginning of year/period	V.45	1,993,209	1,201,754
<b>6. Cash and cash equivalents at end of year/period</b>	V.45	<b>2,404,398</b>	<b>2,989,634</b>

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 thousand

Items	Notes	For the six months ended 30 June 2016	For the six months ended 30 June 2015
<b>1. Cash flows from operating activities:</b>			
Cash received from the sales of goods and provision of services		—	—
Tax refund received		—	—
Cash received from other operating activities		90,919	10,854
Subtotal of cash inflow from operating activities		90,919	10,854
Cash paid for the purchases of goods and receiving of services		—	—
Cash paid for employees and on behalf of employees		—	—
Taxes paid		34	3,009
Cash paid for other operating activities	XIV.13	1,099	3,999,056
Subtotal of cash outflow from operating activities		1,133	4,002,065
<b>Net cash flow from operating activities</b>	XIV.24	<b>89,786</b>	<b>-3,991,211</b>
<b>2. Cash flows from investing activities:</b>			
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		—	—
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities		—	—
Subtotal of cash inflow from investing activities		—	—
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		—	—
Cash paid for the investments		—	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		—	—
Subtotal of cash outflow from investing activities		—	—
<b>Net cash flow from investing activities</b>		<b>—</b>	<b>—</b>
<b>3. Cash flows from financing activities:</b>			
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		—	—
Cash received from issuance of bonds		—	—
Cash received for other financing activities	XIV.13	1,285	—
Subtotal of cash inflow from financing activities		1,285	5,954,000
Cash paid for repayments of borrowings		—	—
Cash paid for distribution of dividend, profit or payments of interests		—	—
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities	XIV.13	—	360,305
Including: Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		—	360,305
<b>Net cash flow from financing activities</b>		<b>1,285</b>	<b>5,593,695</b>
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>			
		—	—
<b>5. Net changes in cash and cash equivalents</b>			
		91,071	1,602,484
<b>Add: Cash and cash equivalents at beginning of year/period</b>	XIV.14	<b>419,118</b>	<b>—</b>
<b>6. Cash and cash equivalents at end of year/period</b>	XIV.14	<b>510,189</b>	<b>1,602,484</b>

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 thousand

Items	Amount of this period								Minority interests	Total equity
	Equity attributable to the the parent company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings		
<b>Balance at 31 December 2015</b>	14,142,661	8,894,216	—	—	259,547	200,383	—	1,141,287	-1,141	24,636,953
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—
<b>Balance at 1 January 2016</b>	14,142,661	8,894,216	—	—	259,547	200,383	—	1,141,287	-1,141	24,636,953
<b>Changes during the period (decrease in "-")</b>	—	—	—	—	71,278	—	—	-4,509,421	-83	-4,438,226
I. Total comprehensive income	—	—	—	—	—	—	—	-4,509,421	-83	-4,509,504
II. Increase or decrease of capital	—	—	—	—	—	—	—	—	—	—
1. Contribution of capital	—	—	—	—	—	—	—	—	—	—
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	—	—	—	—	71,278	—	—	—	—	71,278
1. Provided during the period	—	—	—	—	232,721	—	—	—	—	232,721
2. Used during the period (expressed in "-")	—	—	—	—	-161,443	—	—	—	—	-161,443
VI. Others	—	—	—	—	—	—	—	—	—	—
<b>Balance at 30 June 2016</b>	14,142,661	8,894,216	—	—	330,825	200,383	—	-3,368,134	-1,224	20,198,727

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 thousand

Items	Amount of previous period								Minority interests	Total equity
	Equity attributable to the the parent company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings		
<b>Balance at 31 December 2015</b>	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	—	—	—	—	—	—	—	—	—	—
<b>Balance at 1 January 2016</b>	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138
<b>Changes during the period (decrease in "-")</b>	1,333,333	4,619,184	—	—	132,575	—	—	-1,380,350	-75	4,704,667
I. Total comprehensive income	—	—	—	—	—	—	—	-1,380,350	-75	-1,380,425
II. Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	—	—	5,952,517
4. Contribution of capital	1,333,333	4,619,184	—	—	—	—	—	—	—	5,952,517
5. Share payments recognised in equity	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—	—	—
4. Provision of surplus reserve	—	—	—	—	—	—	—	—	—	—
5. Distribution to (from) shareholders	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—	—	—
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	—	—	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	132,575	—	—	—	—	132,575
3. Provided during the period	—	—	—	—	336,223	—	—	—	—	336,223
4. Used during the period (expressed in "-")	—	—	—	—	-203,648	—	—	—	—	-203,648
VI. Others	—	—	—	—	—	—	—	—	—	—
<b>Balance at 30 June 2016</b>	14,142,661	8,894,216	—	—	428,143	200,383	—	-263,541	-1,057	23,400,805

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

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



## STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB thousand

Items	Amount of this period							Total equity
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	
<b>Balance at 31 December 2015</b>	14,142,661	11,751,318	—	—	—	200,383	-1,422,273	24,672,089
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
<b>Balance at 1 January 2016</b>	14,142,661	11,751,318	—	—	—	200,383	-1,422,273	24,672,089
<b>Changes during the period (decrease in “-”)</b>	—	—	—	—	—	—	-472	-472
I. Total comprehensive income	—	—	—	—	—	—	-472	-472
II. Increase or decrease of capital	—	—	—	—	—	—	—	—
7. Contribution of capital	—	—	—	—	—	—	—	—
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	—	—	—	—	—	—	—	—
<b>Balance at 30 June 2016</b>	14,142,661	11,751,318	—	—	—	200,383	-1,422,745	24,671,617

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 thousand

Items	Amount of previous period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
<b>Balance at 31 December 2015</b>	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	—	—	—	—	—	—	—	—
<b>Balance at 1 January 2016</b>	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120
<b>Changes during the period (decrease in “-”)</b>	1,333,333	4,619,184	—	—	—	—	6,392	5,958,909
I. Total comprehensive income	—	—	—	—	—	—	6,392	6,392
II. Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	5,952,517
10. Contribution of capital	1,333,333	4,619,184	—	—	—	—	—	5,952,517
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	—	—	—	—	—	—	—	—
7. Provided during the period	—	—	—	—	—	—	—	—
8. Used during the period (expressed in “-”)	—	—	—	—	—	—	—	—
VI. Others	—	—	—	—	—	—	—	—
<b>Balance at 30 June 2016</b>	14,142,661	11,751,318	—	—	—	200,383	-1,438,333	24,656,029

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

### I. Company General Information

#### 1. Company Profile

Sinopec Oilfield Service Corporation (hereinafter referred to as the Company, including its subsidiaries referred to as the Group), formerly known as Sinopec Yizheng Chemical Fibre Company Limited, which was registered in the People's Republic of China ("PRC") and exclusively established by Yihua Group Corporation (hereinafter referred to as "Yihua") on 31 December 1993. The Company's headquarter is located in the 22th North Street, Chaoyang District, Beijing.

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

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

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

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

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

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (SASAC Property Right [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. and CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 22 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, as at 22 August 2016, shares held by CITIC Limited has been lifted in accordance with the agreed terms of restriction on tradability. Pursuant to the resolutions of general meeting of shareholders of the Company, the Company converted 5 shares for each 10 H shares and A shares that were registered on 13 November 2013 and 20 November 2013, respectively from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

Pursuant to "the Approval to matters in relation to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Subsequent A Share Placement" (SASAC Property Right [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and "the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No.1370) issued by China Securities Regulatory Committee, the Company implemented the material asset reorganization in 2014. The Company sold all of its assets and liabilities (hereinafter referred to as the "Outgoing Business") to Sinopec Corp., in exchange, would repurchase A shares of the Company held by Sinopec Corp. for cancellation, and issue shares to Sinopec Group in order to acquire 100% equity interest of Sinopec Oilfield Service Corporation (hereinafter referred to as "SOSC") held by Sinopec Group (hereinafter referred to as the "Incoming Equities" or "SOSC", hereinafter collectively referred to as the "Reorganisation"). The Company executed the Confirmation on Completion of Outgoing Business with Sinopec Corp., excuted the Confirmation on Completion of Incoming Equities with Sinopec Group on 22 December 2014. According to the Confirmations, the Company transferred Outgoing Business to Sinopec Corp., Sinopec Group transferred Incoming Equities to the Company. On 30 December 2014, the Company repurchased the Repurchased Shares (a total of 2,415,000,000 A Shares) from Sinopec Corp. for cancellation. On the even date, the Company issued the Consideration Shares (a total of 9,224,327,662 A Shares) to Sinopec Group, on 13 February 2015, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd.

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 service, such as geophysics, drilling, logging and mud logging, special downhole operations, for production of onshore and offshore oil and natural gas and contracting overseas petroleum, natural gas, chemical, bridge, road, housing construction, water resources and hydropower, municipal utility, steel structure, electricity, fire-fighting equipment industrial plant projects”

These financial statements and financial information notes have been approved for issue by the ninth meeting of the 12th term Board of Directors of the Company on 30 August 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 has no change, the details refer to note VI. Changes in scope of consolidation and note VII. Interests in other entities.

## II. Basis of preparation

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

The financial statements are prepared on a going concern basis. The Group's current liabilities exceed current assets of approximately RMB13,014,922 thousand as at 30 June 2016 (Current liabilities exceed current assets of RMB10,392,431 thousand in 2015), committed capital expenditures are approximately RMB0.937 billion. The directors of the Company has assessed that the Group has generated sufficient cash flow for many years and is expected to be continue during the next twelve months. As the Group's borrowings are mainly from Sinopec Group and its subsidiaries which have maintained its long-term good relations with the Group, the Group can obtain adequate financial supports from those institutions. After the reorganization, the Company will further broaden the financing channel, develop good relations with the public and state-owned financial institutions in order to obtain a more adequate line of credit. The directors of the Company consider the measures sufficient to meet the Group's debt repayment and capital commitment required. Consequently, the Company prepared the financial statements on a going concern basis.

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

## III. Summary of significant accounting policies and accounting estimates

The Group's accounting policies for depreciation of fixed assets, amortization of intangible assets and long-term deferred expense and revenue are recognized on the basis of its production and management characteristics, 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 CASBE

The financial statements are in compliance with the requirement of CASBE, which gives a true view of the entire company's and consolidated financial position at 30 June 2016 and the Company's and the consolidated operating results at 30 June 2016.

### 2、Accounting period

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

### 3、Operating cycle

The operating cycle of the Group is 12 months.

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

### 4、 Functional currency

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

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

### 5、 Business combinations

#### (1) Business combination involving entities under common control

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

Business combinations involving enterprises under common control and achieved in stages

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

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

#### (2) Business combination involving entities not under common control

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

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

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

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

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

#### (3) Transaction fees attribution during the combination

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

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

#### 6. Method of preparing consolidated financial statements

##### (1) Scope of consolidation

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

##### (2) Method of 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 accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

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

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

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

##### (3) Purchase of the minority stake in the subsidiary

Transactions, for the purchase of the minority stake in the subsidiary or the partial disposal of equity investment without losing control over its subsidiary, are treated as equity trading and are adjusted the carrying amount attributed to the owner's equity of parent company and minority interests to reflect the changes of the related equity in the subsidiary. The difference between the adjustment amount of minority interests and the fair value of the consideration is adjusted to the capital reserve, if the capital reserve is not sufficient, any excess is adjusted to retained earning.

##### (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.

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

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

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

#### 7、 Classification of joint arrangement and accounting treatment for joint operation

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

##### (1) Joint operation

A joint 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 have joint control of the arrangement have rights to the net assets of the arrangement.

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

#### 8、 Cash and cash equivalents

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

#### 9、 Foreign currency transactions and translation of foreign currency statement

##### (1) Foreign currency transactions

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

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

##### (2) Translation of foreign currency information

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

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

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

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

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

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

### 10. Financial instruments

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

#### (1) Recognition and Derecognition of financial instruments

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

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

- 1) The right of the contract to receive the cash flows of financial assets terminates.
- 2) The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

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

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

#### (2) Classification and measurement of financial assets

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

Financial assets at fair value through profit or loss

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

Held-to maturity investments

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

Receivables

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

Available-for-sale financial assets

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

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

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

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

Financial liabilities at FVTPL

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

Other financial liabilities

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



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

### 10. Financial instruments (Continued)

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

Distinction between financial liabilities and equity instruments

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

- 1) Contractual obligation to deliver cash or other financial instruments to another entity.
- 2) Under potential adverse condition, contractual obligation to exchange financial assets or financial liabilities with other parties.
- 3) A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.
- 4) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

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

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

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

#### (4) Derivative financial instruments and embedded derivatives

The Group's derivative financial instruments are initially measured at fair value on the date of the derivative contract signed and are subsequently measured at fair value. A derivative with positive fair value shall be recognized as an asset, otherwise that with negative fair value shall be recognized as a liability. Any profit or loss arising from changes of fair value and not compliance with the accounting provision of hedge shall be recognized as profit or loss for current period.

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

#### (5) Fair value of financial instruments

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

#### (6) Impairment of financial assets

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

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

- 1) significant financial difficulty of the debtor or obligor;
- 2) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- 3) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- 4) it becoming probable that the debtor will enter bankruptcy or other financial Reorganisation;
- 5) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
- 6) upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

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

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

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

#### 10. Financial instruments (Continued)

##### (6) Impairment of financial assets (Continued)

- 7) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;
- 8) a significant decline in the fair value of an investment in an equity instrument below its cost (i.e. fair value decline over 50%) or a prolonged decline (i.e., fair value decline lasting 12 months) etc..

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

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

Financial asset measured at amortized cost

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

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

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

Available-for-sale financial assets

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

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

Financial assets measured at cost

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

##### (7) Transfer of financial assets

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

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

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

##### (8) Offsetting financial assets and financial liabilities

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

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

### 11. Fair value measurement

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

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

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

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

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

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

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

### 12. Receivables

Receivables include accounts receivables and other receivables

#### (1) Individually significant receivable but individual provision for bad 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 debts is recognized according to the difference between the present value of future cash flows, which is lower, and the carrying amount.

#### (2) Individually insignificant receivable but individual provision for bad 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 accounts 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

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

### 12. Receivables (Continued)

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

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

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

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

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

#### (4) Inventory system

The Group adopts perpetual inventory system.

#### (5) Amortization methods of turnover materials

Turnover materials, including low-value consumables, packaging and other materials 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 been 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.

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

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

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 initial investment cost of the long-term equity investment acquired by issuing equity securities is recognized as the fair value of the equity securities issued.

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

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

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

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

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

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

### 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)

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.

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.

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

##### (4) Held-for-sale equity investment

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

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

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

##### (5) Impairment test and Impairment provision

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

#### 16. Fixed assets

##### (1) Recognition and initial measurement of fixed asset

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

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

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

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

#### 16. Fixed assets (Continued)

##### (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

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.

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

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

### 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.

### 19. Intangible assets

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

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

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

Category	Useful life	Amortization	Notes
Land use rights	50 years	straight-line basis	
Software	5 years	straight-line basis	
Patent rights	10 years	straight-line basis	
Technology rights	10 years	straight-line basis	

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

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

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



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

#### 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.

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.

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

### 23. Employee benefits

#### (1) The scope of employee benefits

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

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

#### (2) Short-term employee benefits

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

#### (3) Post-employment benefits

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

The basic pension insurance

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

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.

### 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.

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

### 25. Share-based payment and equity instruments

#### (1) Category of share-based payment

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

#### (2) Fair value of equity instrument

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

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

During the waiting period at each balance sheet date, the Group shall make the bestavailable estimate of the number of equity instruments expected to vest and shallrevisethat estimate, if necessary, ifsubsequent information indicates that thenumber of equity instruments expected to vest differs from previous estimates.On vesting date, the entity shall revise the estimate to equal the number of equityinstruments 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 instrumentsis 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 conducive to the use of other employees share-based payment plans to modify the terms and conditionsof service, it will continue to beaccounted for inthe accounting treatment, as if the change had not occurred, unless the Group cancelled some or all of the equity instruments granted.

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

### 26. Revenue

Revenue is determined in accordance with the fair value of the consideration 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.

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

#### 26. Revenue (Continued)

##### (2) Providing of services

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

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

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

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

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

##### (3) Transfer of the right to use assets

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

##### (4) Construction contracts

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

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

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

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

#### 27. Government grants

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

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

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

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

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

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

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

#### 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.

##### (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

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

### 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.

#### (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 of depreciation or amortisation is revised.

#### (5) Construction contracts

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

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

#### 32. Critical accounting judgments and estimates (Continued)

##### (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.

From 1 January 2016, the Group has changed the following accounting estimates, which has already been approved by the Board of the Directors. Except for the accounting estimates changes below, the judgement and hypothesis of the accounting estimates made by the Group keep consistent with the substance and hypothesis of accounting estimates for preparation of the financial statements 2015.

The Group reviews the estimated useful life and residual value of the fixed assets and specialized instruments for petroleum engineering annually. With the technical standards and quality standards of petroleum engineering equipment constantly increasing, regular mending and maintenance of equipment continuously strengthening and construction intensity reducing for the appliance of new technology and new skills, the useful life of parts of equipment and specialized instruments for petroleum engineering has been significantly prolonged. To accurately reflect the actual depreciation life of parts of equipment and specialized instruments for petroleum engineering, the Group has adjusted the depreciation life of parts of equipment and specialized instruments for petroleum engineering.

Reasons and content of accounting estimates changes	Approral procedure	Starting point	The statement items influenced	The amount influenced
Changes of depreciation life of parts of equipment and specialized instruments for petroleum engineering.	ninth meeting of the eighth term Board of Directors	1 January 2016	accounting profits	396,342

## 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 earned before 30 April 2016	3 or 5
Urban maintenance and construction tax	Turnover tax payable	1、 5、 7
Educational surtax	Turnover tax payable	5
Income tax	Tax payable	25

Corporate income tax:

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

### 1. Tax incentives and approval documents

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

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

#### (2) Corporate income tax

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

In accordance to "Notification of publicity of proposed list of Shandong Province High-tech enterprises subject to review in 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 Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance 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 Design 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 from January to June 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 Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.



## V. Notes to the consolidated financial statements

### 1. Cash at bank and on hand

Items	At 30 June 2016			At 31 December 2015		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
<b>Cash on hand:</b>	—	—	10,307	—	—	9,221
RMB	—	—	2,192	—	—	2,036
USD	548	6.6312	3,637	428	6.4936	2,781
EUR	48	7.3750	354	43	7.0952	304
BRL	6	2.0411	12	182	1.6805	306
DZD	4,268	0.0600	256	3,810	0.0607	231
KWD	19	21.9395	414	22	21.3621	465
KZT	22,273	0.0196	436	13,688	0.0191	262
SAR	485	1.7680	857	827	1.7318	1,432
AED	161	1.8074	291	120	1.7699	212
Others	—	—	1,858	—	—	1,192
<b>Cash at banks:</b>	—	—	2,393,743	—	—	1,983,693
RMB	—	—	703,708	—	—	614,393
USD	184,140	6.6312	1,221,070	146,020	6.4936	948,239
EUR	43	7.3750	315	88	7.0952	621
BRL	652	2.0411	1,330	1,293	1.6805	2,172
DZD	1,191,423	0.0600	71,437	1,125,901	0.0607	68,329
KWD	4,791	21.9395	105,101	6,271	21.3621	133,967
KZT	422,133	0.0196	8,261	225,218	0.0191	4,308
SAR	28,440	1.7680	50,283	44,186	1.7318	76,523
AED	4,063	1.8074	7,343	2,734	1.7699	4,839
Others	—	—	224,895	—	—	130,302
<b>Among cash at bank: Related party</b>	—	—	1,022,721	—	—	958,159
<b>Including: RMB</b>	—	—	49,693	—	—	75,707
USD	134,422	6.6312	891,382	115,581	6.4936	750,540
SAR	24	1.7680	42	14,024	1.7318	24,288
KWD	3,710	21.9395	81,394	5,010	21.3629	107,015
Others	—	—	210	—	—	608
<b>Other monetary funds:</b>	—	—	4,264	—	—	18,676
RMB	—	—	1,282	—	—	1,218
USD	—	—	—	2,225	6.4936	14,448
AED	131	1.8074	238	131	1.7699	233
DZD	10,994	0.0600	659	12,219	0.0607	742
KZT	2,154	0.0196	42	2,244	0.0191	43
Others	—	—	2,043	—	—	1,992
<b>Total:</b>	—	—	2,408,314	—	—	2,011,590
<b>Amount deposited abroad:</b>	—	—	1,646,043	—	—	1,364,170

At 30 June 2016, the Group's restricted cash such as margin deposit is RMB3,916 thousand (At 31 December 2015: RMB18,381 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

## V. Notes to the consolidated financial statements (Continued)

### 2. Notes receivable

Category	At 30 June 2016	At 31 December 2015
Bank acceptance bills	456,877	129,487
Trade acceptance bills	15,574	11,645
<b>Total</b>	<b>472,451</b>	<b>141,132</b>

(1) There is no pledged or overdue notes receivable at 30 June 2016 and 31 December 2015.

(2) At 30 June 2016, the endorsed undue notes receivable.

Type	At 30 June 2016	At 31 December 2015
Bank acceptance bills	469,234	—
Trade acceptance bills	6,832	—
<b>Total</b>	<b>476,066</b>	<b>—</b>

(3) As at 30 June 2016, the five largest notes receivable that are not mature but have been endorsed to other parties are as follows:

	Issuance date	Maturity date	Amount
Entity 1	31 March 2016	30 September 2016	20,000
Entity 2	31 March 2016	30 September 2016	12,000
Entity 3	30 May 2016	30 November 2016	5,000
Entity 4	29 April 2016	28 October 2016	5,000
Entity 5	29 April 2016	29 October 2016	5,000
<b>Total</b>			<b>47,000</b>

### 3. Accounts receivable

	At 30 June 2016	At 31 December 2015
Accounts receivable	18,323,881	27,698,918
Less: provision for bad debts	620,425	577,791
<b>Net</b>	<b>17,703,456</b>	<b>27,121,127</b>

## V. Notes to the consolidated financial statements (Continued)

### 3. Accounts receivable (Continued)

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

Type	At 30 June 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	988,441	5.39	24,711	2.50	963,730
Provision for bad and doubtful debts collectively					
Including: Ageing groups	9,229,390	50.37	595,714	6.45	8,633,676
Related party grouping	8,106,050	44.24	—	—	8,106,050
Subtotal	17,335,440	94.61	595,714	3.44	16,739,726
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
<b>Total</b>	<b>18,323,881</b>	<b>100.00</b>	<b>620,425</b>	<b>3.39</b>	<b>17,703,456</b>

Continued:

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 significant amount and with provision made on an individual basis	—	—	—	—	—
<b>Total</b>	<b>27,698,918</b>	<b>100.00</b>	<b>577,791</b>	<b>2.09</b>	<b>27,121,127</b>

#### ① 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
Entity A	988,441	24,711	2.5	Provision made on the basis of the expected loss rate
<b>Total:</b>	<b>988,441</b>	<b>24,711</b>	<b>2.5</b>	

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

Ageing	At 30 June 2016					At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	8,173,487	88.56	—	—	8,173,487	7,667,831	88.65	—	—	7,667,831
1 – 2 years	540,959	5.86	162,289	30.00	378,670	519,319	6.00	155,796	30.00	363,523
2 – 3 years	203,797	2.21	122,278	60.00	81,519	161,474	1.87	96,884	60.00	64,590
Over 3 years	311,147	3.37	311,147	100.00	—	300,913	3.48	300,913	100.00	—
<b>Total</b>	<b>9,229,390</b>	<b>100.00</b>	<b>595,714</b>	<b>—</b>	<b>8,633,676</b>	<b>8,649,537</b>	<b>100.00</b>	<b>553,593</b>	<b>—</b>	<b>8,095,944</b>

## 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 RMB42,634 thousand (January 2015 to June: RMB71,716 thousand). During the reporting period, the Group did not have accounts receivable for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(3) During the reporting period, the Group written-off of accounts receivable RMB nil (2015: RMB2,387 thousand), there is no written-off of accounts receivable occurred by related party transactions.

(4) The five largest accounts receivable are analyzed as follows:

Company Name	Relationship with the company	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision
Entity A	Related party	7,870,738	42.95	—
Entity B	Third party	1,532,015	8.36	46,670
Entity C	Third party	988,441	5.39	24,711
Entity D	Third party	702,403	3.83	—
Entity E	Third party	641,447	3.50	—
<b>Total</b>	—	11,735,044	64.04	71,381

### 4. Prepayments

	At 30 June 2016	At 31 December 2015
Prepayments	601,914	474,961
Less: provision for bad debts	24,456	14,926
<b>Net</b>	<b>577,458</b>	<b>460,035</b>

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

Ageing	At 30 June 2016		At 31 December 2015	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	541,536	89.97	441,709	93.00
1 – 2 years	41,109	6.83	18,835	3.96
2 – 3 years	16,968	2.82	12,303	2.59
Over 3 years	2,301	0.38	2,114	0.45
<b>Total</b>	<b>601,914</b>	<b>100</b>	<b>474,961</b>	<b>100.00</b>

(2) The five largest prepayments are analyzed as follows:

Company Name	Relationship with the company	Amount	Percentage of total prepayments
Entity A	Third party	50,244	8.35
Entity B	Third party	40,018	6.65
Entity C	Third party	23,209	3.86
Entity D	Third party	15,561	2.59
Entity E	Third party	13,074	2.17
<b>Total</b>	—	142,106	23.61

## V. Notes to the consolidated financial statements (Continued)

### 5. Other receivables

	At 30 June 2016	At 31 December 2015
Other receivables	3,604,774	2,816,399
Less: provision for bad debts	399,580	383,614
<b>Net</b>	<b>3,205,194</b>	<b>2,432,785</b>

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

Type	At 30 June 2016				
	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	3,270,402	90.72	399,580	12.22	2,870,822
Related party grouping	334,372	9.28	—	—	334,372
Subtotal	3,604,774	100.00	399,580	11.08	3,205,194
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
<b>Total</b>	<b>3,604,774</b>	<b>100.00</b>	<b>399,580</b>	<b>11.08</b>	<b>3,205,194</b>

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 significant amount and with provision made on an individual basis	—	—	—	—	—
<b>Total</b>	<b>2,816,399</b>	<b>100.00</b>	<b>383,614</b>	<b>13.62</b>	<b>2,432,785</b>

① At 30 June 2016 and 31 December 2015, there is no other receivables that is individually significant and provision for bad and doubtful debts individually.

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

	At 30 June 2016					At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	2,753,001	84.18	—	—	2,753,001	2,049,119	79.94	—	—	2,049,119
1 – 2 years	121,094	3.70	36,328	30.00	84,766	170,252	6.64	51,076	30.00	119,176
2 – 3 years	82,637	2.53	49,582	60.00	33,055	28,712	1.12	17,227	60.00	11,485
Over 3 years	313,670	9.59	313,670	100.00	—	315,311	12.30	315,311	100.00	—
<b>Total</b>	<b>3,270,402</b>	<b>100</b>	<b>399,580</b>	<b>—</b>	<b>2,870,822</b>	<b>2,563,394</b>	<b>100.00</b>	<b>383,614</b>	<b>—</b>	<b>2,179,780</b>

(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.

## V. Notes to the consolidated financial statements (Continued)

### 5. Other receivables (Continued)

#### (3) Other receivables disclosed by nature:

Items	At 30 June 2016	At 31 December 2015
Pretty cash	167,295	66,734
Guarantee	878,513	780,753
Amount paid on behalf	1,387,198	1,150,581
Temporary payment	621,330	451,067
Escrow funds	9,708	9,680
Loan	10,000	10,000
Deposits	47,995	48,525
Export tax refund receivable	9,814	2,823
Others	472,921	296,236
<b>Total</b>	<b>3,604,774</b>	<b>2,816,399</b>

#### (4) The five largest other receivables are analyzed as follows:

Company Name	Relationship with the company	Items	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision
Entity A	Third party	Amount paid on behalf, Temporary payment	895,524	24.84	—
Entity B	Third party	Amount paid on behalf, Temporary payment	241,208	6.69	—
Entity C	Third party	Amount paid on behalf, Temporary payment	220,246	6.11	—
Entity D	Third party	Pretty cash	167,295	4.64	163
Entity E	Third party	Amount paid on behalf	166,339	4.61	166,339
<b>Total</b>	—	—	1,690,612	46.89	166,502

### 6. Inventories

#### (1) Inventories by categories

Category	At 30 June 2016			At 31 December 2015		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,623,181	7,724	1,615,457	1,732,626	7,724	1,724,902
Work in progress	178,249	—	178,249	141,177	—	141,177
Finished goods	94,675	—	94,675	76,995	—	76,995
Turnover materials	28,530	—	28,530	33,895	—	33,895
Amounts due from customers for contract work	14,563,713	24,030	14,539,683	12,814,579	24,030	12,790,549
Others	3,869	—	3,869	1,757	—	1,757
<b>Total</b>	<b>16,492,217</b>	<b>31,754</b>	<b>16,460,463</b>	<b>14,801,029</b>	<b>31,754</b>	<b>14,769,275</b>

As at 30 June 2016 and 31 December 2015, no capitalized 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 analyzed as follows:

Category	At 1 January 2016	Increase during the period		Written back during the period		At 30 June 2016
		Provision	Others	Reversal or Write-off	Others	
Raw materials	7,724	—	—	—	—	7,724
Amounts due from customers for contract work	24,030	—	—	—	—	24,030
<b>Total</b>	<b>31,754</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>31,754</b>

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable 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 30 June 2016
Contract cost incurred	52,497,465
plus recognized profit	4,316,210
Less: Loss on contracts	24,030
Less: Progress billings	42,249,962
<b>Book value of completed yet settled assets formed by construction contracts</b>	<b>14,539,683</b>

### 7. Non-current assets due within one year

Items	At 30 June 2016	At 31 December 2015
Long-term deferred expenses due within one year	1,213,978	1,396,030
Cross-border Double-sided Fund pool in RMB	900,000	1,097,000
<b>Total</b>	<b>2,113,978</b>	<b>2,493,030</b>

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 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% - 3.6% per annum.

### 8. Other current assets

Items	At 30 June 2016	At 31 December 2015
VAT to be offset	465,251	82,062
<b>Total</b>	<b>465,251</b>	<b>82,062</b>

### 9. Available-for-sale financial assets

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

Items	At 30 June 2016			At 31 December 2015		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Available-for-sale equity instruments	40,494	—	40,494	40,494	—	40,494
Including: based on cost	40,494	—	40,494	40,494	—	40,494
<b>Total</b>	<b>40,494</b>	<b>—</b>	<b>40,494</b>	<b>40,494</b>	<b>—</b>	<b>40,494</b>

## 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 30 June 2016	At 31 December 2015
Listed	—	—
Unlisted	40,494	40,494
<b>Total</b>	<b>40,494</b>	<b>40,494</b>

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

### 10. Long-term equity investments

Name of company	The fluctuation of this period										At 30 June 2016	The ending balance of impairment
	At 1 January 2016	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			
<b>① Joint venture</b>												
SinoFTS Petroleum Services Ltd. (SinoFTS)	177,155	—	—	-9,015	—	—	—	—	—	—	168,140	—
Zhong Wei Energy Service Co. Ltd. (A Sinopec - Weatherford Joint Venture)	17,273	—	—	-537	—	—	—	—	—	—	16,736	—
Sinopec Gulf Petroleum Engineering Services, LLC	13,383	—	—	—	—	—	—	—	—	—	13,383	—
QianjiangHengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,111	—	—	182	—	—	—	—	—	—	1,293	—
Subtotal	208,922	—	—	-9,370	—	—	—	—	—	—	199,552	—
<b>② Associates</b>												
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	—
Henan Zhongyuan Petroleum Technology Service Company Limited	—	2,000	—	—	—	—	—	—	—	—	2,000	—
Henan Zhongyou Petroleum Technology Service Company Limited	—	2,000	—	—	—	—	—	—	—	—	2,000	—
Subtotal	7,478	4,000	—	—	—	—	—	—	—	—	11,478	—
<b>Total</b>	<b>216,400</b>	<b>4,000</b>	<b>—</b>	<b>-9,370</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>211,030</b>	<b>—</b>

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

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



## V. Notes to the consolidated financial statements (Continued)

### 11. Fixed assets

#### (1) Fixed assets by categories

Items	Buildings	Equipment and others	Total
<b>Cost:</b>			
1. At 31 December 2015	1,269,666	57,710,585	58,980,251
2. Increase in the year	1,042	1,867,468	1,868,510
(1) Purchase	—	24,651	24,651
(2) Transferred from construction in progress	1,042	1,842,817	1,843,859
3. Written back during the year	727	222,614	223,341
(1) Disposal or retirement	727	222,614	223,341
4. At 30 June 2016	1,269,981	59,355,439	60,625,420
<b>Accumulated depreciation:</b>			
1. At 31 December 2015	377,666	29,312,301	29,689,967
2. Increase in the year	21,863	1,604,783	1,626,646
(1) Depreciation (a)	21,863	1,604,783	1,626,646
3. Written back during the year	463	153,275	153,738
(1) Disposal or retirement	463	153,275	153,738
4. At 30 June 2016	399,066	30,763,809	31,162,875
<b>Provision for impairment</b>			
1. At 31 December 2015	8,501	273,594	282,095
2. Increase in the year	—	—	—
(1) Provision(e)	—	—	—
(2) Other additions	—	—	—
3. Written back during the year	—	—	—
(1) Disposal or retirement	—	—	—
4. At 30 June 2016	8,501	273,594	282,095
<b>Net carrying amount</b>			
1. At 30 June 2016	862,414	28,318,036	29,180,450
2. At 31 December 2015	883,499	28,124,690	29,008,189

As at 30 June 2016 and 31 December 2015, no fixed assets of the Group were pledged.

- (a) For the six months ended 2016, depreciation of fixed assets amounted to RMB1,626,646 thousand (For the six months ended 2015: 1,924,427 thousand), were included in operating expense 1,604,006 thousand, selling expense 296 thousand and administrative expense 22,344 thousand (For the six months ended 2015: 1,908,369 thousand, 346 thousand and 15,712 thousand).
- (b) For the six months ended 2016, the total cost of fixed assets transferred from construction in progress is 1,843,859 thousand (For the six months ended 2015: 339,523 thousand)

#### (2) Fixed assets rented under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Net carrying amount
Equipment	125,699.45	46,281.82	—	79,417.64
<b>Total</b>	<b>125,699.45</b>	<b>46,281.82</b>	<b>—</b>	<b>79,417.64</b>

#### (3) The situation of premises without qualified ownership certificates

There had been a total amount of 21 premises without qualified ownership certificates up to 30 June 2016, totaling amount in cost of 183,158 thousand, in accumulated depreciation of 9,938 thousand and net book value of 173,220 thousand.

## V. Notes to the consolidated financial statements (Continued)

### 12. Construction in progress

#### (1) Details of construction in progress

Items	At 30 June 2016			At 31 December 2015		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	78,788	3,502	75,286	74,143	3,502	70,641
Major Materials and equipment procurement projects	1,027,342	91,762	935,580	2,638,344	91,762	2,546,582
Other construction projects	100,442	—	100,442	92,955	—	92,955
<b>Total</b>	<b>1,206,572</b>	<b>95,264</b>	<b>1,111,308</b>	<b>2,805,442</b>	<b>95,264</b>	<b>2,710,178</b>

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

Project name	At 1 January 2016	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	Including current capitalized interest	Capitalized rate%	At 30 June 2016
	A	B	C	D				E=A+B-C-D
The seventh exploration of jack-up drilling platform	1,511,714	28,231	1,539,945	—	6,590	—	—	—
Shenli operating 90 meters	344,031	74	—	—	9,469	—	—	344,105
25 m working platform project	394,298	40,506	226,182	—	8,479	—	—	208,622
8000HP Multipurpose Supply Vessel	141,749	37,642	—	—	4,559	1,911	2.54	179,391
Kuwait nine workover machine projects	—	104	—	—	—	—	—	104
Algeria 8 Rigs	—	59,895	—	—	—	—	—	59,895
Bolivia's road construction equipment	—	—	—	—	—	—	—	—
Saudi Arabia logistics base construction	—	—	—	—	—	—	—	—
The No.2 geophysical exploration equipment update	—	269	—	—	—	—	—	269
Middle East r&d center construction	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,391,792</b>	<b>166,721</b>	<b>1,766,127</b>	<b>—</b>	<b>29,097</b>	<b>1,911</b>	<b>—</b>	<b>792,386</b>

Project name	Budget	Percentage of current input over budget (%)	Progress (%)	Sources of funds
The seventh exploration of jack-up drilling platform	1,503,430	100	100	loans、 Self-raised
Shenli operating 90 meters	700,000	49	49	Self-raised
25 m working platform project	466,030	93	93	loans、 issue of ordinary shares
8000HP Multipurpose Supply Vessel	195,000	91	91	loans、 issue of ordinary shares
Kuwait nine workover machine projects	186,890	0.06	0.06	loans、 Self-raised
Algeria 8 Rigs	122,200	—	—	loans、 Self-raised
Bolivia's road construction equipment	19,150	—	—	loans、 Self-raised
Saudi Arabia logistics base construction	103,550	—	—	loans、 Self-raised
The No.2 geophysical exploration equipment update	79,290	—	—	loans、 Self-raised
Middle East r&d center construction	117,650	—	—	loans、 Self-raised
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## 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
<b>Cost:</b>					
1. At 31 December 2015	117,134	186	118,716	57,343	293,379
2. Increase in the year	6,040	—	—	—	6,040
(1) Purchase	6,040	—	—	—	6,040
(2) Transferred from construction in progress	—	—	—	—	—
3. Written back during the year	—	—	—	—	—
4. At 30 June 2016	123,174	186	118,716	57,343	299,419
<b>Accumulated amortization:</b>					
1. At 31 December 2015	12,180	37	84,147	14,812	111,176
2. Increase in the year	1,356	9	5,205	6,620	13,190
(1) Provision	1,356	9	5,205	6,620	13,190
(2) Other additions	—	—	—	—	—
3. Written back during the year	—	—	—	—	—
4. At 30 June 2016	13,536	46	89,352	21,432	124,366
<b>Provision for impairment</b>					
1. At 31 December 2015	—	—	—	—	—
2. Increase in the year	—	—	—	—	—
3. Written back during the year	—	—	—	—	—
4. At 30 June 2016	—	—	—	—	—
<b>Carrying amount</b>					
1. At 30 June 2016	109,638	140	29,364	35,911	175,053
2. At 31 December 2015	104,954	149	34,569	42,531	182,203

As at 30 June 2016 and 31 December 2015, the above intangible assets were not pledged.

For the six months ended 30 June 2016, amortization of intangible assets amounted to RMB13,190 thousand (For the six months ended 2015: 7,893 thousand), were included in profit and loss.

At 30 June 2016, 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	56,776	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 2015	Increase in the year	Decrease in the year		At 30 June 2016
			Amortization in the year	Other decreases	
Special tools of petroleum engineering	3,632,121	213,858	641,994	—	3,203,985
Other tools of Petroleum engineering	608,650	164,179	132,947	—	639,882
Camping house	533,495	30,853	105,543	—	458,805
Other long-term deferred expenses	69,582	16,493	16,012	—	70,063
<b>Total</b>	<b>4,843,848</b>	<b>425,383</b>	<b>896,496</b>	<b>—</b>	<b>4,372,735</b>
Including: Amount due within one year	1,396,030	—	—	—	1,213,978
Due over one year	3,447,818	—	—	—	3,158,757

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 30 June 2016		At 31 December 2015	
	Deductible/ taxable temporary differences	Deferred income tax assets/liabilities	Deductible/ taxable temporary differences	Deferred income tax assets/liabilities
<b>Deferred income tax assets</b>				
Provision for assets impairment and influence on depreciation	208,030	52,008	208,720	52,180
Provision for bad debts	508,427	123,809	505,053	123,483
Deferred income	52,798	13,199	47,070	11,767
<b>Subtotal</b>	<b>769,255</b>	<b>189,016</b>	<b>760,843</b>	<b>187,430</b>
<b>Deferred income tax liabilities</b>				
Revaluation of assets	121,882	29,823	125,990	30,827
Depreciation of fixed assets	2,020	361	2,441	424
<b>Subtotal</b>	<b>123,902</b>	<b>30,184</b>	<b>128,431</b>	<b>31,251</b>

#### (2) Details of unrecognized 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 recognized 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 analyzed as follows:

Items	At 30 June 2016	At 31 December 2015
Deductible temporary differences	749,673	684,991
Tax losses	8,198,720	4,605,881
<b>Total</b>	<b>8,948,393</b>	<b>5,290,872</b>

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

Years	At 30 June 2016	At 31 December 2015	Note
2016	—	33,472	
2017	951,210	951,210	
2018	1,143,155	1,143,155	
2019	1,551,644	1,551,644	
2020	926,400	926,400	
2021	3,626,311	—	
<b>Total</b>	<b>8,198,720</b>	<b>4,605,881</b>	

## V. Notes to the consolidated financial statements (Continued)

### 16. Short-term loans

Items	Currency	At 30 June 2016	At 31 December 2015
Unsecured borrowings from related parties	RMB	9,708,030	5,185,324
	USD	6,144,290	6,884,988
Unsecured borrowings from third parties	RMB	—	—
	USD	—	—
<b>Total</b>		<b>15,852,320</b>	<b>12,070,312</b>

As at 30 June 2016, the interest rate range of short-term borrowings is 1.83%-3.92% (31 December 2015:1.48%-7.6%).

As at 30 June 2016, the Group has no overdue short-term borrowings.

RMB 4,149,030,000 funds are provided to the Group by Sinopec Century Bright Capital Investment Limited, of which RMB 900,000,000 is provided 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(Note V. 7.)

### 17. Notes payable

Category	At 30 June 2016	At 31 December 2015
Commercial acceptance bills	—	—
Bank acceptance bills	1,647,022	1,284,745
<b>Total</b>	<b>1,647,022</b>	<b>1,284,745</b>

As at 30 June 2016 and 31 December 2015, there is no bank deposit pledged for bills payable.

### 18. Accounts payable

Items	At 30 June 2016	At 31 December 2015
Payables for materials	7,755,266	8,675,845
Payables for construction	6,193,419	7,790,790
Payable for labour cost	8,030,876	8,772,052
Payables for equipment	2,584,216	3,074,973
Others	738,755	595,441
<b>Total</b>	<b>25,302,532</b>	<b>28,909,101</b>

Important accounts payable aged over one year:

Items	At 30 June 2016	Overdue reasons
Entity A	314,014	Retention money、Unsettled
Entity B	191,839	Retention money、Unsettled
Entity C	98,742	Retention money、Unsettled
Entity D	88,182	Retention money、Unsettled
Entity E	67,952	Retention money、Unsettled
<b>Total</b>	<b>760,729</b>	

## V. Notes to the consolidated financial statements (Continued)

### 19. Advances from customers

Items	At 30 June 2016	At 31 December 2015
Advances for construction labor	1,757,481	1,459,457
Amounts due to customers for contract work	5,047,921	7,804,513
<b>Total</b>	<b>6,805,402</b>	<b>9,263,970</b>

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

Items	At 30 June 2016	Overdue reasons
Entity A	379,498	Not yet finalised
Entity B	224,769	Not yet finalised
Entity C	220,870	Not yet finalised
Entity D	157,747	Not yet finalised
Entity E	114,214	Not yet finalised
<b>Total</b>	<b>1,097,098</b>	

#### (2) Completed yet settled assets formed by construction contracts

Items	At 30 June 2016
Progress billings	21,804,679
Less: Contract cost incurred	14,919,465
plus recognized profit	1,837,293
<b>Amounts due to settled yet completed contract work</b>	<b>5,047,921</b>

### 20. Employee benefits payable

Items	At 31 December 2015	Increase in the year	Decrease in the year	At 30 June 2016
Short term employee benefits	187,561	5,247,673	5,198,844	236,390
Post-employment benefits	—	841,250	800,118	41,132
Termination benefits	—	4,045	4,045	—
<b>Total</b>	<b>187,561</b>	<b>6,092,968</b>	<b>6,003,007</b>	<b>277,522</b>

#### (1) Short-term employee benefits

Items	At 31 December 2015	Increase in the year	Decrease in the year	At 30 June 2016
Wages or salaries, bonuses, allowances and subsidies	24,388	2,879,492	2,850,345	53,535
Staff welfare	—	421,458	421,458	—
<b>Social security contributions</b>	<b>23</b>	<b>426,132</b>	<b>384,229</b>	<b>41,926</b>
Including: 1. Basic medical insurance	—	294,808	259,232	35,576
2. Supplementary medical insurance	—	44,126	43,599	527
3. Work-related injury insurance	—	30,571	26,684	3,887
4. Birth insurance	—	16,071	14,158	1,913
5. Other insurance	23	40,556	40,556	23
Housing funds	1,357	395,760	394,991	2,126
Labor union and employee education funds	109,866	69,305	63,671	115,500
Others	51,927	1,055,526	1,084,150	23,303
<b>Total</b>	<b>187,561</b>	<b>5,247,673</b>	<b>5,198,844</b>	<b>236,390</b>

As at 30 June 2016, 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 2015	Increase in the year	Decrease in the year	At 30 June 2016
Basic pension insurance	—	634,421	597,711	36,710
Unemployment insurance	—	40,493	36,605	3,888
Annuity	—	166,336	165,802	534
<b>Total</b>	—	841,250	800,118	41,132

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 period, the Group paid 4,045 thousand compensation to the resigning employee for terminating labor relation.

### 21. Taxes payable

Items	At 30 June 2016	At 31 December 2015
VAT	360,889	1,843,544
Business tax	26,286	77,802
Urban maintenance and construction tax	46,952	117,536
Education surtax	26,405	77,055
Corporate income tax	29,798	244,493
individual income tax	46,400	135,757
Withholding tax	30,958	44,233
Others	51,042	71,748
<b>Total</b>	618,730	2,612,168

### 22. Interest payable

Items	At 30 June 2016	At 31 December 2015
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	105	1,618
Interest payable of short term loan	33,841	13,205
<b>Total</b>	33,946	14,823

## V. Notes to the consolidated financial statements (Continued)

### 23. Other payables

Items	At 30 June 2016	At 31 December 2015
Guarantee	477,335	497,300
Deposits	148,643	156,200
Amount paid on behalf	453,858	291,281
Temporary receipts	465,933	370,126
Escrow payments	28,563	30,549
Withheld payments	118,538	85,841
Sinopec Group capital restructuring funds	2,600,000	2,600,000
The net profit or loss during the reorganization	1,118,903	1,118,903
Others	359,412	323,233
<b>Total</b>	<b>5,771,185</b>	<b>5,473,433</b>

As at 30 June 2016, other payables with aging over 1 year with a carrying amount of RMB4,434,929 thousand (31 December 2015: RMB4,370,650 thousand). Those except the undisbursed amount due to the Sinopec group generated from capital restructuring funds and the net profit 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 30 June 2016	At 31 December 2015
Long-term loans within one year	65,625	70,000
Long-term payables within one year	47,209	17,360
<b>Total</b>	<b>112,834</b>	<b>87,360</b>

#### (1) Long-term loans within one year

Items	At 30 June 2016	At 31 December 2015
Mortgage loan	—	—
Loans on credit	65,625	70,000
<b>Total</b>	<b>65,625</b>	<b>70,000</b>

#### (2) Long-term payables within one year

Items	At 30 June 2016	At 31 December 2015
Payables of finance lease	17,360	17,360
Other	29,849	—
<b>Total</b>	<b>47,209</b>	<b>17,360</b>

### 25. Long-term loans

Items	At 30 June 2016	Range of interest rate	At 31 December 2015	Range of interest rate
Pledge loan	497,340	6.14%-6.34%	487,020	5.63-5.79%
Loans on credit	265,673	2.94%-6.50%	201,949	2.43-6.15%
Subtotal	763,013	—	688,969	—
Less: Long-term loans within one year	65,625	5.75-6.15%	70,000	5.75-6.15%
<b>Total</b>	<b>697,388</b>	<b>—</b>	<b>618,969</b>	<b>—</b>

The group has no overdue long-term loans at 30 June 2016.



## V. Notes to the consolidated financial statements (Continued)

### 26. Long-term payables

Items	At 30 June 2016	At 31 December 2015
Payables of finance lease	60,137	68,514
Others	51,477	5,918
Subtotal	111,614	74,432
Less: Long-term payables within one year	47,209	17,360
<b>Total</b>	<b>64,405</b>	<b>57,072</b>

### 27. Specific payable

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 30 June 2016	Reasons
Compensation of relocation	651	—	651	—	Relocation of public interests
The construction of technology service platform for Oil equipment	400	—	—	400	Grants of the Torch plan
<b>Total</b>	<b>1,051</b>	<b>—</b>	<b>651</b>	<b>400</b>	

### 28. Deferred income

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 30 June 2016
Government grants related to assets	10,365	—	104	10,261
Government grants related to income	48,643	31,260	25,501	54,402
<b>Total</b>	<b>59,008</b>	<b>31,260</b>	<b>25,605</b>	<b>64,663</b>

Including: Details of deferred income – Government grants

Government grants projects	At 31 December 2015	Increase in current year	Recognized in non-operating income in current year	At 30 June 2016	Related to assets/income
The 863 plan of developing radar imaging prototype	2,300	—	—	2,300	Related to assets
Compensation of relocation	5,665	—	104	5,561	Related to assets
Zhongyi oil equipment project allocations	2,400	—	—	2,400	Related to assets
National 863 project	423	4,641	—	5,064	Related to income
National special research	47,432	11,974	11,206	48,200	Related to income
Pension allowance	—	5,110	5,110	—	Related to income
Labor insurance fee refund	—	5,518	5,518	—	Related to income
Subsidies of stable post	—	231	231	—	Related to income
Other government grants	788	3,786	3,436	1,138	Related to income
<b>Total:</b>	<b>59,008</b>	<b>31,260</b>	<b>25,605</b>	<b>64,663</b>	

### 29. Share capital (Unit: thousand shares)

At 30 June 2016:

Items	At 1 January 2016	Changes in current (+, -)		Subtotal	At 30 June 2016
		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)	1,783,333	—	—	—	1,783,333
Foreign shares listed overseas (H share)	2,100,000	—	—	—	2,100,000
<b>Total</b>	<b>14,142,661</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14,142,661</b>

## V. Notes to the consolidated financial statements (Continued)

### 29. Share capital (Unit: thousand shares) (Continued)

At 31 December 2015:

Items	At 1 January 2015	Changes in current (+, -)		Subtotal	At 31 December 2015
		Issued shares	Others		
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
<b>Total</b>	<b>12,809,328</b>	<b>1,333,333</b>	<b>—</b>	<b>1,333,333</b>	<b>14,142,661</b>

Approved by “Approval to the Material Asset Reorganization of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement” (CSRC Permit [2014] No. 1370) 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 30 June 2016:

Items	At 1 January 2016	Increase for the period	Decrease for the period	At 30 June 2016
Share premium	8,826,247	—	—	8,826,247
Other capital reserve	67,969	—	—	67,969
<b>Total</b>	<b>8,894,216</b>	<b>—</b>	<b>—</b>	<b>8,894,216</b>

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
<b>Total</b>	<b>4,275,032</b>	<b>4,619,184</b>	<b>—</b>	<b>8,894,216</b>

Reasons for the change are as follows:

Items	2016	2015
Capital reserve at the end of last year	8,894,216	4,275,032
Increase for the period:	—	4,619,184
Including: Issuance of ordinary shares	—	4,619,184
Decrease for the period:	—	—
<b>Capital reserve at 30 June 2016</b>	<b>8,894,216</b>	<b>8,894,216</b>

Refer to Note V.29, capital reserve increased 4,619,184 thousand as the company issued A shares to raise funds 5,952,517 thousand on February, 2015.

## V. Notes to the consolidated financial statements (Continued)

### 31. Special reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 30 June 2016
Special reserve	259,547	232,721	161,443	330,825
<b>Total</b>	<b>259,547</b>	<b>232,721</b>	<b>161,443</b>	<b>330,825</b>

In accordance with PRC regulations, the Group appropriated production safety fund of RMB232,721 thousand to specific reserve for the six months ended 30 June 2016 (2015: RMB336,223 thousand), which was recognized in the cost of related products and the Specific reserve. For the six months ended 30 June 2016, the Group utilized production safety fund amounting to RMB161,443 thousand (2015: RMB203,648 thousand) which was of expenditure nature.

### 32. Surplus reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 30 June 2016
Statutory surplus reserve	200,383	—	—	200,383
<b>Total</b>	<b>200,383</b>	<b>—</b>	<b>—</b>	<b>200,383</b>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

### 33. Retained earnings

Items	2016	2015	Appropriation/distribution ratio
Retained earnings at the end of last year	1,141,287	1,116,809	
Add: Net profit attributable to parent company	-4,509,421	24,478	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Retained earnings at 30 June 2016	-3,368,134	1,141,287	
Including: Surplus reserve attributable to parent company extracted by subsidiaries	—	84,767	

### 34. Revenue and cost of sales

Items	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Revenue	Cost	Revenue	Cost
Major business	18,446,639	20,877,546	22,884,945	22,160,029
Other business	243,224	191,817	236,340	145,911
<b>Total</b>	<b>18,689,863</b>	<b>21,069,363</b>	<b>23,121,285</b>	<b>22,305,940</b>

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	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Revenue	Cost	Revenue	Cost
Geophysics	2,046,124	2,381,867	2,145,093	2,077,397
Drilling Engineering	9,091,487	10,851,274	12,473,028	12,302,057
Logging and Mud Logging	534,741	786,035	769,351	723,436
Special Down-hole Operations	1,861,348	2,128,123	2,122,757	1,890,695
Engineering Construction	4,615,478	4,428,326	4,987,120	4,840,338
Others	297,461	301,921	387,596	326,106
<b>Total</b>	<b>18,446,639</b>	<b>20,877,546</b>	<b>22,884,945</b>	<b>22,160,029</b>

## V. Notes to the consolidated financial statements (Continued)

### 34. Revenue and cost of sales (Continued)

#### (2) Business revenue (Classified by area)

Area	For the six months ended 30 June 2016	For the six months ended 30 June 2015
China mainland	11,646,416	16,634,583
Hong Kong, Macao, Taiwan and overseas	6,800,223	6,250,362
<b>Total</b>	<b>18,446,639</b>	<b>22,884,945</b>

### 35. Business tax and surcharges

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Business tax	44,925	76,548
Urban maintenance and construction tax	56,266	82,240
Education surtax	37,364	59,450
Overseas tax	59,941	36,478
Others	2,663	5,807
<b>Total</b>	<b>201,159</b>	<b>260,523</b>

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

### 36. Selling expenses

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Freight	1,531	1,043
Staff costs	17,187	16,579
Depreciation	296	346
Transportation	1,718	1,562
Storage charges	13	565
Sales service fees	1,734	1,380
Others	2,318	3,868
<b>Total</b>	<b>24,797</b>	<b>25,343</b>

### 37. General and administrative expenses

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Repair and maintenance	90,397	112,204
Staff costs	375,329	362,405
Integrated service	786,120	805,237
Research and development expenses	70,157	54,808
Taxes	66,268	75,456
Transportation	28,616	30,736
Rental expenses	14,301	20,443
Depreciation and amortization	26,648	20,289
Consultation	3,491	—
Property insurance	3,538	5,175
Others	97,554	74,206
<b>Total</b>	<b>1,562,419</b>	<b>1,560,959</b>

## V. Notes to the consolidated financial statements (Continued)

### 38. Finance costs

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Interest expenses	225,192	154,423
Less: Interest capitalized	1,911	4,444
Less: Interest income	9,196	15,873
Exchange losses/(gains)	-36,903	37,831
Bank charges and others	32,914	31,569
<b>Total</b>	<b>210,096</b>	<b>203,506</b>

Notes:

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

The capitalized interest is reckoned in construction in progress. The capitalized rate used to calculate capitalized borrowing cost is 3.12%-5.86% in 2016 (2015: 2.89%-6.0%)

### 39. Impairment losses on assets

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
(1) Provision for bad debts	68,130	110,205
(2) Provision for decline in the value of inventories	—	—
<b>Total</b>	<b>68,130</b>	<b>110,205</b>

### 40. Investment income

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Investment income from long-term equity investments under equity method	-9,370	-4,732
Investment income from available-for-sale financial assets	500	42
Entrusted investment and financing	15,549	—
<b>Total</b>	<b>6,679</b>	<b>-4,690</b>

## V. Notes to the consolidated financial statements (Continued)

### 41. Non-operating income

#### (1) Breakdown of non-operating income

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Recognized as non-recurring income
Total gains from disposal of non-current assets	6,084	18,396	6,084
Including: Gains from disposal of fixed assets	1,129	3,396	1,129
Others	4,955	15,000	4,955
Government grants	25,605	142,338	25,605
Penalty income	21,450	1,270	21,450
Waived payables	11,009	830	11,009
Gains from assets counts	4	1,167	4
Compensation received	1,017	3,098	1,017
Others	4,567	6,630	4,567
<b>Total</b>	<b>69,736</b>	<b>173,729</b>	<b>69,736</b>

#### (2) Breakdown of government grants

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Related to assets/income
Consumption tax refund	—	123,251	Related to income
National special research	11,206	—	Related to income
Other government grants	14,399	19,087	Related to assets
<b>Total</b>	<b>25,605</b>	<b>142,338</b>	

### 42. Non-operating expenses

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015	Recognized as non-recurring income
Loss on disposal of non-current assets	5,679	4,890	5,679
Including: Loss on disposal of fixed assets	4,340	4,881	4,340
Donation	225	—	225
Fixed assets written off	—	12	—
Penalty	2,219	3,582	2,219
Compensation	5,617	4,138	5,617
Others	12,868	8,536	12,868
<b>Total</b>	<b>26,608</b>	<b>21,158</b>	<b>26,608</b>

## V. Notes to the consolidated financial statements (Continued)

### 43. Income tax expense

#### (1) Details of income taxes expenses

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Current tax in accordance with tax laws and related regulations	115,863	208,274
Deferred income tax	-2,653	-25,159
<b>Total</b>	<b>113,210</b>	<b>183,115</b>

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

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Profit before income tax	-4,396,294	-1,197,310
Taxation calculated at the statutory tax rate	-1,099,074	-299,328
Effect of other tax rates used by certain subsidiaries	5,474	12,572
Adjustments of current tax in previous years	-518	85,025
Equity method accounting for the joint venture and associates' profit or loss	2,342	1,183
Non-taxable income (expressed in "-")	-1,432	—
Non-deductible costs, expenses and losses	—	1,427
Effect on the change in statutory tax rate on opening balance of deferred tax	—	—
Reversal of previously recognized deferred tax assets	2,427	—
Effect of utilization of unrecognised tax losses and deductible temporary differences	-7,162	-1,598
Effect of unrecognised tax losses and deductible temporary differences	1,209,673	389,315
Tax effect on research and development expenses (expressed in "-")	—	-5,481
Others	1,480	—
<b>Income tax expense</b>	<b>113,210</b>	<b>183,115</b>

## V. Notes to the consolidated financial statements (Continued)

### 44. Notes to Cash Flow Statement

#### (1) Cash received from other operating activities

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Amount paid on behalf	12,301	15,508
Government grants	31,260	39,379
Temporary receipt and payment	781,578	266,556
Guarantee	211,563	154,491
Compensation	22,467	3,098
Others	46,636	17,464
<b>Total</b>	<b>1,105,805</b>	<b>496,496</b>

#### (2) Cash paid for other operating activities

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Temporary receipt and payment	920,052	882,474
Guarantee	273,513	275,105
Travelling expenses	49,171	89,314
Handling charges	36,002	31,565
Integratedservice	786,120	805,237
Others	140,846	29,463
<b>Total</b>	<b>2,205,704</b>	<b>2,113,158</b>

#### (3) Cash received from other financing activities

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Interest income of offering issues	1,285	—
<b>Total</b>	<b>1,285</b>	<b>—</b>

#### (4) Cash paid for other financing activities

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Finance lease expenses	10,900	9,590
Notes acceptance fees	20	99
Difference between payment for assets and price of share repurchase	—	360,305
Internal deposit payment of the company which is not included in the scope of consolidation due to transfer	—	1,400,000
Others	173	—
<b>Total</b>	<b>11,093</b>	<b>1,769,994</b>



## V. Notes to the consolidated financial statements (Continued)

### 45. Supplement information to Cash Flow Statement

#### (1) Supplement information to Cash Flow Statement

Supplement information	For the six months ended 30 June 2016	For the six months ended 30 June 2015
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	-4,509,504	-1,380,425
Add: Provision for impairment loss on assets	68,130	110,204
Depreciation of fixed assets	1,626,646	1,924,427
Amortization of intangible assets	13,190	7,893
Amortization of long-term deferred expenses	896,496	1,102,558
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	-406	-13,506
Losses on discarding of fixed assets (Gain as in "-")	—	12
Fair value losses (Gain as in "-")	—	—
Finance costs (Gain as in "-")	178,211	199,114
Investment losses (Gain as in "-")	-6,679	4,691
Decrease in deferred tax income assets (Increase as in "-")	-1,585	-15,407
Increase in deferred tax liabilities (Decrease as in "-")	-1,067	-9,753
Decrease in inventories (Increase as in "-")	-1,691,187	-4,227,216
Decrease in operating receivables (Increase as in "-")	8,196,520	11,885,627
Increase in operating payables (Decrease as in "-")	-7,950,667	-11,092,202
Others	71,278	132,561
Net cash flows from operating activities	-3,110,624	-1,371,422
<b>2. Significant investment or finance activities not involving cash:</b>		
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash	2,404,398	2,989,634
Less: Opening balance of cash	1,993,209	1,201,754
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase/(decrease) in cash and cash equivalents	411,189	1,787,880

#### (2) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
<b>1. Cash</b>	<b>2,404,398</b>	<b>1,993,209</b>
Including: Cash on hand	10,307	9,221
Cash at banks	2,393,743	1,983,693
Other monetary funds	348	295
<b>2. cash and cash equivalents</b>	<b>—</b>	<b>—</b>
<b>3. closing balance of cash and cash equivalents</b>	<b>2,404,398</b>	<b>1,993,209</b>
<b>4. Restricted cash</b>	<b>3,916</b>	<b>18,381</b>
<b>5. Balance of cash on hand and at banks</b>	<b>2,408,314</b>	<b>2,011,590</b>

## V. Notes to the consolidated financial statements (Continued)

### 46. Restricted assets

Items	At 30 June 2016	Restricted reasons
Cash at bank and on hand	3,916	Guarantee
Total	3,916	—

### 47. Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
<b>Cash at bank and on hand</b>			1,693,262
Including: USD	184,688	6.6312	1,224,706
EUR	91	7.3750	669
BRL	658	2.0411	1,342
DZD	1,206,685	0.0600	72,352
KWD	4,809	21.9395	105,516
KZT	446,560	0.0196	8,739
SAR	28,925	1.7680	51,140
Others	—	—	228,798
<b>Accounts receivable</b>			5,732,079
Including: USD	626,759	6.6312	4,156,163
EUR	5,879	7.3750	43,355
BRL	44,558	2.0411	90,947
DZD	1,421,395	0.0600	85,225
IRR	4,925,631	0.0002	1,079
KWD	29,500	21.9395	647,203
KZT	4,849,339	0.0196	94,897
SAR	253,821	1.7680	448,765
Others	—	—	164,445
<b>Other receivables</b>			1,805,691
Including: USD	172,154	6.6312	1,141,587
EUR	179	7.3750	1,321
BRL	36,633	2.0411	74,772
DZD	143,878	0.0600	8,627
IRR	11,810,422	0.0002	2,586
KWD	9,560	21.9395	209,738
KZT	31,799	0.0196	622
SAR	178,772	1.7680	316,075
Others	—	—	50,363

## V. Notes to the consolidated financial statements (Continued)

### 47. Foreign currency items (Continued)

Items	Original	Exchange rate	Amount (RMB)
<b>Accounts payable</b>			1,075,460
Including: USD	107,706	6.6312	714,223
EUR	383	7.3750	2,824
BRL	24,096	2.0411	49,181
DZD	96,198	0.0600	5,768
KWD	2,603	21.9395	57,107
KZT	378,475	0.0196	7,406
SAR	125,814	1.7680	222,444
Others	—	—	16,507
<b>Other payables</b>			353,316
Including: USD	21,650	6.6312	143,567
EUR	228	7.3750	1,683
BRL	3	2.0411	7
DZD	138,901	0.0600	8,328
IRR	50,686	0.0002	11
KWD	1,940	21.9395	42,567
KZT	116,872	0.0196	2,287
SAR	77,612	1.7680	137,221
Others	—	—	17,645
<b>Dividend payable</b>			4,327
Including: USD	653	6.6312	4,327
<b>Short-term loans</b>			6,144,290
Including: USD	926,573	6.6312	6,144,290
<b>Long-term loans</b>			683,013
Including: USD	103,000	6.6312	683,013

## VI. Changes in scope of consolidation

There are no changes in the scope of consolidated financial statements in the reporting period.

## 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		Ways of acquisition
				directly	indirectly	
<b>Sinopec Oilfield Service Corporation*</b>	China	Beijing	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec Shengli Petroleum Engineering Corporation*</b>	China	Dongying, Shandong	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec Zhongyuan Petroleum Engineering Corporation*</b>	China	Puyang, Henan	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec Jiangnan Petroleum Engineering Corporation*</b>	China	Qianjiang Hubei	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec East China Petroleum Engineering Corporation*</b>	China	Nanjing Jiangsu	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec North China Petroleum Engineering Corporation*</b>	China	Zhengzhou Henan	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec South West Petroleum Engineering Corporation*</b>	China	Chengdu Sichuan	Petroleum Engineering	100.00		Business combination under common control
<b>Sinopec Geophysical Corporation*</b>	China	Beijing	Geophysical prospecting	100.00		Business combination under common control
<b>Sinopec Petroleum Engineering and Construction Corporation*</b>	China	Beijing	Engineering and Construction	100.00		Business combination under common control
<b>Sinopec Offshore Petroleum Engineering Corporation*</b>	China	Shanghai	Petroleum Engineering and technical services	100.00		Business combination under common control
<b>Sinopec International Petroleum Service Corporation*</b>	China	Beijing	Petroleum Engineering and technical services	100.00		Business combination under common control

\*Note: The Company holds shares through Sinopec Oilfield Service Co., Ltd.

### 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		Method of accounting
				Directly	Indirectly	
<b>① Joint ventures</b>						
<b>SinoFTS Petroleum Services Ltd. (SinoFTS)</b>	Beijing	Beijing	Petroleum service	55.00		Equity method
<b>Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)</b>	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

Items	SinoFTS Petroleum Services Limited		Zhong Wei Energy Service Co. Ltd.	
	Closing balance	Opening balance	Closing balance	Opening balance
Current assets:	63,121	119,001	79,494	58,786
Cash and cash equivalents	38,656	100,495	10,985	15,963
Non-current assets	256,010	253,812	6,899	5,402
<b>Total assets</b>	<b>319,131</b>	<b>372,813</b>	<b>86,393</b>	<b>64,188</b>
Current liabilities	-42,596	-16,995	52,386	29,642
Non-current liabilities	53,535	64,620	—	—
<b>Total liabilities</b>	<b>10,939</b>	<b>47,625</b>	<b>52,386</b>	<b>29,642</b>
Net assets	308,192	325,188	34,007	34,546
Shareholder's equity	169,506	178,853	17,004	17,273
<b>Carrying amount of equity investment in joint ventures</b>	<b>168,140</b>	<b>177,155</b>	<b>16,736</b>	<b>17,273</b>

Continued:

Items	SinoFTS Petroleum Services Limited		Zhong Wei Energy Service Co. Ltd.	
	For the six months ended 30 June 2016	For the six months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Revenue	1,333	3,254	35,656	—
Finance costs	369	-293	-219	-68
Income tax expense	—	—	—	—
Net profit	-16,391	-5,372	-1,074	-4,327
Other comprehensive income	—	—	—	—
<b>Total comprehensive income</b>	<b>-16,391</b>	<b>-5,372</b>	<b>-1,074</b>	<b>-4,327</b>
Dividend received from joint ventures	—	—	—	—

#### (3) Financial information of other joint ventures and associates

Items	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Joint ventures		
Total investment from the Group	14,676	14,494
Equity contributed to the Group		
Net profit	371	333
Other comprehensive income	—	—
<b>Total comprehensive income</b>	<b>371</b>	<b>333</b>
Associates:		
Total investment from the Group	11,478	7,478
Equity contributed to the Group:		
Net profit	—	—
Other comprehensive income	—	—
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>

(4) The Group has signed the investment contract and remains RMB129,625 thousand to be paid as at the reporting date of 30 June 2016.

## VIII. Financial instruments and risk management

The major financial instruments of the Group include cash at bank and on hand, accounts receivables, notes receivable, other receivables, other current assets, available-for-sale financial assets, accounts payable, interest payables, notes receivable, employee benefits payable, dividend payables, other payables, short-term borrowings, non-current liabilities within one year, long-term borrowings, long-term payables. The details of these financial instruments are disclosed in the respective notes. The financial risk of these financial instruments and financial management policies used by the Group to minimize the risk are disclosed as below. The management manages and monitors the exposure of these risks to ensure the above risks are controlled in the limited range.

### 1. Objectives and policies of financial risk management

The 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.

##### 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 6 months ended 30 June 2016 and the 6 months ended 31 December 2015, 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	30 June 2016	30 June 2015
<b>Fixed interest rate financial instruments</b>		
<b>Financial instruments</b>		
Cash and cash equivalents	506,018	419,649
<b>Financial liabilities</b>		
Short-term borrowings	6,459,000	5,185,324
Long-term borrowings	—	—
Long-term payables	60,137	68,514
<b>Floating interest rate financial instruments</b>	—	—
<b>Financial assets</b>		
Cash and cash equivalents	1,902,296	1,591,941
<b>Financial liabilities</b>		
Short-term borrowings	9,393,320	6,884,988
Long-term borrowings	763,013	688,969

As at 30 June 2016, 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 RMB38,086 thousand (31 December 2015: RMB28,402 thousand).

The financial instruments held by the Group at the date of balance sheet expose the Group to fair value interest rate risk. Under the hypothesis of a floating interest rate at the date of balance sheet, the effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arisen 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 arisen 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.

## VIII. Financial instruments and risk management (Continued)

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

#### (1) Market risk (Continued)

##### Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Foreign currency risk arises from the functional currency denominated financial instrument measured at individual entity.

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars, Saudi riyals, Kuwait dinars and Brazil reals.

The foreign currency assets and foreign currency liabilities include the following assets and liabilities denominated in foreign currencies such as cash and cash equivalents, accounts receivable, prepayments, other receivables, account payables, other payables, advances from customers, short-term borrowings and long-term borrowings.

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at the balance sheet date:

Items	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
USD	7,689,420	8,169,100	6,522,456	5,760,091
SAR	359,665	314,487	815,980	721,927
KWD	99,674	72,080	962,457	645,233
BRL	49,188	41,028	167,061	135,656
Others	62,459	109,830	763,078	627,238
<b>Net exposure in RMB</b>	<b>8,260,406</b>	<b>8,706,525</b>	<b>9,231,032</b>	<b>7,890,145</b>

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 6 months ended 2016 and the year ended 2015.

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 30 June 2016		As at 31 December 2015	
Appreciation in USD	5%	-43,761	5%	-90,338
Depreciation in USD	-5%	43,761	-5%	90,338
Appreciation in SAR	5%	17,112	5%	15,279
Depreciation in SAR	-5%	-17,112	-5%	-15,279
Appreciation in KWD	5%	32,354	5%	21,493
Depreciation in KWD	-5%	-32,354	-5%	-21,493
Appreciation in BRL	5%	4,420	5%	3,549
Depreciation in BRL	-5%	-4,420	-5%	-3,549

#### (2) 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 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 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 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, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

The highest credit risk exposed to the Group is limited to the carrying amount of each financial instrument illustrated in the balance sheet. The Group would not provide any guarantee that might cause credit risk to the Group.

## VIII. Financial instruments and risk management (Continued)

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

#### (3) 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:

Items	At 30 June 2016				Total amount
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
<b>Financial assets:</b>	—	—	—	—	—
Cash and cash equivalents	2,408,314	—	—	—	2,408,314
Notes receivable	471,451	—	—	—	471,451
Accounts receivable	17,703,456	—	—	—	17,703,456
Interests receivable	6	—	—	—	6
Other receivables	3,205,194	—	—	—	3,205,194
Non-current assets due within one year	900,000	—	—	—	900,000
Other current assets	465,251	—	—	—	465,251
<b>Total assets</b>	<b>25,153,672</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>25,153,672</b>
<b>Financial liabilities:</b>					
Short-term borrowings	15,852,320	—	—	—	15,852,320
Notes payable	1,647,022	—	—	—	1,647,022
Accounts payable	25,302,532	—	—	—	25,302,532
Employee benefits payable	277,522	—	—	—	277,522
Tax payable	618,730	—	—	—	618,730
Interest payables	33,946	—	—	—	33,946
Other payables	5,771,185	—	—	—	5,771,185
Non-current liabilities due within 1 year	112,834	—	—	—	112,834
Long-term borrowings	65,625	80,000	120,048	497,340	763,013
Long-term payables	17,360	17,360	16,872	—	51,592
Financial lease payables of unrecognized financial expenses	4,069	2,767	1,708	—	8,544
<b>Total liabilities</b>	<b>49,703,145</b>	<b>100,127</b>	<b>138,628</b>	<b>497,340</b>	<b>50,439,240</b>



## VIII. Financial instruments and risk management (Continued)

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

#### (3) Liquidity risk (Continued)

Items	At 31 December 2015				Total amount
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
<b>Financial assets:</b>	—	—	—	—	—
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
<b>Total assets</b>	<b>32,920,871</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>32,920,871</b>
<b>Financial liabilities:</b>					
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
<b>Total liabilities</b>	<b>50,772,209</b>	<b>182,714</b>	<b>126,068</b>	<b>584,583</b>	<b>51,665,574</b>

## VIII. Financial instruments and risk management (Continued)

### 2. Capital management

The capital management policies are made to keep the continuous operation of the Group, to enhance the return to shareholders, to benefit other related parties and to maintain the best capital structure to minimize the cost of capital.

For the maintenance or adjustment of the capital structure, the Group might adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or make an asset disposal to reduce the liabilities.

The Group monitors the performance of capital management with capital-to-debt ratio. The ratio is calculated as Net liabilities/Total capital. The Net liabilities are calculated as total borrowings – cash in Cash flow statement. Total borrowing includes short-term borrowings, long-term borrowings due within 1 year, bonds payables and long-term borrowings. Total assets equals to the sum of the shareholders' equity and net liabilities. The shareholders' equity includes minority interest and equity attributed to the parent company.

As at the date of balance sheet, the debt to equity ratio is as below:

Items	At 30 June 2016	At 31 December 2015
Short-term borrowings		
Long-term borrowings due within 1 year	15,852,320	12,070,312
Long-term payables due within 1 year	65,625	70,000
Long-term borrowings	47,209	17,360
Long-term payables	697,388	618,969
Less: cash and cash equivalents	42,777	51,154
<b>Net debt</b>	<b>2,404,398</b>	<b>1,993,209</b>
Shareholder's equity	14,300,921	10,834,586
<b>Total equity</b>	<b>20,198,727</b>	<b>24,636,953</b>
<b>Total capital</b>	<b>34,499,648</b>	<b>35,471,539</b>
<b>Debt to equity ratio</b>	<b>41.45</b>	<b>30.54</b>

## 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 30 June 2016 and 31 December 2015, 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 %
<b>China Petrochemical Corporation</b>	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 report period:

At 1 January 2016	Increase in the period	Decrease in the period	At 30 June 2016
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
<b>Sinopec Bayshore Petroleum Service Co., LTD</b>	Joint venture
<b>Qianjiang Hengyun Motor Vehicle Performance Testing Corporation</b>	Joint venture

### 4. Other related parties

Names of other related parties	Relationships with the Group
<b>China Petroleum &amp; Chemical Corporation</b>	Controlled by Sinopec Group
<b>Sinopec Shengli Petroleum Administrative Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Zhongyuan Petroleum Explorative Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Jiangnan Petroleum Administrative Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Henan Petroleum Explorative Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Jiangsu Petroleum Explorative Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Star Petroleum Co., LTD</b>	Controlled by Sinopec Group
<b>Sinopec East China Petroleum Bureau</b>	Controlled by Sinopec Group
<b>Sinopec North China Petroleum Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Southwest Petroleum Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Northeast Petroleum Bureau</b>	Controlled by Sinopec Group
<b>Sinopec Pipeline Storage &amp; Transportation Company</b>	Controlled by Sinopec Group
<b>Sinopec Shanghai Offshore Petroleum Bureau</b>	Controlled by Sinopec Group
<b>Sinopec International Petroleum Exploration And Production Corporation</b>	Controlled by Sinopec Group
<b>Sinopec Finance Co., LTD</b>	Controlled by Sinopec Group
<b>Sinopec Century Bright Capital Investment Limited</b>	Controlled by Sinopec Group
<b>Sinopec Assets Operating And Management Company</b>	Controlled by Sinopec Group
<b>CITIC Group Corporation</b>	Shareholder with 5% of voting rights
<b>China CITIC Bank</b>	Subsidiary of CITIC Group Corporation
<b>Director, General Manager, Chief Financial Office And the Secretary of the Board of Directors</b>	Key Managers

## X. Related parties and transaction (Continued)

### 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 30 June 2016	Amount of the year ended 30 June 2015
Sinopec Group and its subsidiaries	Purchases of materials and equipments	Based on normal commercial terms or relevant agreements	1,780,318	2,278,104

Sales of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 30 June 2016	Amount of the year ended 30 June 2015
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	50,172	18,487

#### (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 30 June 2016	Amount of the year ended 30 June 2015
Sinopec Group and its subsidiaries	Total		9,119,567	12,616,265
	Geophysical exploration	Based on normal commercial terms or relevant agreements	974,294	1,536,014
	Drilling	Based on normal commercial terms or relevant agreements	3,944,805	6,730,051
	Logging and mud-logging	Based on normal commercial terms or relevant agreements	346,490	574,596
	Special down-hole service	Based on normal commercial terms or relevant agreements	1,284,632	1,147,551
	Engineering & construction	Based on normal commercial terms or relevant agreements	2,462,222	2,512,604
	Other services	Based on normal commercial terms or relevant agreements	107,124	115,449

#### (3) Details of related comprehensive services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 30 June 2016	Amount of the year ended 30 June 2015
Sinopec Group and its subsidiaries	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	786,120	805,237
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	18,045	116,513

#### (4) Details of related party leases

The Group as a lessee

Name of lessor	Type of leasing assets	Pricing policy and procedure for decision-making	Leasing expense for the current period	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Land and buildings	Based on normal commercial terms or relevant agreements	26,670	45,900

## X. Related parties and transaction (Continued)

### 5. Transactions with related parties (Continued)

#### (5) Related party guarantee

The Group as a guarantor

Guarantor	Type of guarantee	Amount of guarantee	Beginning date	Maturity date	Status of Guarantee
<b>Sinopec Group</b>	Performance guarantee	USD210,000 thousand	June 2013	January 2017	Incomplete

The Group as a guaranteee

Guarantor	Type of guarantee	Amount of guarantee	Beginning date	Maturity date	Status of Guarantee
<b>Sinopec International Petroleum Service Corporation</b>	Performance guarantee	USD579,379 thousand	May 2015	December 2020	Incomplete
<b>Sinopec Geophysical Corporation</b>	Performance guarantee	USD61,830 thousand	February 2016	February 2017	Incomplete

#### (6) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 30 June 2016	Amount of the year ended 30 June 2015
<b>Subsidiaries of Sinopec Group</b>	Deposit interest income	Based on normal commercial terms or relevant agreements	2,192	600
	Entrusted loans interest income	Based on normal commercial terms or relevant agreements	15,549	
	Loan interest expense	Based on normal commercial terms or relevant agreements	219,946	153,311
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	27,052,059	26,332,206
	Payment of the loan	Based on normal commercial terms or relevant agreements	23,206,326	26,755,339
<b>CITIC Bank</b>	Deposit interest income	Based on normal commercial terms or relevant agreements	—	—

#### (7) Security fund

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 30 June 2016	Amount of the year ended 31 December 2015
<b>Sinopec Group</b>	Security fund expenditure	Based on normal commercial terms or relevant agreements	44,114	30,215
	Return on security fund	Based on normal commercial terms or relevant agreements	43,990	22,250

#### (8) Remuneration of key management personnel

Items	For the year ended 30 June 2016	For the year ended 30 June 2015
Remuneration	4,657	5,111
Retirement scheme contribution	365	315
<b>Total</b>	<b>5,022</b>	<b>5,426</b>

## 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 30 June 2016		As at 31 December 2015	
		Balance	Provision for bad debt	Balance	Provision for bad debt
Bank deposit	Sinopec Finance Co., LTD	16,798	—	17,745	—
	Sinopec Century Bright Capital Investment Limited	1,005,923	—	940,413	—
	CITIC Bank	1	—	1	—
Amounts receivable	Sinopec Group and its subsidiaries	7,870,738	—	17,797,091	—
	Joint ventures of the Group	2,721	—	1,078	—
	Joint ventures and associates of SINOPEC GROUP	232,592	—	283,281	—
Prepayments	Sinopec Group and its subsidiaries	5,116	—	16,460	—
	Joint ventures of the Group	7,174	—	—	—
Other receivables	Sinopec Group and its subsidiaries	326,442	—	251,127	—
	Joint ventures of the Group	10,762	—	308	—
	Joint ventures and associates of Sinopec Group	7,849	—	1,570	—
Non-current assets due within one year	Sinopec Group and its subsidiaries	900,000	—	1,097,00	—

#### (2) Payables to related parties

Items	Related party	As at 30 June 2016	As at 31 December 2015
Amounts payable	Sinopec Group and its subsidiaries	1,969,758	2,071,793
	Joint ventures of the Group	41,034	31,983
	Joint ventures and associates of Sinopec Group	19,130	81,400
Advances from customers	Sinopec Group and its subsidiaries	230,987	199,376
	Joint ventures and associates of Sinopec Group	—	4,860
Other payables	Sinopec Group and its subsidiaries	3,771,494	3,785,680
Short-term borrowings	Sinopec Finance Co., LTD	5,559,000	2,145,000
	Sinopec Century Bright Capital Investment Limited	10,293,320	9,925,312
Interest payable	Sinopec Group and its subsidiaries	33,946	14,823
Long-term loan	Sinopec Finance Co., LTD	80,000	150,000
	Sinopec Century Bright Capital Investment Limited	185,673	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 30 June 2016	As at 31 December 2015
Land and buildings, plant & machineries	936,792	803,406

#### (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 30 June 2016	As at 31 December 2015
Within one year	194,993	280,765
Between 1 and 2 years	42,864	31,728
The third year	32,013	19,271
After three years	71,064	80,626
Total amount	340,934	412,390

#### (3) Investment commitments

The Group had outstanding commitments of RMB129,625 thousand in respect of its investment in FEYP as at 30 June 2016 not provided for in the financial statements (2015: 129,625 thousand).

#### (4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2016.

### 2. Contingency

#### (1) Contingent liabilities due to pending actions

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group.

#### (2) Contingent liabilities guarantee provided for other entities and its financial effects

As at 30 June 2016, there is no contingent liability from guarantee provided for other entities.

As at 30 June 2016, the subsidiary company of the Group provides guarantee amounted USD 588,000 thousand to its subsidiary (31 December 2015: 0).

#### (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 August 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

There is no discontinued operations during the reporting period.

### 5. Segment information

The Group has identified six reportable segments based on the internal structure, management requirements and internal reporting policy. The six reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, engineering construction, chemical fiber and chemical fiber raw materials. The segment information is prepared based on the financial information of the Company's daily management requirements. The Company's executive management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

Inter-segment transfers are measured by reference to market price. The assets are allocated based on the operations of the segment and the physical location of the asset.

The resources related to long-term equity investment and investment (loss)/income on joint venture, income tax expenses as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

The segment information is disclosed in accordance with the accounting policies and measurement standards reported to management by each segment. These accounting policies and measurement standards are consistent with the accounting policies and measurement standards of preparation of the financial statements.



## XIII. Other significant events (Continued)

### 5. Segment information (Continued)

#### (1) Segment profit or loss, assets and liabilities

For the 6 months ended 30 June 2016	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	2,046,124	9,096,997	540,231	1,869,564	4,705,921	583,159	-152,133	18,689,863
Including: External revenue	2,046,124	9,091,487	534,741	1,861,348	4,615,478	540,685	—	18,689,863
Including: Inter-segment revenue	—	5,510	5,490	8,216	90,443	42,474	-152,133	—
Including: Major business revenue	2,046,124	9,096,997	540,231	1,869,565	4,705,921	339,934	-152,133	18,446,639
Cost of sales	2,381,867	10,856,784	791,525	2,136,339	4,518,769	536,212	-152,133	21,069,363
Including: Major business cost	2,381,867	10,856,784	791,525	2,136,339	4,518,769	344,395	-152,133	20,877,546
Operating expenses	203,416	777,236	137,067	148,303	508,861	285,039	—	2,059,922
Operating profit/(loss)	-539,159	-2,537,023	-388,361	-415,078	-321,709	-238,092	—	-4,439,422
Total assets	5,912,416	36,562,033	2,766,554	8,890,094	20,066,147	15,513,619	-12,233,603	77,477,260
Total liabilities	3,622,280	22,432,417	1,136,330	3,826,602	21,070,818	17,423,689	-12,233,603	57,278,533
Supplementary information:								
Capital expenditure	41,689	175,646	4,185	41,141	984	5,995	—	269,640
Depreciation and amortization	306,728	1,561,537	140,932	282,807	124,171	120,157	—	2,536,332
Impairment loss on assets	2,984	24,044	-1,594	2,770	47,736	-7,810	—	68,130

For the 6 months ended 30 June 2015	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	2,146,869	12,481,952	782,269	2,167,653	5,151,595	645,682	-254,735	23,121,285
Including: External revenue	2,145,529	12,481,546	769,696	2,124,143	5,016,330	584,041	—	23,121,285
Including: Inter-segment revenue	1,340	406	12,573	43,510	135,265	61,641	-254,735	—
Including: Major business revenue	2,146,433	12,473,434	781,924	2,166,267	5,122,385	449,237	-254,735	22,884,945
Cost of sales	2,078,737	12,311,611	736,368	1,934,304	4,996,642	503,013	-254,735	22,305,940
Including: Major business cost	2,078,737	12,302,463	736,009	1,934,205	4,975,603	387,747	-254,735	22,160,029
Operating expenses	2,272,028	13,229,619	900,308	2,137,161	5,573,974	608,121	-254,735	24,466,476
Operating profit/(loss)	-125,159	-747,667	-118,039	30,492	-422,336	32,828	—	-1,349,881
Total assets	6,281,366	41,919,701	3,198,675	7,649,590	18,923,963	23,992,194	-28,152,703	73,812,786
Total liabilities	3,570,581	24,363,307	1,237,460	3,784,822	19,419,455	26,189,059	-28,152,703	50,411,981
Supplementary information:								
Capital expenditure	72,360	251,165	34,746	302,023	75	13,074	—	673,443
Depreciation and amortization	300,727	2,077,017	232,408	224,390	127,893	72,443	—	3,034,878
Impairment loss on assets	16,733	3,087	664	3,680	88,119	-2,078	—	110,205

## XIII. Other significant events (Continued)

### 5. Segment information (Continued)

#### (2) Other Segment Information

##### ① External revenue of goods and services

Items	30 June 2016	30 June 2015
Geophysics	2,046,124	2,145,529
Drilling engineering	9,091,487	12,481,546
logging and mud logging	534,741	769,696
Special down-hole operations	1,861,348	2,124,143
Engineering construction	4,615,478	5,016,330
Others	540,685	584,041
<b>Total</b>	<b>18,689,863</b>	<b>23,121,285</b>

##### ② Geographical information

For the 6 months ended 30 June 2016	PRC	Other countries or regions	Total
External revenue	11,889,640	6,800,223	18,689,863
Non-current assets	29,137,275	4,933,414	34,070,689

For the 6 months ended 30 June 2015	PRC	Other countries or regions	Total
External revenue	16,870,923	6,250,362	23,121,285
Non-current assets	29,544,756	4,225,939	33,770,695

##### ③ The dependence of principal customers

A single customer contributed over 40% of the total revenue of the Group.

## XIV. Notes to parent company's financial statements

### 1. Cash at bank and on hand

Items	At 30 June 2016			At 31 December 2015		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
<b>Cash on hand:</b>	—	—	—	—	—	—
RMB	—	—	—	—	—	—
<b>Cash at banks:</b>	—	—	510,189	—	—	419,118
RMB	—	—	510,189	—	—	419,118
<b>Total</b>	—	—	510,189	—	—	419,118

### 2. Other receivables

	At 30 June 2016	At 31 December 2015
Other receivables	5,066,002	5,157,515
Less: provision for bad debts	—	—
<b>Net amount</b>	<b>5,066,002</b>	<b>5,157,515</b>

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

Type	At 30 June 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad and doubtful debts individually	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	5,066,002	100	—	—	5,066,002
Subtotal	5,066,002	100	—	—	5,066,002
Individually insignificant but provision for bad and doubtful debts individually					
<b>Total</b>	<b>5,066,002</b>	<b>100</b>	<b>—</b>	<b>—</b>	<b>5,066,002</b>

Continued

Type	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Individually significant and provision for bad and doubtful debts individually	—	—	—	—	—
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
Individually insignificant but provision for bad and doubtful debts individually	—	—	—	—	—
<b>Total</b>	<b>5,157,515</b>	<b>100</b>	<b>—</b>	<b>—</b>	<b>5,157,515</b>

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

### 2、 Other receivables (Continued)

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

- ① At 30 June 2016 and 31 December 2015, there is no other receivables that individually significant and provision for bad and doubtful debts individually.
- ② Group of ageing other receivables made provision for bad and doubtful debts by ageing analysis is as follows:

	At 30 June 2016				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	5,066,002	100	—	—	5,066,002
Over 3 years	—	—	—	—	—
<b>Total</b>	<b>5,066,002</b>	<b>100</b>	<b>—</b>	<b>—</b>	<b>5,066,002</b>

	At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	5,157,515	100	—	—	5,157,515
Over 3 years	—	—	—	—	—
<b>Total</b>	<b>5,157,515</b>	<b>100</b>	<b>—</b>	<b>—</b>	<b>5,157,515</b>

- (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.

### 3、 Long-term equity investments

Items	At 30 June 2016	At 31 December 2015
Investments in subsidiaries	20,215,327	20,215,327
Less:provision for impairment of long-term equity investment	—	—
<b>Total</b>	<b>20,215,327</b>	<b>20,215,327</b>

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 30 June 2016	At 31 December 2015
The net profit or loss during the material assets reorganization	1,119,802	1,119,802
Others	—	—
<b>Total</b>	<b>1,119,802</b>	<b>1,119,802</b>

As at 30 June 2016, other payables with aging over 1 year with a carrying amount of RMB1,119,802 (2015: RMB1,119,802) are net profit/loss during material assets reorganization due to Sinopec Group which are unsettled.

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

### 5、Share capital (Unit: thousand shares)

At 30 June 2016:

Items	Changes in current (+, -)				At 30 June 2016
	At 1 June 2016	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)	1,783,333	—	—	—	1,783,333
Foreign shares listed overseas (H share)	2,100,000	—	—	—	2,100,000
<b>Total</b>	<b>14,142,661</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14,142,661</b>

At 31 December 2015:

Items	Changes in current (+, -)				At 31 December 2015
	At 1 January 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
<b>Total</b>	<b>12,809,328</b>	<b>1,333,333</b>	<b>—</b>	<b>1,333,333</b>	<b>14,142,661</b>

Approved by "Approval to the Material Assets Reorganization of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No. 1370) 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 30 June 2016:

Items	At 1 January 2016	Increase for the period	Decrease for the period	At 30 June 2016
Share premium	11,683,349	—	—	11,683,349
Other capital reserve	67,969	—	—	67,969
<b>Total</b>	<b>11,751,318</b>	<b>—</b>	<b>—</b>	<b>11,751,318</b>

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
<b>Total</b>	<b>7,132,134</b>	<b>4,619,184</b>	<b>—</b>	<b>11,751,318</b>

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

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

### 7、 Surplus reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 30 June 2016
Statutory surplus reserve	200,383			200,383
<b>Total</b>	<b>200,383</b>			<b>200,383</b>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

### 8、 Retained earnings

Items	30 June 2016	30 June 2015	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	-1,422,273	-1,444,725	
Add: Net profit attributable to parent company	-472	22,452	—
Less: Withdrawal of statutory surplus reserves		—	10%
<b>Retained earnings at the end of the year</b>	<b>-1,422,745</b>	<b>-1,422,273</b>	

### 9、 Business tax and surcharges

Items	30 June 2016	30 June 2015
Business tax	30	29
Urban maintenance and construction tax	2	2
Education surtax	2	1
<b>Total</b>	<b>34</b>	<b>32</b>

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

### 10、 General and administrative expenses

Items	30 June 2016	30 June 2015
Convention expense	1,039	—
Board of director expense	150	—
Taxes	—	2,976
Others	1,561	464
<b>Total</b>	<b>2,750</b>	<b>3,440</b>

### 11、 Finance cost

Items	30 June 2016	30 June 2015
Interest expenses	—	—
Less: Interest income	2,313	-10,854
Exchange losses/(gains)	—	17
Bank charges and others	1	3
<b>Total</b>	<b>-2,312</b>	<b>-10,834</b>

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

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

### 12. Income tax expense

#### (1) Details of income taxes expenses

Items	30 June 2016	30 June 2015
Current tax in accordance with tax laws and related regulations	—	—
Deferred income tax	—	—
<b>Total</b>	<b>—</b>	<b>—</b>

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

Items	30 June 2016	30 June 2015
Profit before income tax	-472	6,393
Taxation calculated at the statutory tax rate	-118	1,598
Effect of utilisation of unrecognised tax losses and deductible temporary differences	—	-1,598
Effect of unrecognised tax losses and deductible temporary differences	118	—
Others	—	—
Income tax expense	—	—

### 13. Notes to Cash Flow Statement

#### (1) Cash received from other operating activities

Item	30 June 2016	30 June 2015
Cash from subsidiaries	90,919	—
Others	—	10,854
<b>Total</b>	<b>90,919</b>	<b>10,854</b>

#### (2) Cash paid for other operating activities

Item	30 June 2016	30 June 2015
Cash paid for subsidiaries	—	3,993,050
Others	1,099	6,006
<b>Total</b>	<b>1,099</b>	<b>3,999,056</b>

#### (3) Cash received from financing activities

Item	30 June 2016	30 June 2015
Temporary borrowings	—	—
Interest received from self-raised funds special deposit	1,285	—

#### (4) Cash received for financing activities

Items	30 June 2016	30 June 2015
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)

### 14. Supplement information to Cash Flow Statement

#### (1) Supplement information to Cash Flow Statement:

Supplement information	30 June 2016	30 June 2015
<b>1. Reconciliation of net profits to cash flows from operating activities:</b>		
Net profit	-472	6,393
Add: Provision for impairment losses on assets	—	—
Depreciation of fixed assets	—	—
Amortization of intangible assets	—	—
Amortization of long-term deferred expenses	—	—
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	—	—
Losses on retirement of fixed assets (Gain as in "-")	—	—
Finance costs (Income as in "-")	-1,285	—
Investment losses(Income as in "-")	—	—
Decrease in deferred tax income assets (Increase as in "-")	—	—
Increase in deferred income tax liabilities (Decrease as in "-")	—	—
Decrease in inventories (Increase as in "-")	—	—
Decrease in operating receivables (Increase as in "-")	91,513	-3,993,051
Increase in operating payables (Decrease as in "-")	30	-4,553
Others	—	—
Net cash flows from operating activities	89,786	-3,991,211
<b>2. Significant investment or finance activities not involving cash:</b>		
Transfer of assets to Sinopec Group	—	—
Revaluation gains	—	—
Fixed assets acquired under finance leases	—	—
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash	510,189	1,602,484
Less: Opening balance of cash	419,118	—
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net decrease/(increase) in cash and cash equivalents	91,071	1,602,484

#### (2) Composition of cash and cash equivalents

Items	30 June 2016	30 June 2015
<b>1. Cash</b>	510,189	1,602,484
Including: Cash in hand	—	—
Cash at bank	510,189	1,602,484
Other monetary funds	510,189	1,602,484
<b>2. Cash equivalents</b>	—	—
<b>3. Closing balance of cash and cash equivalents</b>	510,189	1,602,484



## XV. Supplementary information

### 1. Details of non-recurring gains or losses

Items	30 June 2016	Note
Gain or loss on disposal of non-current assets	405	
Government grants recognised in profit or loss for the year/period	25,605	
Gain from entrusted investment and financing	15,549	
Non-operating income/(expenses) except the above	17,118	
Total non-recurring gains or losses	58,677	
Less: Effects of income tax on non-recurring gains or losses	8,268	
Net non-recurring gains or losses	50,409	
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	50,409	

### 2. Return on net assets and earnings/(loss) per share

Profit of reporting period	Weighted average return on net assets%	Earnings/(loss) per share	
		Basic earnings/(loss)	Diluted earnings/(loss)
		(Yuan/share)	(Yuan/share)
Net profit attributable to the Company's ordinary equity shareholders	-20.15	-0.32	-0.32
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-20.39	-0.32	-0.32

Earnings per share	30 June 2016	30 June 2015
Net loss attributable to the Company's ordinary equity shareholders	-4,509,421	-1,380,350
Including: Net profit of continuing operations	-4,509,421	-1,380,350
Net profit of discontinuing operations	—	—
Basic earnings per share	-0.32	-0.10
Including: Basic earnings per share of continuing operations	-0.32	-0.10
Basic earnings per share of discontinuing operations	—	—
Diluted earnings per share	-0.32	-0.10
Including: Diluted earnings per share of continuing operations	-0.32	-0.10
Diluted earnings per share of discontinuing operations	—	—

## XV. Supplementary information (Continued)

### 3、Differences between local and overseas accounting standards

#### (1) Reconciliation of differences between CASBE and IFRS financial statements

	Net profit		Net assets	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Based on CASBE	-4,509,421	-1,380,350	20,199,951	24,638,094
Adjusted items and amounts in accordance with IFRS:				
Government grants	—	—	—	—
Special reserve	71,278	132,575	—	—
Based on IFRS	-4,438,143	-1,247,775	20,199,951	24,638,094

#### (2) Note:

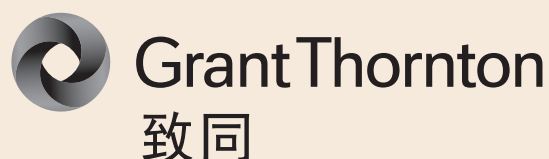
##### (a) Special reserve

In accordance to CASBE, provision of safety fund according to the PRC regulation is recognised to the profit or loss in the current period and at the same time included in the “special reserve” account. When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through “construction in progress” account, then recognised as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods. According to IFRSs, expenditure in cost nature is recognised in the profit or loss and expenditure in capital nature is recognised as fixed assets when incurred and depreciate in the corresponding depreciation method.

Sinopec Oilfield Service Corporation

30 August 2016

Prepared in accordance with International Financial Reporting Standards (Unaudited)



## Independent Review Report

To the Board of Directors of Sinopec Oilfield Service Corporation  
(Established in the People's Republic of China with limited liability)

### INTRODUCTION

We have reviewed the interim financial information of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 114 to 139, which comprises the condensed consolidated statement of financial position as at 30 June 2016, and the related condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IASB. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

#### Grant Thornton Hong Kong Limited

*Certified Public Accountants*

Level 12

28 Hennessy Road

Wanchai

Hong Kong

30 August 2016

Shaw Chi Kit

Practising Certificate No.: P04834

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	For the six months ended 30 June	
		2016	2015
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Revenue</b>	4	18,689,863	23,121,285
Cost of sales and business taxes		(21,199,244)	(22,433,888)
<b>(Gross loss)/Gross profit</b>		<b>(2,509,381)</b>	687,397
Selling expenses		(24,797)	(25,343)
General and administrative expenses		(1,562,419)	(1,560,959)
Finance expenses - net	6	(194,547)	(203,506)
Impairment losses on assets	7	(68,130)	(110,205)
Investment income		500	42
Share of loss from joint ventures		(9,370)	(4,732)
Operating loss		(4,368,144)	(1,217,306)
Other income	8	69,736	173,729
Other expenses	9	(26,608)	(21,158)
<b>Loss before income tax</b>	10	<b>(4,325,016)</b>	(1,064,735)
Income tax expense	11	(113,210)	(183,115)
<b>Loss for the period</b>		<b>(4,438,226)</b>	(1,247,850)
Other comprehensive income for the period, net of tax		—	—
<b>Total comprehensive expense for the period</b>		<b>(4,438,226)</b>	(1,247,850)
<b>Total comprehensive expense for the period attributable to:</b>			
Owners of the Company		(4,438,143)	(1,247,775)
Non-controlling interests		(83)	(75)
<b>Total comprehensive expense for the period</b>		<b>(4,438,226)</b>	(1,247,850)
<b>Loss per share for loss attributable to owners of the Company (presented in RMB per share)</b>	12		
Basic and diluted		(0.314)	(0.090)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	As at 30 June 2016	As at 31 December 2015
		RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	30,291,758	31,718,367
Other non-current assets		4,304,177	4,775,091
Prepaid land leases	16	109,638	104,954
Intangible assets		65,415	77,249
Interests in joint ventures		199,552	208,922
Interests in associates		11,478	7,478
Available-for-sale financial assets		40,494	40,494
Deferred income tax assets		189,016	187,430
<b>Total non-current assets</b>		<b>35,211,528</b>	<b>37,119,985</b>
<b>Current assets</b>			
Inventories	20	1,920,780	1,978,726
Notes and trade receivables	17	18,175,907	27,262,259
Prepayment and other receivables	18	5,221,048	4,144,668
Amounts due from customers for contract works	19	14,539,683	12,790,549
Restricted cash		3,916	18,381
Cash and cash equivalents		2,404,398	1,993,209
<b>Total current assets</b>		<b>42,265,732</b>	<b>48,187,792</b>
<b>Total assets</b>		<b>77,477,260</b>	<b>85,307,777</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2016

	Note	As at 30 June 2016	As at 31 December 2015
		RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Equity</b>			
Share capital	21	14,142,661	14,142,661
Reserves		6,057,290	10,495,433
Equity attributable to owners of the Company		20,199,951	24,638,094
Non-controlling interests		(1,224)	(1,141)
<b>Total equity</b>		<b>20,198,727</b>	<b>24,636,953</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term borrowings	24	740,165	670,123
Deferred income		64,663	59,008
Special payables		400	1,051
Deferred income tax liabilities		30,184	31,251
<b>Total non-current liabilities</b>		<b>835,412</b>	<b>761,433</b>
<b>Current liabilities</b>			
Notes and trade payables	22	26,949,554	30,193,846
Deposits received and other payables	23	8,480,543	9,508,867
Amounts due to customers for contract works	19	5,047,921	7,804,513
Short term borrowings	24	15,935,305	12,157,672
Current income tax payable		29,798	244,493
<b>Total current liabilities</b>		<b>56,443,121</b>	<b>59,909,391</b>
<b>Total liabilities</b>		<b>57,278,533</b>	<b>60,670,824</b>
<b>Total equity and liabilities</b>		<b>77,477,260</b>	<b>85,307,777</b>
<b>Net current liabilities</b>		<b>(14,177,389)</b>	<b>(11,721,599)</b>
<b>Total assets less current liabilities</b>		<b>21,034,139</b>	<b>25,398,386</b>

Chairman of the Board:

JIAO Fangzheng

Vice Chairman and General Manager:

SUN Qingde

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Retained earnings/(accumulated losses)	Total		
	RMB'000 (Note 21)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>At 1 January 2016</b>	14,142,661	8,826,247	67,969	200,383	259,547	1,141,287	24,638,094	(1,141)	24,636,953
Total comprehensive expense for the period	—	—	—	—	—	(4,438,143)	(4,438,143)	(83)	(4,438,226)
<b>Transactions with owners:</b>									
Appropriation of specific reserve	—	—	—	—	232,721	(232,721)	—	—	—
Utilisation of specific reserve	—	—	—	—	(161,443)	161,443	—	—	—
Total transactions with owners	—	—	—	—	71,278	(71,278)	—	—	—
<b>At 30 June 2016 (Unaudited)</b>	14,142,661	8,826,247	67,969	200,383	330,825	(3,368,134)	20,199,951	(1,224)	(20,198,727)
<b>At 1 January 2015</b>	12,809,328	4,207,063	67,969	200,383	295,568	1,116,809	18,697,120	(982)	18,696,138
Total comprehensive expense for the period	—	—	—	—	—	(1,247,775)	(1,247,775)	(75)	(1,247,850)
<b>Transactions with owners:</b>									
Issue of shares	1,333,333	4,619,184	—	—	—	—	5,952,517	—	5,952,517
Appropriation of specific reserve	—	—	—	—	336,223	(336,223)	—	—	—
Utilisation of specific reserve	—	—	—	—	(203,648)	203,648	—	—	—
Total transactions with owners	1,333,333	4,619,184	—	—	132,575	(132,575)	5,952,517	—	5,952,517
<b>At 30 June 2015 (Unaudited)</b>	14,142,661	8,826,247	67,969	200,383	428,143	(263,541)	23,401,862	(1,057)	23,400,805

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash flows used in operations	(2,912,275)	(830,637)
Income tax paid	(330,558)	(566,526)
<b>Net cash used in operating activities</b>	<b>(3,242,833)</b>	<b>(1,397,163)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(224,367)	(469,299)
Proceeds from disposal of property, plant and equipment	2,629	22,780
Payment of prepaid land leases	(6,040)	—
Increase in investments in associates	(4,000)	—
Collection of in entrusted loans	197,000	—
Interests received	24,745	15,873
Investments income received from the available-for-sale financial assets	500	—
<b>Net cash used in investing activities</b>	<b>(9,533)</b>	<b>(430,646)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	26,850,384	26,172,969
Repayments of borrowings	(22,986,605)	(26,592,740)
Interests paid	(200,224)	(156,752)
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)
<b>Net cash generated from financing activities</b>	<b>3,663,555</b>	<b>3,615,689</b>
<b>Net increase in cash and cash equivalents</b>	<b>411,189</b>	<b>1,787,880</b>
Cash and cash equivalents at the beginning of the period	1,993,209	1,201,754
<b>Cash and cash equivalents at the end of the period</b>	<b>2,404,398</b>	<b>2,989,634</b>



## NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

### 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 registered office is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC and the headquarter 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 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”) which is a state wholly-owned enterprise established in the PRC.

Originally, the Company and its subsidiaries (hereinafter referred to as the “Group”) are principally engaged in the production and sale of chemical fiber and chemical fiber raw materials in the PRC.

At the end of December 2014, the Company completed the material assets reorganisation by using of all its assets and liabilities at that time as consideration, to repurchase and then cancel the shares held by China Petroleum & Chemical Corporation. At the same time, the Company acquired 100% equity interest of 中石化石油工程技術服務有限公司 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.

#### 1.2 Basis of presentation

As at 30 June 2016, the Group’s has net current liabilities of approximately RMB 14,177,389,000 (31 December 2015: RMB 11,721,599,000). Having taken into account of historical operating cash inflows over the past years, expected operating cash inflows in the next twelve months, and most of the Group’s borrowings were sourced from the Sinopec Group and its subsidiaries, where the Group ongoing maintained good relationship with these companies, which enable the Group to secure sufficient financial support from these companies. To obtain sufficient credits facilities, the Company will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. 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 this interim financial information.

#### 1.3 Financial information

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 30 August 2016.

This condensed interim financial information for the six months ended 30 June 2016 has been prepared in accordance with IAS 34 “Interim Financial Reporting” and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards (“IFRS”).

This condensed interim financial information had been reviewed, but not audited.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

The Group has been adopted all these relevant New Standards, which are first effective for the accounting periods beginning on or after 1 January 2016:

IAS 27 Amendment	Equity Method in Separate Financial Statements
IAS 1 Amendment	Disclosure Initiative
IAS 16 and IAS 38 Amendments	Clarification of methods of depreciation and amortisation
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

The applications of above New Standards have no material impact on the amounts recognised in the Group's condensed consolidated financial statements.

## 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.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2015, except as described below.

### Change in accounting estimates of the useful lives of property, plant and equipment

During the period, management has reviewed the estimated useful lives and estimated residual value of the property, plant and equipment. With due consideration of the technical standards and quality standards of oil engineering equipments and the Group's maintenance programme over these equipments, management is of the opinion that it is more fair and appropriate to extend the estimated useful lives of oil engineering equipments.

The change has been applied prospectively from 1 January 2016. Accordingly, the adoption of the change in the estimated useful lives of oil engineering equipments has no effect on prior years. The revision of the estimated useful lives of the equipments has the effect of reducing the depreciation charge for the period ended 30 June 2016 by RMB 374 million.

## 4 REVENUE

The Group's revenue is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Geophysics	2,046,124	2,145,529
Drilling engineering	9,091,487	12,481,546
Logging and mud logging	534,741	769,696
Special downhole operations	1,861,348	2,124,143
Engineering construction	4,615,478	5,016,330
Others	540,685	584,041
	18,689,863	23,121,285

## 5 SEGMENT INFORMATION

The Group identifies operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group's has identified five operating segments including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction. 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.

Five reportable operating segments are as follows:

- 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.

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 and associates, 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.

Information regarding each reportable segment provided to the senior executive management was as follows:

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

For the six months ended 30 June 2016 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2016 (unaudited)</b>								
<b>Segment revenue and results</b>								
Revenue from external customers	2,046,124	9,091,487	534,741	1,861,348	4,615,478	540,685	—	18,689,863
Inter-segment revenue	—	5,510	5,490	8,216	90,443	42,474	(152,133)	—
<b>Reportable segment revenue</b>	<b>2,046,124</b>	<b>9,096,997</b>	<b>540,231</b>	<b>1,869,564</b>	<b>4,705,921</b>	<b>583,159</b>	<b>(152,133)</b>	<b>18,689,863</b>
<b>Reportable segment loss</b>	<b>(535,038)</b>	<b>(2,477,582)</b>	<b>(388,361)</b>	<b>(415,078)</b>	<b>(313,992)</b>	<b>(238,093)</b>	<b>—</b>	<b>(4,368,144)</b>
Other income	271	26,985	376	1,961	16,543	23,600	—	69,736
Other expenses	(2,155)	(11,719)	(2,012)	(2,956)	(6,389)	(1,377)	—	(26,608)
<b>Loss before income tax</b>	<b>(536,922)</b>	<b>(2,462,316)</b>	<b>(389,997)</b>	<b>(416,073)</b>	<b>(303,838)</b>	<b>(215,870)</b>	<b>—</b>	<b>(4,325,016)</b>
Income tax expense								(113,210)
<b>Loss for the period</b>								<b>(4,438,226)</b>

## 5 SEGMENT INFORMATION (Continued)

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

For the six months ended 30 June 2016 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2016 (unaudited)</b>								
<b>Supplementary information</b>								
<b>Depreciation and amortisation</b>								
– Property, plant and equipment	252,833	829,757	102,097	222,695	107,431	111,833	—	1,626,646
– Prepaid land leases	—	208	208	716	224	—	—	1,356
– Intangible assets	331	6,537	503	533	2,273	1,657	—	11,834
<b>Capital expenditure</b>								
– Property, plant and equipment	41,689	175,646	4,185	41,141	984	5,995	—	269,640
– Prepaid land leases	—	—	—	6,040	—	—	—	6,040
– Long-term investment	—	—	—	—	—	4,000	—	4,000
Impairment loss on/(Reversal of) trade receivables	1,880	15,148	(1,004)	1,745	30,074	(5,209)	—	42,634
Impairment loss on/(Reversal of) other receivables	1,104	8,896	(590)	1,025	17,662	(2,601)	—	25,496
<b>As at 30 June 2016 (unaudited)</b>								
<b>Assets</b>								
Segment assets	5,912,416	36,562,033	2,766,554	8,890,094	20,066,147	15,513,619	(12,233,603)	77,477,260
<b>Liabilities</b>								
Segment liabilities	3,622,280	22,432,417	1,136,330	3,826,602	21,070,818	17,423,689	(12,233,603)	57,278,533

As at 31 December 2015 and for the six months ended 30 June 2015, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2015 (unaudited)</b>								
<b>Segment revenue and results</b>								
Revenue from external customers	2,145,529	12,481,546	769,696	2,124,143	5,016,330	584,041	—	23,121,285
Inter-segment revenue	1,340	406	12,573	43,510	135,265	61,641	(254,735)	—
<b>Reportable segment revenue</b>	<b>2,146,869</b>	<b>12,481,952</b>	<b>782,269</b>	<b>2,167,653</b>	<b>5,151,595</b>	<b>645,682</b>	<b>(254,735)</b>	<b>23,121,285</b>
<b>Reportable segment (loss)/profit</b>	<b>(111,123)</b>	<b>(679,149)</b>	<b>(113,784)</b>	<b>64,168</b>	<b>(411,529)</b>	<b>34,111</b>	<b>—</b>	<b>(1,217,306)</b>
Other income	7,604	74,980	1,526	8,112	23,238	58,269	—	173,729
Other expenses	(1,184)	(9,889)	(1,289)	(1,957)	(6,005)	(834)	—	(21,158)
<b>(Loss)/profit before income tax</b>	<b>(104,703)</b>	<b>(614,058)</b>	<b>(113,547)</b>	<b>70,323</b>	<b>(394,296)</b>	<b>91,546</b>	<b>—</b>	<b>(1,064,735)</b>
Income tax expense								(183,115)
<b>Loss for the period</b>								<b>(1,247,850)</b>

## 5 SEGMENT INFORMATION (Continued)

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

As at 31 December 2015 and for the six months ended 30 June 2015, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2015 (unaudited)</b>								
<b>Supplementary information</b>								
<b>Depreciation and amortisation</b>								
– Property, plant and equipment	259,529	1,143,786	169,290	180,915	109,014	61,893	—	1,924,427
– Prepaid land leases	—	196	208	5	223	—	—	632
– Intangible assets	400	480	1,204	537	2,399	2,240	—	7,260
<b>Capital expenditure</b>								
– Property, plant and equipment	72,360	251,164	34,746	302,023	75	13,074	—	673,442
Impairment loss on trade receivables	15,744	2,682	110	3,242	49,587	50	—	71,415
Impairment loss on/(Reversal of) other receivables	989	405	554	438	38,532	(2,128)	—	38,790
<b>As at 31 December 2015 (audited)</b>								
<b>Assets</b>								
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
<b>Liabilities</b>								
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

### (b) Geographical information

The following table presents the geographical information. Revenue is based on the location at which revenue were derived. Specified non-current assets include property, plant and equipment, other non-current assets, prepaid land leases, intangible assets, interests in joint ventures and interests in associates, which are based on the physical location of the assets.

	Revenue from external customers For the six months ended 30 June		Specified non-current assets	
	2016	2015	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Audited)
The PRC	11,889,640	16,870,923	29,375,874	30,848,215
Other countries	6,800,223	6,250,362	5,606,144	6,043,846
	18,689,863	23,121,285	34,982,018	36,892,061

### (c) Major customer

For the six months ended 30 June 2016 and 2015, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Customer A	9,046,934	12,634,752

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 48% (2015: 55%) of the Group's revenue.

## 6 FINANCE EXPENSES - NET

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Finance income</b>		
Interest income from entrusted loans		
– Sinopec Group's subsidiaries	15,549	—
Interest income		
– Sinopec Group's subsidiaries	2,192	600
– Third-party banks and other financial institutions	7,004	15,273
Exchange gains, net	36,903	—
	61,648	15,873
<b>Finance expenses</b>		
Interest expenses on bank loans wholly repayable within 5 years		
– Sinopec Group's subsidiaries	(219,946)	(153,311)
– Third-party banks and other financial institutions	(5,246)	(1,112)
Capitalisation of interest expenses for qualifying assets (a)	1,911	4,444
Exchange losses, net	—	(37,831)
Bank and other charges	(32,914)	(31,569)
	(256,195)	(219,379)
	(194,547)	(203,506)

Note:

- (a) Qualifying assets represent property, plant and equipment that the related interests have been capitalised at a rate of 3.12% to 5.86% (2015: 2.89% to 6.00%) per annum.

## 7 IMPAIRMENT LOSSES ON ASSETS

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Impairment loss on trade and other receivables, net	68,130	110,205

## 8 OTHER INCOME

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Gain on disposal of property, plant and equipment	1,129	18,396
Gain on disposal of other non-current assets	4,955	—
Government grants	25,605	142,338
Waived payables	11,009	830
Penalty income	21,450	1,270
Compensation received	1,017	3,098
Asset inventory surplus	4	1,167
Others	4,567	6,630
	69,736	173,729

## 9 OTHER EXPENSES

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Loss on disposal of property, plant and equipment	4,340	4,890
Loss on disposal of other non-current assets	1,339	—
Loss on scraps of assets	—	12
Penalty	2,219	3,582
Donation	225	—
Compensation	5,617	4,138
Others	12,868	8,536
	26,608	21,158

## 10 LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging/(crediting) the followings:

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Staff costs, including directors and supervisors emoluments (Note 14)	6,885,993	6,568,184
Retirement benefit plan contribution (including the above mentioned staff costs)		
– Municipal retirement scheme costs	633,060	630,569
– Supplementary retirement scheme costs	165,808	171,830
Cost of goods sold	4,975,813	5,376,581
Depreciation and amortisation		
– Property, plant and equipment	1,626,646	1,924,427
– Prepaid land leases	1,356	632
– Intangible assets	11,834	7,260
Operating lease expenses		
– Property, plant and equipment	594,032	520,738
Provision for impairment losses, net		
– Trade and other receivables	68,130	110,205
Rental income from property, plant and equipment after relevant expenses	(144)	(604)
Loss/(gain) on disposal of property, plant and equipment, net	3,211	(13,506)
Gain on disposal of other non-current assets, net	(3,616)	—
Research and development expenses	70,157	55,158
Exchange (gains)/losses, net	(36,903)	37,831

## 11 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Current tax</b>		
PRC enterprise income tax	2,983	96,512
Overseas income tax	112,880	111,762
	115,863	208,274
<b>Deferred income tax</b>		
Origination and reversal of temporary difference	(2,653)	(25,159)
<b>Income tax expense</b>	<b>113,210</b>	<b>183,115</b>

## 12 LOSS PER SHARE

### (a) Basic

For the six months ended 30 June 2016 and 2015, the basic loss per share is calculated by dividing the loss attributable to owners of the Company.

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company (RMB'000)	(4,438,143)	(1,247,775)
Weighted average number of ordinary shares in issue (Shares)	14,142,660,995	13,824,142,477
Basic loss per share (RMB)	(0.314)	(0.090)

### (b) Diluted

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2016 and 2015, and therefore the diluted loss per share for the six months ended 30 June 2016 and 2015 were the same as the basic loss per share.



## 13 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2016 (2015: Nil).

## 14 EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Salaries, wages and other benefits	6,087,125	5,765,785
Retirement benefit plan contribution (a)		
– Municipal retirement scheme costs	633,060	630,569
– Supplementary retirement scheme costs	165,808	171,830
	6,885,993	6,568,184

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 30 June 2016, the Group and the employees pay 20% and 8% (31 December 2015: 20% and 8%) of salary respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 5% of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

Those employees who involved supplementary retirement scheme are entitled to receive the pension in accordance with a certain percentage of the pre-retirement salary after retirement. The Group has no other material obligation for the payment of retirement benefits associated with these plans beyond Municipal retirement scheme and Supplementary retirement scheme.

## 15 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2016

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>				
Balance at 1 January 2016	1,269,666	57,710,586	2,805,442	61,785,694
Additions	—	24,651	244,989	269,640
Disposals/Write-off	(727)	(222,614)	—	(223,341)
Transferred from construction in progress	1,042	1,842,817	(1,843,859)	—
<b>At 30 June 2016</b>	1,269,981	59,355,440	1,206,572	61,831,993
<b>Accumulated depreciation and impairment loss</b>				
Balance at 1 January 2016	386,167	29,585,896	95,264	30,067,327
Depreciation	21,863	1,604,783	—	1,626,646
Disposals/Write-off	(463)	(153,275)	—	(153,738)
<b>At 30 June 2016</b>	407,567	31,037,404	95,264	31,540,235
<b>Carrying amounts</b>				
<b>At 30 June 2016 (Unaudited)</b>	862,414	28,318,036	1,111,308	30,291,758
<b>At 31 December 2015 (Audited)</b>	883,499	28,124,690	2,710,178	31,718,367

## 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the six months ended 30 June 2015

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>				
Balance at 1 January 2015	1,121,780	55,274,704	1,482,548	57,879,032
Additions	—	323,604	349,838	673,442
Disposals/Write-off	—	(139,342)	—	(139,342)
Transferred from construction in progress	19,870	319,653	(339,523)	—
<b>At 30 June 2015</b>	<b>1,141,650</b>	<b>55,778,619</b>	<b>1,492,863</b>	<b>58,413,132</b>
<b>Accumulated depreciation and impairment loss</b>				
Balance at 1 January 2015	347,512	26,355,826	95,264	26,798,602
Depreciation	20,086	1,904,341	—	1,924,427
Disposals/Write-off	—	(125,240)	—	(125,240)
<b>At 30 June 2015</b>	<b>367,598</b>	<b>28,134,927</b>	<b>95,264</b>	<b>28,597,789</b>
<b>Carrying amounts</b>				
<b>At 30 June 2015 (Unaudited)</b>	<b>774,052</b>	<b>27,643,692</b>	<b>1,397,599</b>	<b>29,815,343</b>

As at 30 June 2016, the property, plant and equipment under finance leases are “Oil engineering equipment and others” and its carrying amounts are RMB 79,418,000 (31 December 2015: RMB 67,855,000).

## 16 PREPAID LAND LEASES

	2016	2015
	RMB'000	RMB'000
At 1 January	104,954	51,107
Additions	6,040	—
Amortisation	(1,356)	(632)
<b>At 30 June (Unaudited)</b>	<b>109,638</b>	<b>50,475</b>

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.

## 17 NOTES AND TRADE RECEIVABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Trade receivables</b>		
– Sinopec Group and its subsidiaries	7,870,738	17,797,091
– Joint ventures	2,721	1,078
– Sinopec Group and its joint ventures and associates	232,592	283,281
– Third parties	10,217,830	9,617,468
	18,323,881	27,698,918
Less: Provision for impairment	(620,425)	(577,791)
<b>Trade receivables – net</b>	17,703,456	27,121,127
Notes receivables	472,451	141,132
<b>Notes and trade receivables – net</b>	18,175,907	27,262,259

As at 30 June 2016 and 31 December 2015, the Group's notes and trade receivables were approximately their fair values.

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

As at 30 June 2016 and 31 December 2015, none of the Group's notes receivables were pledged as collateral or overdue.

The Group usually provides customers with a credit term between 90 to 180 days. For the settlement of trade receivables from provision of services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. The Group do not hold any collateral as security.

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

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	15,917,273	23,814,935
1 to 2 years	1,422,719	2,613,848
2 to 3 years	489,180	600,288
Over 3 years	346,735	233,188
	18,175,907	27,262,259

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

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Not yet due	5,922,097	21,758,477
Over due within 3 months	4,982,469	1,316,086
Over due 3 months but within 6 months	3,068,893	694,806
Over due 6 months but within 1 year	3,171,038	3,066,529
Over due 1 year but within 2 years	949,891	361,772
Over due over 2 years	81,519	64,589
	18,175,907	27,262,259

## 17 NOTES AND TRADE RECEIVABLES (Continued)

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

	2016	2015
	RMB'000	RMB'000
At 1 January	577,791	429,415
Provisions	162,801	158,916
Reversal	(120,167)	(87,501)
Trade receivables write-off as uncollectible	—	(2,086)
<b>At 30 June (Unaudited)</b>	<b>620,425</b>	<b>498,744</b>

## 18 PREPAYMENT AND OTHER RECEIVABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Prepayments (a)	601,914	474,961
Other receivables (b)		
Petty cash funds	167,295	66,734
Guarantee deposits	878,513	780,753
Disbursement of funds	1,387,198	1,150,581
Temporary payment	621,330	451,067
Escrow payments	9,708	9,680
Loans	10,000	10,000
Deposits	47,995	48,525
Export tax refund receivables	9,814	2,823
Value Added Tax to be offset	465,251	82,062
Entrusted loans (c)	900,000	1,097,000
Others	546,066	369,022
	<b>5,645,084</b>	<b>4,543,208</b>
Less: Provision for impairment	(424,036)	(398,540)
<b>Prepayments and other receivables – net</b>	<b>5,221,048</b>	<b>4,144,668</b>

Note:

- As at 30 June 2016, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB 5,116,000 (31 December 2015: RMB 16,460,000) and the associates of the Group amounting at RMB 7,174,000 (31 December 2015: Nil).
- As at 30 June 2016, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB 1,226,442,000 (31 December 2015: RMB 1,348,127,000), the joint ventures of the Group amounting at RMB 10,762,000 (31 December 2015: RMB 308,000) and the associates and joint ventures of Sinopec Group amounting at RMB 7,849,000 (31 December 2015: RMB 1,570,000).
- For the six months ended 30 June 2016, the Group, which acted as the principal, entered into two (31 December 2015: 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 end of the reporting period are unsecured, current and due within one year and borne fixed interest rates of 3% to 3.6% per annum (31 December 2015: 3% to 4%).
- The amounts due from related parties are unsecured, interest free and repayable on demand.
- The carrying amounts of the Group's prepayments and other receivables as at 30 June 2016 and 31 December 2015 approximate their fair values.

## 18 PREPAYMENT AND OTHER RECEIVABLES (Continued)

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

	2016	2015
	RMB'000	RMB'000
At 1 January	398,540	376,474
Provisions	71,400	67,454
Reversal	(45,904)	(28,664)
At 30 June (Unaudited)	424,036	415,264

## 19 CONTRACT WORK-IN-PROGRESS

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contract cost incurred plus recognised profit less recognised losses	73,570,433	66,456,134
Less: Expected loss on contracts	(24,030)	(24,030)
Less: Progress billings	(64,054,641)	(61,446,068)
<b>Contract work-in-progress</b>	<b>9,491,762</b>	<b>4,986,036</b>
<b>Representing:</b>		
Amounts due from customers for contract works	14,563,713	12,814,579
Less: Expected loss on contracts	(24,030)	(24,030)
<b>Net amounts due from customers for contract works</b>	<b>14,539,683</b>	<b>12,790,549</b>
<b>Amounts due to customers for contract works</b>	<b>(5,047,921)</b>	<b>(7,804,513)</b>
	<b>9,491,762</b>	<b>4,986,036</b>

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Contract revenue recognised as revenue during the period	15,362,827	15,872,626

## 20 INVENTORIES

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Raw materials	1,623,181	1,732,626
Finished goods	94,675	76,995
Work in progress	178,249	141,177
Turnover materials	28,530	33,895
Others	3,869	1,757
	1,928,504	1,986,450
Less: Provision for impairment	(7,724)	(7,724)
	1,920,780	1,978,726

## 21 SHARE CAPITAL

	As at 30 June 2016		As at 31 December 2015	
	Number of shares	Share capital	Number of shares	Share capital
	Share	RMB'000 (Unaudited)	Share	RMB'000 (Audited)
<b>Registered, issued and paid:</b>				
– Domestic non-public legal person shares of RMB 1.00 each	10,259,327,662	10,259,328	10,259,327,662	10,259,328
– Social public A shares of RMB 1.00 each	1,783,333,333	1,783,333	1,783,333,333	1,783,333
– H shares of RMB 1.00 each	2,100,000,000	2,100,000	2,100,000,000	2,100,000
	<b>14,142,660,995</b>	<b>14,142,661</b>	<b>14,142,660,995</b>	<b>14,142,661</b>

	Number of shares	Share capital
	Share	RMB'000
<b>At 1 January 2015</b>	12,809,327,662	12,809,328
<b>Issued share capital (a)</b>	1,333,333,333	1,333,333
<b>At 31 December 2015, 1 January 2016 and 30 June 2016 (Unaudited)</b>	<b>14,142,660,995</b>	<b>14,142,661</b>

Note:

- (a) 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 RMB 4.50 per share on 13 February 2015. After deduction of issuance costs of RMB 47,483,000, the net proceeds from the issuing were approximately RMB 5,952,517,000. 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.

## 22 NOTES AND TRADE PAYABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Trade payables</b>		
– Sinopec Group and its subsidiaries	1,969,758	2,071,793
– Joint ventures	41,034	31,983
– Sinopec Group and its joint ventures and associates	19,130	81,400
– Third parties	23,272,610	26,723,925
	<b>25,302,532</b>	<b>28,909,101</b>
<b>Notes payables</b>	<b>1,647,022</b>	<b>1,284,745</b>
	<b>26,949,554</b>	<b>30,193,846</b>

As at 30 June 2016 and 31 December 2015, the carrying amount of Group’s notes and trade payables were approximately their fair values.

## 22 NOTES AND TRADE PAYABLES (Continued)

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

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	19,034,839	21,307,084
1 and 2 years	4,841,959	5,574,874
2 and 3 years	1,758,829	2,148,850
Over 3 years	1,313,927	1,163,038
	26,949,554	30,193,846

## 23 DEPOSITS RECEIVED AND OTHER PAYABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Deposits received (a)		
Advances for construction and service	1,757,481	1,459,457
Salaries payables	277,522	187,561
Other tax payables	588,932	2,367,675
Interest payables (b)	33,946	14,823
Other payables (c)		
Guarantee deposits	477,335	497,300
Deposits	148,643	156,200
Disbursement of funds	453,858	291,281
Temporary receipts	465,933	370,126
Escrow payments	28,563	30,549
Withheld payments	118,538	85,841
Sinopec Group capital restructuring funds	2,600,000	2,600,000
Payable of profit arising during major assets restructuring	1,118,902	1,118,902
Others	410,890	329,152
	8,480,543	9,508,867

Note:

- (a) As at 30 June 2016, the deposits received include related party balances: Sinopec Group and its subsidiaries amounting at RMB 230,987,000 (31 December 2015: RMB 199,376,000) and the joint ventures and associates of Sinopec Group amounting at RMB nil (31 December 2015: RMB 4,860,000).
- (b) As at 30 June 2016, the interest payables was the related party balances with Sinopec Group and its subsidiaries.
- (c) As at 30 June 2016, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB 3,771,494,000 (31 December 2015: RMB 3,785,680,000).
- (d) The above amounts due to related parties are unsecured, interest free and repayable on demand.

## 24 BORROWINGS

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Current liabilities</b>		
Loans from Sinopec Finance Company Limited (b)	5,559,000	2,215,000
Loans from Sinopec Century Bright Capital Investment Company Limited (b)	10,358,945	9,925,312
Finance lease liabilities (c)	17,360	17,360
	15,935,305	12,157,672
<b>Non-current liabilities</b>		
Bank loans (a)	497,340	487,020
Loans from Sinopec Finance Company Limited (b)	80,000	80,000
Loans from Sinopec Century Bright Capital Investment Company Limited (b)	120,048	51,949
Finance lease liabilities (c)	42,777	51,154
	740,165	670,123
	16,675,470	12,827,795

Note:

(a) Bank loans

The bank loans of the Group are repayable as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Over 5 years	497,340	487,020

As at 30 June 2016, the bank loans were secured and the annual interest rates were range from 6.14% to 6.34% (31 December 2015: 5.63% to 5.79%).

(b) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	15,917,945	12,140,312
1 to 2 years	200,048	131,949
	16,117,993	12,272,261

As at 30 June 2016, loans from related parties are unsecured and their annual interest rates were range from 1.83% to 6.50% (31 December 2015: 1.48% to 7.6%).



## 24 BORROWINGS (Continued)

Note: (Continued)

### (c) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Total minimum lease payments</b>		
– Within 1 year	21,429	21,441
– 1 to 2 years	19,476	20,778
– 2 to 5 years	27,776	37,362
	68,681	79,581
<b>Future finance charges on finance leases</b>	(8,544)	(11,067)
<b>Present value of finance lease liabilities</b>	<b>60,137</b>	<b>68,514</b>

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
<b>Present value of minimum lease payments:</b>		
– Within 1 year	17,360	17,360
– 1 to 2 years	17,360	17,360
– 2 to 5 years	25,417	33,794
	60,137	68,514
<b>Less: Portion due within one year included under current liabilities</b>	<b>(17,360)</b>	<b>(17,360)</b>
<b>Portion due after one year included under non-current liabilities</b>	<b>42,777</b>	<b>51,154</b>

## 25 COMMITMENTS

### (a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2016 and 31 December 2015 not provided for in the interim financial information are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted but not provided for	936,792	803,406

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 30 June 2016 and 31 December 2015 are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	194,993	280,765
1 to 2 years	42,864	31,728
2 to 3 years	32,013	19,271
Over 3 years	71,064	80,626
	340,934	412,390

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 25 years (31 December 2015: 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 30 June 2016, the Group has outstanding commitments of RMB 129,625,000 (31 December 2015: RMB 129,625,000) 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 30 June 2016.

## 26 CONTINGENCIES

In preparing this interim financial information, there were no further developments of those contingencies as at 30 June 2016, which were disclosed in the 2015 annual report.

## 27 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 interim financial information, 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 periods ended 30 June 2016 and 2015.

The transactions with related parties are carried out on normal commercial terms or relevant agreements 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.

## 27 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

### (a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Purchases of materials</b>		
– Sinopec Group and its subsidiaries	1,780,318	2,278,104
<b>Sales of products</b>		
– Sinopec Group and its subsidiaries	50,172	18,487
<b>Rendering of engineering services</b>		
– Sinopec Group and its subsidiaries	9,119,567	12,616,265
<b>Receiving of community services</b>		
– Sinopec Group and its subsidiaries	786,120	805,237
<b>Receiving of integrated services</b>		
– Sinopec Group and its subsidiaries	18,045	116,513
<b>Rental expenses</b>		
– Sinopec Group and its subsidiaries	26,670	45,900
<b>Interest income from entrusted loans</b>		
– Sinopec Group's subsidiaries	15,549	—
<b>Deposits interest income</b>		
– Sinopec Group's subsidiaries	2,192	600
<b>Loans interest expenses</b>		
– Sinopec Group's subsidiaries	219,946	153,311
<b>Borrowings obtained</b>		
– Sinopec Group's subsidiaries	27,052,059	26,332,206
<b>Borrowings repaid</b>		
– Sinopec Group's subsidiaries	23,206,326	26,755,339
<b>Safety and insurance fund expenses</b>		
– Sinopec Group	44,114	30,215
<b>Safety and insurance fund refund</b>		
– Sinopec Group	43,990	22,250

## 27 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 from employee services is shown below:

	For the six months ended 30 June	
	2016	2015
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Fee	300	250
Salaries, allowances and bonus	4,357	4,861
Contributions to pension plans	365	315
	5,022	5,426

### (c) Related party guarantee

At 30 June 2016, Sinopec Group provided performance guarantee to the Group amounting to USD 210,000,000. The guarantee period ends in January 2017 (31 December 2015: nil).

## Section 9 Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 31 August 2016 (Wednesday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2016 signed by the Chairman and General Manager of the Company;
2. The financial report of the Company for the six months ended 30 June 2016 signed by the Legal Representative, General Manager, Chief Financial Officer and the person in charge of the accounts;
3. The Articles of Association of the Company;
4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by the CSRC during the report period.

\* This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IFRS, the Chinese version will prevail.

