SSC

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

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

Annual Report 2016

IMPORTANT NOTE

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

2. The 2016 Annual Report has been approved at the fifteenth meeting of the eighth session of the Board. Six directors attended the meeting. Mr. Jiao Fangzheng, Chairman of the Board, and Mr. Li Lianwu, a Director of the Company, were absent from the meeting due to other business engagements but had separately authorised Mr. Sun Qingde, a Director of the Company and Mr. Zhou Shiliang, a Director of the Company in writing to attend the meeting and to exercise their voting rights on their behalf.

3. The 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 Reporting Standards ("IFRS") have been audited by Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited, respectively. Both auditors have issued unqualified opinions on the financial statements.

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

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

   The net profit to equity shareholders Parent of the Company was RMB -16,114,763,000 in accordance with the PRC ASBE (the net profit to equity shareholders Parent of the Company was RMB -16,198,242,000 in accordance with the IFRS) for the year 2016 which has been audited by Grant Thornton (Special General Partnership). At the end of 2016, the undistributed profit of the Patent Company was RMB -1,439,418,000. Due to the accumulated net profit in Parent Company was negative value at the end of 2016, the Board proposed not to distribute any dividend nor capitalize any reserve for the year 2016. The above proposed profit distribution scheme shall be submitted for approval at the 2016 Annual General Meeting.

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the annual report, the future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors.. Investors are advised to exercise caution when making investments.

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.

9. Major Risk Warnings

   International oil prices spiraled upwards influenced by the fact that OPEC adjusted supply policy and major oil producing countries agreed on reducing production. As international oil prices rebounded, operating environment of oil service industry will gradually improve in 2017. However, due to the slow and unstable global economic recovery and US dollars' entering appreciation process, the increases of international oil prices will be restrained. Meanwhile, the slowing growth of domestic energy comsumption will bring great uncertainty to the recovery of oil service industry. And the competition in oil service industry will still be very fierce.

Contents

Section 1 Definitions

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

Company	Sinopec Oilfield Service Corporation, a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and listed H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033)
Group	The Company and its subsidiaries
Board	the board of Directors of the Company
Articles of Association	the articles of association of the Company, as amended, modified or supplemented from time to time
CPC	China Petrochemical Corporation, a wholly State-owned company established in the PRC and the controlling shareholder of the Company
Sinopec	China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai, the subsidiary of CPC.
A Shares	Outstanding shares of the Company which are listed on the SSE and par value per share is RMB 1.00.
H Shares	Overseas listed foreign Share(s) each which is (are) listed on the Main Board of the Stock Exchange and par value per share is RMB1.00.
SSE	Shanghai Stock Exchange
HKSE	The Stock Exchange of Hong Kong Limited
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
CSRC	China Securities Regulatory Commission
HKSCC (Nominees) Limited	Hong Kong Securities Clearing Company (Nominees) Limited
Material Assets Reorganisation	YCFC sold its total assets and liabilities to Sinopec, repurchased and canceled Sinopec's 2,415,000,000 shares of the Company, and at the same time the Company offered shares to China Petrochemical Corporation and purchased its 100% equity of SSC, and offered non-public A shares for complementary private placement.
Share Option Incentive Scheme or Scheme	A Share Option Incentive Scheme of the Company (Amended Draft)
YCFC	Sinopec Yizheng Chemical Fibre Company Limited (the Company's former name before its name changed)
CITIC Limited	China International Trust and Investment Co., Ltd.
SOSC	Sinopec Oilfield Service Co., Ltd, the subsidiary of the Company
Geophysical exploration, geophysical	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration.
Drilling	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole.
Completion	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	The technology of acquiring parameters of various formation characteristics from downhole by using special tools or equipment and technology, and of being used to discover the oil and gas reservoir and other mineral resources.
Mud Logging	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information.
Downhole Operation service	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Two dimensional geophysical	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.

Section 1 Definitions

Three dimensional geophysical	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.
CNPC	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corporation
Yanchang Petroleum Group	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
EPC	Engineering, Procurement and Construction; A project contract model, the main services include project design, procurement and construction
China	People's Republic of China

Section 2 Company Profile and Principal Financial Indicators

1. Company Information

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

2. Contact Information

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

3. Company profile

Registered address	22 Chaoyangmen North Street, Chaoyang District, Beijiing, the People's Republic of China
Post Code of Registered	100728
Post Code of Office address	#9 Jishikou Road, Changyang District, Beijing, China.
Post Code of Office address	100728
Company Internet Website	http://ssc.sinopec.com
Email	ir.ssc@sinopec.com

4. Disclosing information and inspection place

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

5. Stock briefs

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

6. Other related information

Domestic Auditors	Name	Grant Thornton (Special General Partnership)
	Address	5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing
	Signing accountants	Liu Zhizeng, Wang Tao
Overseas Auditors	Name	Grant Thornton Hong Kong Limited
	Address	Level 12, 28 Hennessy Road, Wan Chai, Hong Kong
	Signing accountants	Shaw Chi Kit
Name of the domestic Legal advisor:	Beijing Haiwen & Partners	
Address	20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing	
Name of the overseas Legal advisor	Herbert Smith Freehills LLP	
Address	23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong	
Share registrars and transfer office	A Share	China Securities Registration and Clearing Corporation Limited Shanghai Branch
	Address	36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai
	H Share	Hong Kong Registrars Limited
	Address	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong

Section 2 Company Profile and Principal Financial Indicators

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

(1) Principal financial information

	For the year ended 31 December 2016	For the year ended 31 December 2015	Year-on-year change (%)	For the year ended 31 December 2014
	RMB'000	RMB'000		RMB'000
Operating income	42,923,500	60,349,334	-28.9	94,481,041
Operating profit("-" for loss)	-16,011,952	125,445	-12,864.1	615,387
Profit before income tax("-" for loss)	-15,803,702	505,740	-3,224.9	2,206,680
Net profit attributable to equity shareholders of the Company ("-" for loss)	-16,114,763	24,478	-65,933.7	1,229,753
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	-16,173,871	-58,509	Not Applicable	-2,323,027
Net cash inflow from operating activities ("-" for outflow)	-3,907,318	2,575,929	-251.7	6,746,135

	As at 31December 2016	As at 31December 2015	Year-on-year change (%)	As at 31December 2014
	RMB'000	RMB'000		RMB'000
Total equity attributable to equity shareholders of the Company	8,442,868	24,638,094	-65.7	18,697,120
Total assets	74,493,166	85,307,777	-12.7	81,295,708

(2) Principal financial indicators

	For the year ended 31 December 2016	For the year ended 31 December 2015	Year-on-year change (%)	For the year ended 31 December 2014
Basic earnings per share (RMB) ("-" for loss)	-1.139	0.002	-65,933.7	0.08
Diluted earnings per share (RMB) ("-" for loss)	-1.139	0.002	-65,933.7	0.08
Basic earnings per share net of extraordinary gain and loss (RMB) ("-" for loss)	-1.144	-0.004	Not applicable	-0.15
Weighted average return on net assets (%)	-97.19	0.10	Decreased by 97.29 percentage points	4.98
Weighted average return on net assets net of extraordinary gain and loss (%)	-97.55	-0.24	Decreased by 97.31 percentage points	-32.73

8. Differences between the financial statements of the Company prepared in accordance with PRC ASBE and IFRSs

	Net profit attributable to equity shareholders of the Company ("-" for loss)		Net assets attributable to equity shareholders of the Company	
	For the year ended 31 December 2016	For the year ended 31 December 2015	As at 31 December 2016	As at 31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
PRC ASBE	-16,114,763	24,478	8,442,868	24,638,094
Adjustments under IFRS:				
Specific reserve (a)	-83,479	-36,021	—	—
IFRSs	-16,198,242	-11,543	8,442,868	24,638,094

(a) Specific reserve

Under PRC ASBE, 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 2 Company Profile and Principal Financial Indicators

9. Quarterly financial information of 2016 (Prepared in accordance with PRC ASBE)

Unit: RMB'000

	The first quarter (January~March)	The second quarter (April~June)	The third quarter (July~September)	The fourth quarter (October~December)
Operating income	8,510,893	10,178,970	9,091,758	15,141,879
Net profit attributable to equity shareholders of the Company ("-" for loss)	-1,685,210	-2,824,211	-4,348,571	-7,256,771
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	-1,715,977	-2,843,853	-4,428,145	-7,185,896
Net cash inflow from operating activities ("-" for outflow)	-1,953,173	-1,157,451	-1,517,460	720,766

Explanations of the differences between the quarterly data and the data in the disclosed periodicaly report

□ Applicable √ Not Applicable

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

Unit: RMB'000

Extraordinary gain and loss item	2016	2015	2014
Disposal of non-current assets	**-68,312**	262	1,139,513
Government grants recognised in profit or loss during the year	**74,863**	111,106	2,466
Gain and loss from external entrusted loans	**27,555**	2,406	—
Net profit or loss from the beginning to the merger date of the Subsidiary of the business combination under common control	**—**	—	2,424,556
Other non-operating income and expenses excluding the aforesaid items	**25,703**	-1,656	-11,540
Tax effect	**-701**	-29,131	—
Total	**59,108**	82,987	3,554,995

Section 2 Company Profile and Principal Financial Indicators

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

Unit: RMB'000

	As at 31 December				
	2016	2015	2014	2013	2012
Total assets	**74,493,166**	85,307,777	81,295,708	92,736,669	11,138,204
Total liabilities	**66,051,574**	60,670,824	62,599,570	62,003,460	2,624,721
Equity attributable to owners of the Company	**8,442,868**	24,638,094	18,697,120	30,648,271	8,513,483
Net assets per share attributable to owners of the Company[3]	**0.60**	1.74	1.46	2.39	1.419
Equity ratio of owners	**11.33%**	28.88%	23.00%	33.05%	76.43%
Return on net assets	**(191.89%)**	(0.05%)	12.93%	4.78%	(4.21%)

	For the year ended 31 December				
	2016	2015	2014	2013	2012
Revenue[1]	**42,923,500**	60,349,334	78,993,315	89,729,072	16,987,916
(Loss)/profit before income taxation	**(15,887,181)**	469,719	3,320,072	2,179,996	(536,627)
Income tax expense/(credit)	**311,196**	481,421	900,930	687,350	(178,171)
(Loss)/profit attributable to owners of the Company					
Including: continuing operations[2]	**(16,198,242)**	(11,543)	2,416,928	1,464,987	—
discontinued operations[2]	**—**	—	(1,159,620)	(1,450,019)	(358,456)
Basic and diluted (loss)/earnings per share (RMB)					
Including: continuing operations[2]	**(1.145)**	(0.001)	0.159	0.096	—
discontinued operations[2]	**—**	—	(0.076)	(0.095)	(0.060)

Note:

1. Information of 2016, 2015, and 2014 included continuing operation only. Information of 2012 included discontinued operations only.

2. In the consolidated statement of comprehensive income, the Oilfield Business was classified as "continuing operations" and the Fibre Business was classified as "discontinued operations".

3. The per share information is calculated based on the number of shares at the end of each reporting period.

Section 3 Company Business Summary

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

With more than 50 years of business operation and rich experience in project execution, the Group is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. By the end of 2016, the Group provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with 357 projects executed in 38 countries and regions.

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

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

Adhering to its corporate mission of expanding markets, improving service, maximizing returns, and win-win cooperation, the Group are vigorously pursuing five key strategies of specialization, market orientation, featured services, high-end services and globalization. It will expand its business from onshore to offshore fields, from domestic to international markets, from conventional to unconventional fields, and from single engineering service to integrated reservoir services in order to realize its corporate vision—a world-class integrated oilfield service provider.

During the reporting period, the main business of the Company has not changed substantially.

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

In 2016, the Group continued improving its asset structure and quality by making better use of existing assets, improving new assets and further consolidating internal resources. By the end of 2016, the Group has 737 onshore drilling rigs, 13 offshore drilling platforms, 84 sets of seismograph host computers and 117 sets of imaging logging tools, 489 sets of comprehensive logging instruments, 140 sets of Model 2500 and Model 3000 fracturing trucks and 46 sets of 750 HP and above workover rigs.

In 2016, the Group kept deepening structural adjustment and cutting down extra crews with low productivity. By the end of 2016, the Group cut down professional crews by 135, a decrease of 6.4 percent compared with the year end of 2015, which the crew number is 2,113.

On 31 December 2016, total assets of the Group was RMB 74,493,166,000, a year-on-year decrease of 12.7%; total equity attributable to owners of the Company was 8,442,868,000, a year-on-year decrease of 65.7%. The debt-to-assets ratio of the Group was 88.7%, a year-on-year decrease of 17.6 percentage points.

3. Analysis on core competitiveness in the reporting period

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

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

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

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

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

Section 4 Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I would like to express my sincere gratitude to you all, especially to our shareholders for your interest and support.

2016 is the most challenging year for SSC, in which we made great efforts to fight against the industry winter, seek to survive and realize sustainable development. The international oil prices once slumped below 30$/B and fluctuated at lower levels, and the annual average oil price hit the lowest point of 12 years. Oil companies had cut upstream E&P CAPEX continuously both in 2015 and in 2016, which led to significantly reduced work volumes and lowered service rates. Confronted with harsh conditions, SSC focused on expanding market, reducing cost, improving project profitability and strengthening management and also SSC had driven innovation, deepened reform, adjusted structure, transformed and upgrade business modes to achieve the intensive growth. The Company went through the most difficult year and passed the most severe test, with progresses in various business area.

In 2016, the Company's consolidated revenue under ASBE is RMB 42.92 billion, a year-on-year decrease of 28.9%, and net profit attributable to the shareholders is RMB -16.11 billion. The significant loss was due to the following factors: the sharp decrease in the oil companies' upstream E&P CAPEX, which led to significant decline in the Company's work volumes and service rates; the extension of some engineering and construction projects resulting in increased cost and less than expected compensation from contract defaults; the increased provision for bad debt of account receivable. Since the accumulated undistributed profit of Parent Company was negative at the end of 2016, the Board of Directors would like to propose not to pay cash dividend and not to transfer the capital reserve to share capital for Year 2016. The above proposed profit distribution scheme will be submitted to the AGM for approval.

In 2016, the Company consolidated the market shares inside Sinopec Group market, providing high-quality and efficient services for its upstream commercial discovery, economic reserve increase and profitable development. Those key projects including Fuling Shale Gas project Phase II, Shunbei Oilfield, Ebei Oilfield, etc., were carried out economically and efficiently. Meanwhile, the high gas production volume in the Yongye-1 Well was obtained through well- testing in Sichuan, which became another important milestone for the shale gas exploration after Jiaoshiba Block, and breakthroughs had been made in exploration in the Wei-4 well and the Wei-6 well in the North Bay of Guangxi Province.

Section 4 Chairman's Statement

In 2016, facing with the reduced work volumes and lowered service prices, the Company vigorously expanded markets and the external market outside SINOPEC accounted for half of the total revenue. In the domestic market outside SINOPEC, SSC was awarded the wellbore projects and oil storage projects from China Geological Survey, CNOOC and National Reserve Bureau. Based on technological characteristics as well as geological advantages,SSC successfully developed new unconventional markets for shale gas and CBM, etc. In overseas market, SSC made further expansion in Saudi Arabia and Kuwait where the Company is the largest onshore drilling contractor for Saudi Aramco and KOC. It also made profit in comprehensive reservoir service projects such as the I-L-Y Project in Ecuador.

In 2016, the Company fully implemented the innovation-driven strategy and made notable progresses in developing key specialized technologies. It initially developed a series of shale gas engineering technologies, which supported the gas productivity construction of 10 billion cubic meters in the Fuling Shale Gas Project. These technologies for deep and ultra-deep wells have reached advanced international standards. The completed drilling depth of Mashen-1 Well is 8,418 meters, which is the deepest well in Asia and also set series of new records in Asia for drilling, logging and acid fracturing. The company continued to deepen internal restructuring and integration, modify recruitment system, reduce crews with low efficiency or excessive capacity, and enhance allocation of the internal resources. Meanwhile, the Company firmly stuck to the overall cost control, cut cost and expense of RMB 1.33 billion through tapping potential and effective enhancement measures. The Company optimized and strictly controlled the CAPEX, and the actual CAPEX in 2016 was reduced by RMB 2.11 billion compared with the planned CAPEX at the beginning of 2016.

In 2016, the Company actively fulfilled its social responsibilities. We advanced our green, low-carbon development initiatives, concluded our Clear Water, Blue Sky environmental campaign and the energy efficiency multiplier plan. We focused on implementing QHSE (quality, health, safety and environment) regulations, pushed forward the construction of intrinsic safety systems and proactively supervised the potential hazards, which upgraded the capabilities of safety control. SSC took care of the staff under the people-foremost policy, took part in philanthropy with great passion and promoted the education conditions for migrant workers' children. In the overseas markets, SSC actively performed social responsibilities and dedicated to the local economic and social development.

Looking ahead to 2017, the oil prices is bottoming out with cutting production agreement signed by major oil production countries, and the number of active drilling rigs keeps on rise. Although there are still fierce competitions in the oilfield industry, our major clients such as SINOPEC and other oil companies, have significantly increased their planed E&P CAPEX in 2017, which would improve the industry condition step by step. Meanwhile, the Company's advantages that results from deepening reform, keeping leaner and healthier, restructuring regional companies and integrating featured technologies will gradually show up, and it has laid the foundation for the Company to go through the trough and to reduce net losses, and also it has strengthened our confidence in overcoming difficulties and realizing the sustainable development.

2017 is the critical year for the Company to deepen reforms, reduce losses and make innovation. The Company will focus on the following aspects: firstly, to boost profits through expanding the external markets with full steam when providing services to Sinopec E&P projects; secondly, to enhance efficiency through deepening reforms, streamlining organizations, optimizing crews, and integrating resources; thirdly, to reduce cost and tap potentials by pushing forward total cost management and strengthening the whole process cost control; fourthly, to promote quality and enhance efficiency by developing the technologies that satisfy the market needs and by accelerating technology innovation.

The Board of Directors and I believe that through the joint efforts of the Board, the management and all the staff, coupled with the support of our shareholders and the wider community, SSC will continue to make progress in its various businesses in 2017, promote the company value for the shareholders and the public, stepping forward to be a global leading integrated oil service provider.

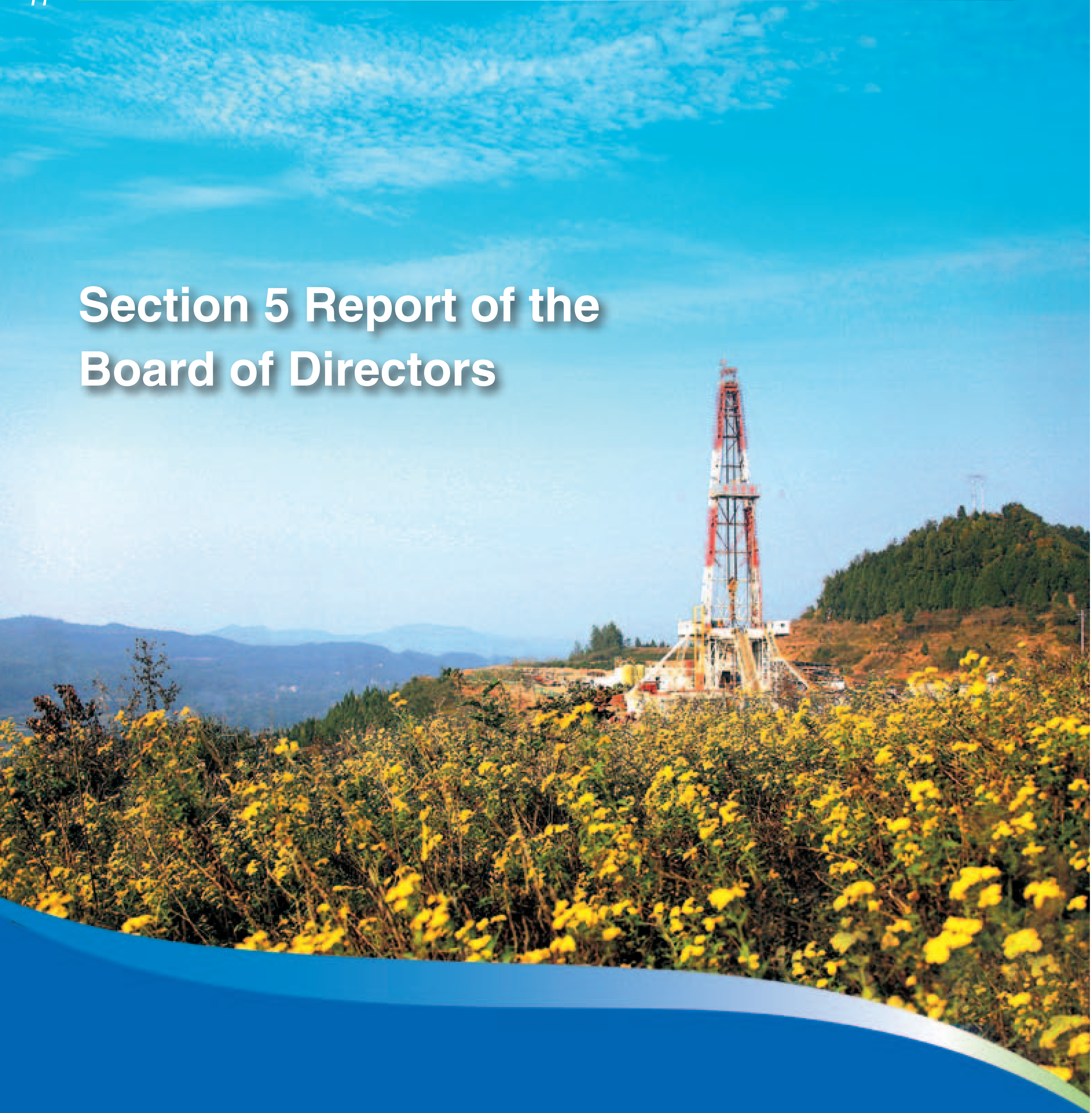
Jiao Fangzheng

Chairman

Beijing, China

28 March 2017

Section 5 Report of the Board of Directors



Section 5 Report of the Board of Directors

1. Discussion and analysis of operation by the management

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

Market review

The global economy was still in a deeply readjusted period after the financial crisis, and stayed in a slow and unstable recovery in 2016. China's economy entered a new normal status of optimizing structures and developing new patterns at slower growth rate. The international oil prices fluctuated at lower levels and the annual average price was the lowest in the past 12 years, with the annual average Europe Brent Spot Price was only 43.6 dollars per barrel. Then the Chinese and foreign oil companies cut upstream capital expenditure for oilfield exploration and development in 2016. Sinopec cut upstream capital expenditure for exploration and development down to RMB 32.2 billion, representing a year-on-year decrease of 41.1%. The oil field service industry was significantly affected and the work volumes and service prices continued to decline. It is the most difficult and challenging year in 2016 for the Company after its establishment.

Operation review

In 2016, the Company's consolidated revenue was RMB 42,923,500,000, representing a year-on-year decrease of 28.9%, and net profit attributable to shareholders of the Company is RMB -16,114,763,000. The loss is mainly caused by the sharp reduction of work volumes, including the year-on-year decrease of 32.0% of drilling business, by the decreased service prices with a year-on-year reduction of 5%-15%; by some prolonged engineering and construction projects whose cost increased but compensation was lower than expectation; and by the year-on-year increase of RMB 555,209,000 of provision for bad debt for accounts receivable.

Under such challenging circumstances, the Company operated according to features of the oil service industry. With solid basis of internal markets within the Sinopec Group, SSC made efforts to explore the external markets, especially the overseas ones, and increased work volumes of drilling, logging and downwhole operation. Also SSC accelerated optimizing internal resources by cutting off overstaffed departments and crews with low efficiency or excessive capacity, strengthened cost controls by tapping potentiality and increasing efficiency, and optimized investment to reduce the losses.

1. Geophysical service

In 2016, the Company's operation revenue in geophysical service was RMB 3,605,915,000, representing a decline of 31.8% than the same period of the previous year, for which the figure was RMB5, 285,158,000. The completed 2D seismic accumulated for 14,172 kilometers, a decline of 67.6% than the previous year; while the 3D seismic accumulated for 12,641 square kilometers, a decline of 13.1% than the previous year. The company broadly promoted the high-efficient vibroseis acquisition technology and significantly improved the quality of seismic data, with 2D and 3D records reaching quality rate of 100%. It also accelerated the movement to exploring the domestic markets outside of Sinopec and the overseas markets. For example, it won bid for 13 inland seismic projects of the China Geological Survey with contract value of RMB 110 million, and bid for shallow water 2D Seismic, acquisition processing projects in Bangladesh for the first time, making new breakthroughs in exploring shallow sea markets overseas.

2. Drilling service

In 2016, the Company's operation revenue in drilling service was RMB 19,368,752,000, a decline of 32.2% than the same period of the previous year, for which the figure was RMB 28,561,068,000. Its completed drilling footage reached 5,510 kilometers, a decline of 32.0% than the previous year. SSC supported to ensure Sinopec Group to achieve its exploration and production tasks, provided services for key construction projects including the productivity construction of the Fuling shale gas pilot project phase II and the Shunbei Oilfield in Tarim, Xinjiang with annual oil production reaching 1,500,000 tons. And it completed drilling footage of 8,418 meters in the Mashen-1 Well, making new record of the deepest drilling in Asia and marking that the ultra-deep drilling technologies reached the global leading levels. The Company achieved robust performance in overseas markets despite various challenges, and accumulated the annual drilling completion at the footage of 1460 kilometers with a year-on-year increase of 11.5%. SSC continued to be the largest onshore drilling contractor of both the Saudi Aramco and Kuwait Oil Company, while the drilling business in Algeria and Turkey have been further expanded.

3. Logging/Mud logging service

In 2016, the Company's operation revenue in logging/mud logging service was RMB 1,537,768,000, a decline of 37.1% than the same period of the previous year, for which the figure was RMB 2, 445,848,000,. Its completed logging projects have accumulated for 158,700,000 standard meters, a decline of 32.1% than the previous year. Its completed mud logging projects have accumulated for 5,310 kilometers, a decline of 41.3% than the previous year. Due to continuous decrease of investments in 2016, the revenue continued the decrease. In order to make profits, the Company reduced fees for non-production activities, controlled cost, and leveraged technologies of oil and gas gathering, identification and evaluation to provide services for the Fuling Shale Gas productivity construction (Phase II), and oil field construction projects in western Sichuan and Tarim.

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4. Downhole operation service

In 2016, the Company's operation revenue in downhole operation was RMB 3,867,913,000, a decline of 44.1% than the same period of the previous year, for which the figure was RMB 6,916,025,000. It completed downhole operation for 4,396 well times, a decline of 18.7% than the previous year. In 2016, the Company strongly fostered capabilities of technological services as well as the science and technology development around the syllogistic structure carbonate rocks, tight oil & gas and shale gas exploration and development. And it has further improved capabilities of coiled tubing, high pressure operation and service for shallow water, and ensured the oil and gas production and development of the Fuling Shale Gas Project, marine shale gas in western Sichuan areas, tight gas reservoir and projects in Tarim.

5. Engineering and construction service

In 2016, the Company's operation revenue in engineering and construction service was RMB 12,827,062,000, a decline of 16.6% than the same period of the previous year, for which the figure was RMB 15,378,795,000. Due to the continuous decrease of investments, its completed contracts valued RMB 12.12 billion in 2016, a decline of 17% than the same period of the previous year, for which the figure was RMB 14.61 billion. In 2016, the Company completed the Jintan salt cavern gas storage project and the Puguang safety hazard treatment project on time. It won bid for a series of qualified projects, including the EPC project of Sinopec Maoming' marine pipelines, the LNC gas transmission project in Tianjian, and construction of the JG-LM-4 phrase of the highway from Jiangdu to guangling, etc. SSC was awarded the National Excellent Project Prize for two projects, the Gas transition project from Yulin to Jinian and the Surface construction of productivity for Qingdong-5 District of the Qiaodong Oilfield.

6. International business

In 2016, the Company's operation revenue in international business service was RMB 12,702,961,000, a decline of 8.5% than the same period of the previous year, for which the figure was RMB 13,884,643,000. The revenue contributed by the international business accounted for 29.6% of the whole revenue, with a year-on-year growth of 6.6 percentage point. The Company is firmly committed to its internationalization strategy and established 5 large-scale markets in the Middle East, Africa, America, Central Asia & Mongolia, and the Southeast Asia. In 2016, the Company signed 92 new contracts and renewed 39 contracts in overseas markets with contractual value of USD 2.38 billion, a decline of 12.2% than the previous year, the completed contracts worth USD 2.12 billion, a decline of 6.2% than the previous year. What's more, the value of its signed new drilling contracts has consecutively exceeded USD 2 billion for the 4th year, and its completed contract value has consecutively exceeded USD 1.5 billion for the 3rd year, with a Year-on-year increase of 1.8% compared to the previous year. In Kuwait, the Company signed new contracts for 8 drilling rigs and renewed contracts for 18 drilling rigs with contractual value of USD 690 million, and was still the largest onshore drilling contractor of Kuwait Oil Company. In Saudi Arabia, the Company newly signed and renewed contracts for 15 drilling rigs with contractual value of USD 380 million. In Algeria, the Company signed new contracts for 8 drilling rigs with contractual value of USD 350 million. And in Ecuador, it successfully signed the lump-sum contract of drilling and completion for 40 wells of ITT (Phase I) with contractual value of USD 210 million.

7. Research and development

In 2016, the Company worked to meet needs in high-efficient exploration and development, making profits and exploring markets. It intensified efforts in technological innovation with allocation and innovation, and paved the way for leveraging R&D results to make benefits and promote management qualities. It has applied for 465 patents at home and abroad and was granted 379 patents. It made significant breakthroughs in some debottleneck and proprietary technologies. A series of mature technologies were promoted for applications, including that the high temperature MWD instruments, which could be used in circumstances of 175℃, has passed on-site testing in ultra-deep horizontal wells in the Shunbei 1-7H block in Tarim, marking notable progress of the R&D for MWD instruments. Also the SINOLOG900 well logging instrument with proprietary intellectual property rights has passed the systematic testing. The gamma imaging logging instrument was successfully tested in Ying 66-X98 Well. And the Company has applied the integrated technologies for exploration of medium to deep shale gas. It leveraged the technology of acquiring vibroseis wide wave seismic data for western deserts areas and frozen earth areas in northeastern China, where the production and data qualities have been highly promoted.

8. Internal reform and management

In 2016, the Company continued to optimize the internal resources for better synergy effects. It completed restructuring of 4 regional corporations, i.e., Sinopec Oilfield Service Henan Corporation, Sinopec Oilfield Service Jiangsu Corporation, Sinopec Oilfield Service Huabei Corporation and Sinopec Oilfield Service Huadong Corporation. It deepened structural adjustment, reduced number of low productivity crews and cut off 135 professional ones with a year-on-year decrease of 6.4%. It reduced the number of workers by 17.6 thousand in 2016. With focus on tapping potentiality and increasing profits, it reduced cost and fees of RMB 1.33 billion. The emerging business also developed well and revenue of geophysical mapping information business was RMB 40 million, with 36 projects awarded by Sinopec Group, and 25 projects by external clients in China. The business of energy conservation and environment protection achieved a stable growth and made revenue of RMB 510 million.

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9. Capital Expenditures

In 2016, the Company allocated investment of RMB 1.34 billion, in which RMB 0.56 billion was spent on purchasing equipment for foreign projects, RMB 0.14 billion for offshore equipment, RMB 90 million for safety hazard treatment projects. It spent funds on strictly selected investment targets, and reduced the annual investment by RMB 2.11 billion. It focus on marketing exploration and developed overseas markets against tough challenges. It purchased workover rigs for Kuwait projects and 8 drilling rigs for Algerian ones. It developed information-centralized management and launched setting up ERP system. Its major investment projects are as follows:

Unit: RMB'000

Major Project Name	Project Value	Project Progress	Investment in Current Year	Accumulated Paid-in Investment	Project Outcome
Shengli 90-meter Drilling Platforms	700,000	70.0%	148,294	492,325	Under Construction
25-meter Operation Platform Project	466,030	100.0%	53,237	447,535	In Operation
8000HP Multipurpose Supply Vessel	195,000	100.0%	40,053	181,802	In Operation
Purchase of Drillings Rigs for Algeria	122,200	100.0%	107,126	107,126	In Operation
Purchase of Workover Rigs for Kuwait	186,400	100.0%	184,767	184,767	In Operation
ERP Systematic Development	83,660	22.5%	18,841	18,841	Under Construction
Total	1,753,290	—	552,318	1,432,396	/

2. Statement of main business during the reporting period

(1) Main business analysis

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

	2016	2015	The rate of change
	RMB'000	RMB'000	(%)
Operating revenue	42,923,500	60,349,334	-28.9
Operating cost	53,516,744	54,568,960	-1.9
Selling and distribution expenses	58,558	62,315	-6.0
General and administrative expenses	3,756,029	4,043,145	-7.1
Financial expenses	477,258	657,090	-27.4
Net cash inflow from operating activities	-3,907,318	2,575,929	-251.7
Net cash inflow from investing activities	-235,956	-5,041,812	Not applicable
Net cash inflow from financing activities	4,461,521	3,193,722	39.7
Research and development expenditures	362,586	448,185	-19.1

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B. Income and cost analysis

a. Statement of operation by industry and products

Industry	Operating income for 2016	Operating cost for 2016	Gross profit margin	Increase or decrease in operating income as compared with last year	Increase or decrease in operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Geophysical	3,605,915	4,208,691	-16.7	-31.8	-13.2	Decreased by 25.0 Percentage points
Drilling	19,368,752	24,841,079	-28.3	-32.2	-5.1	Decreased by 36.6 Percentage points
Logging/Mud logging	1,537,768	2,051,517	-33.4	-37.1	-0.1	Decreased by 49.5 Per centage points
Downhole Operation	3,867,913	4,775,774	-23.5	-44.1	-21.8	Decreased by 35.2 Percentage points
Engineering and construction	12,827,062	16,026,093	-24.9	-16.6	12.8	Decreased by 32.5 Percentage points
Other	1,077,333	1,134,146	-5.3	16.6	91.7	Decreased by 41.3 Percentage points
Total	42,284,743	53,037,300	-25.4	-28.9	-1.8	Decreased by 34.7 Percentage ponits

b. Statement of operations by regions

Region	Operating income for 2016	Operating cost for 2016	Gross profit margin	Increase or decrease in operating income as compared with last year	Increase or decrease in operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Mainland China	29,581,782	38,825,728	-31.2	-35.2	-5.2	Decreased by 41.4 Percentage points
Hong Kong, Macau, Taiwan, and overseas	12,702,961	14,211,572	-11.9	-8.5	9.1	Decreased by 18.1 Percentage points

c. Cost analysis

Product	Item of costs structure	Amount in 2016 RMB'000	Percentage of amount in 2016 in total cost (%)	Amount in 2015 RMB'000	Percentage of amount in 2015 in total costs (%)	Year-on-year change (%)
Geophysical Service	Raw materials	377,725	9.0	374,414	7.7	0.9
	Fuel and power	158,708	3.8	166,737	3.4	-4.8
	Employees costs	1,424,607	33.8	1,447,939	29.9	-1.6
	Depreciation and amortization	611,287	14.5	611,900	12.6	-0.1
	Subcontracting costs and outsourcing services expenditures	187,718	4.5	195,266	4.0	-3.9
	Others	1,448,646	34.4	2,052,595	42.3	-29.4
	Total	4,208,691	100.0	4,848,851	100.0	-13.2
Drilling Service	Raw materials	4,305,929	17.3	4,375,317	16.8	-1.6
	Fuel and power	986,175	4.0	1,161,589	4.4	-15.1
	Employees costs	6,836,890	27.5	4,005,058	15.3	70.7
	Depreciation and amortization	3,332,374	13.4	4,166,114	15.9	-20.0
	Subcontracting costs and outsourcing services expenditures	2,172,957	8.8	1,416,871	5.4	53.4
	Others	7,206,754	29.0	11,052,672	42.2	-34.8
	Total	24,841,079	100.0	26,177,621	100.0	-5.1
Logging/Mud Logging Service	Raw materials	464,005	22.6	326,306	15.9	42.2
	Fuel and power	24,037	1.2	31,658	1.5	-24.1
	Employees costs	1,162,798	56.7	1,175,793	57.3	-1.1
	Depreciation and amortization	267,933	13.1	409,753	20.0	-34.6
	Subcontracting costs and outsourcing services expenditures	85,090	4.1	90,453	4.4	-5.9
	Others	47,654	2.3	19,233	0.9	147.8
	Total	2,051,517	100.0	2,053,196	100.0	-0.1
Downhole Operation Service	Raw materials	1,531,158	32.1	1,461,708	23.9	4.8
	Fuel and power	207,663	4.3	272,779	4.5	-23.9
	Employees costs	1,111,552	23.3	1,363,880	22.4	-18.5
	Depreciation and amortization	532,258	11.1	575,674	9.4	-7.5
	Subcontracting costs and outsourcing services expenditures	759,765	15.9	1,162,811	19.0	-34.7
	Others	633,378	13.3	1,271,497	20.8	-50.2
	Total	4,775,774	100.0	6,108,349	100.0	-21.8
Engineering and Construction Service	Raw materials	2,915,731	18.2	3,398,779	23.9	-14.2
	Fuel and power	119,742	0.7	143,665	1.0	-16.7
	Employees costs	2,331,204	14.5	2,717,090	19.1	-14.2
	Depreciation and amortization	239,804	1.5	249,253	1.8	-3.8
	Subcontracting costs and outsourcing services expenditures	2,666,647	16.6	5,623,017	39.6	-52.6
	Others	7,752,965	48.5	2,076,749	14.6	273.3
	Total	16,026,093	100.0	14,208,553	100.0	12.8

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d. Information about major customer and major suppliers

During the reporting period, the aggregate operating revenue from the top five largest customers was RMB 30,822,551,000, accounting for 71.8% of the Company's total operating revenue in 2016. Among the operating revenue form the the top five largest customers, sales amount of related parties was RMB 22,878,129,000, accounting for 53.3% of the Company's total operating revenue in 2016.

The operating revenue of the top 5 customers in 2016:

Name of customer	Amount	Percentage to operating income
	RMB'000	(%)
CPC and its subsidiaries	22,878,129	53.3
Saudi Arabian Oil Company	3,174,182	7.4
Kuwait Oil Company	2,465,990	5.7
CNPC	1,442,043	3.4
Halliburton Energy Services inc. saudi branch	862,207	2.0
Total	30,822,551	71.8

During the reporting period, the aggregate purchase amount from the top five largest suppliers was RMB 6,200,053,000, accounting for 27.2% of the Company's total purchase amounts. Among the purchase amount form the the top five largest suppliers, purchase amount of related parties was RMB 5,215,004,000, accounting for 22.9% of the Company's total purchase amount in 2016. Purchase amount from the largest supplier accounted for 22.9% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

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

C. Expense

	2016	2015	Year-on-year change	
Item	RMB'000	RMB'000	(%)	Reason for change
General and administrative expenses	3,756,029	4,043,145	-7.1	Mainly caused by the decrease of integrated service fee, and research and development expenses.
Selling and distribution expenses	58,558	62,315	-6.0	Mainly caused by the decrease of sale service fee and employee compensation.
Financial cost	477,258	657,090	-27.4	Mainly caused by the significant increase of exchange gain, net.
Impairment losses	754,346	171,376	340.2	Mainly caused by the increase of loss on provision for bad debts.
Income tax expenses	311,196	481,421	-35.4	Mainly caused by the decrease of taxable income.

D. Statement of research and development expenditure

Expenditure research and development expenditure for 2016 (RMB'000)	362,586
Capitalized research and development expenditure for 2016 (RMB'000)	—
Total research and development expenditure for 2016 (RMB'000)	362,586
Percentage of total research and development expenditure in operating income (%)	0.8
Number of research and development Personnel	3,619
Percentage of R&D personnel number in the total personnel number of the company (%)	4.4
The proportion of R & D investment of capital (%)	—

In 2016, the Company's research and development expenditure was RMB 362,586,000, representing a decrease of 20.4 per cent as compared with RMB 455,509,000 in last year. It was mainly caused by the year-on-year decrease of technology expenditure.

E. Changes in cash flow statement items

Item	2016 RMB'000	2015 RMB'000	Increased/ Decreased by	Change (%)	Reason for change
Net cash inflow from operating activities ("-" for outflow)	-3,907,318	2,575,929	Outflow increased by RMB 6,483,247,000	Outflow increased by 251.7%	Occurrence of loss before income tax in this year
Net cash inflow from investing activities ("-" for outflow)	-235,956	-5,041,812	Outflow decreased by RMB 4,805,856,000	Outflow decreased by 95.3%	Sharp decrease of capital expenditure in this year
Net cash inflow from financing activities	4,461,521	3,193,722	Inflow increased by RMB1,267,799,000	Inflow increased by 39.7%	Decrease of cash payment to redeem borrowings in this year

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

☐Applicable √Not Applicable

(3). Statement of assets and liabilities analysis

A. Assets and liabilities

Item	Amount at 31 December 2016	Percentage of amount at 31 December 2016 in total assets	Amount at 31 December 2015	Percentage of amount at 31 December 2015 in total assets	Changes from the end of the preceding year to the end of this year
	RMB'000	(%)	RMB'000	(%)	(%)
Cash at bank and on hand	2,449,935	3.3	2,011,590	2.4	21.8
Notes receivables	851,624	1.1	141,132	0.2	503.4
Accounts receivable	23,907,534	32.1	27,121,127	31.8	-11.8
Inventories	9,318,377	12.5	14,769,275	17.3	-36.9
Other current assets	416,676	0.6	82,062	0.1	407.8
Long-term equity investments	221,329	0.3	216,400	0.3	2.3
Fixed assets	28,807,257	38.7	29,008,189	34.0	-0.7
Construction in progress	866,846	1.2	2,710,178	3.2	-68.0
Intangible assets	185,325	0.2	182,203	0.2	1.7
Short-term borrowings	17,033,731	22.9	12,070,312	14.1	41.1
Notes Payable	2,013,497	2.7	1,284,745	1.5	56.7
Other payables	5,541,678	7.4	5,473,433	6.4	1.2
Non-current liabilities due within one year	220,908	0.3	87,360	0.1	152.9
long-term borrowings	763,070	1.0	618,969	0.7	23.3
Deferred income	112,171	0.2	59,008	0.1	90.1

B. Limitation of main assets by the end of the reporting period

√Applicable ☐Not Applicable

At 31 December 2016, the Company's funds with restricted use such as margin deposit, etc. was RMB 3,012,000 (At 31 December 2015: RMB 18,381,000).

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C. Note:

1. Notes receivables increased by RMB 710,492,000 compared with that of the previous year, which was mainly caused by the increased use of notes for payment and settlement.

2. Inventories decreased by RMB 5,450,898,000 compared with that of the previous year, which was mainly caused by the decrease of the number of new started projects at the end of 2016 compared to the same period of the previous year.

3. Other current assets increased by RMB 334,614,000 compared with that of the previous year, which was mainly caused by the increase of the VAT tax credit at the end of 2016.

4. The project under construction decreased by RMB 1,843,332,000 compared with that of the previous year, which was mainly caused by the decrease of capital expenditure and convertion of some projects under construction into fixed assets.

5. Short-term borrowings increased by RMB 4,963,419,000 compared with that of the previous year, which was mainly caused by the increased fund demand because of the great loss in 2016.

6. Notes payable increased by RMB 728,752,000 from the previous year, which was mainly caused by increasing use of notes.

7. The non-current liabilities due within one year increased by RMB 133,548,000 compared with that of the previous year, which was mainly caused by the increase of long-term borrowings due within one year.

8. The deferred income imcreased by RMB 53,163,000 compared with that of the previous year, which was mainly because of the new national special funds.

(4). Analysis of the industry operation information

A. Market of crude oil and natural gas

In 2016, the international crude oil price kept fluctuating at a low level and once dropped below 30 USD/bbl. The annual average price of international crude oil price in 2016 was the lowest during the twelve years. The annual average prices of Brent crude oil was 43.6 USD/bbl, decreased by 16.8% compared with 52.4 USD/bbl in 2015, and decreased by 55.9% compared with 98.9 USD/bbl in 2014.

In 2016, China's crude oil production decreased for the first time during the past four years. According to the data provide by National Bureau of Statistics, China's crude oil production in 2016 was about 200 million ton, a year-on-year decrease of 6.9%, which was the first decrease since 2012. China's petroleum consumption continued a slow growth, and its apparent consumption was estimated at 578 million tons, a year-on-year increase of 5.6%.

In 2016, the growth of China's natural gas consumption slowed down, while the market reform was stably promoted. According to the data provide by National Bureau of Statistics, China's conventional gas production was 136.8 billion cubic metres, a year-on-year increase of 2.2%. Taking coalbed gas and shale gas into account, China's total natural gas production was more than 150 billion cubic metres, a year-on-year increase of 3.2%. Since many projects of changing fuel from coal to natural gas have started and user base expanded, total natural gas consumption increased. The annual apparent natural gas consumption, including shale gas and coalbed gas, was about 224 billion cubic meters by the increase of 9.3%. The growth rate increased by 3.8 percentage point compared with the previous year.

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

Affected by the sharp decline of international crude oil price, the domestic and overseas oil companies contined to further cut down its upstream captital expenditures in exploration and exploitation in 2016. For example, Sinopec capital expenditure of exploration and exploitation in 2016 was RMB 32.2 billion, decreased by 41.1% compared with that in 2015 of RMB 54.7 billion; the capital expenditure of international oil companies, such as Exxon Mobil, Chevron and BP, was cut down by 28.3%、28.4% and 14.2% respectively. Affected by the capital expenditure sharp decline of these companies, the workload and service prices of the Company experienced declines in different degrees. Compared with the previous year, the workload of drilling business decreased by 32%, and the service prices of main markets decreased by 5%-15%.

C. Business information in oilfield service industry

Affected by the decline of the upstream capital expenditure of domestic and overseas oil companies, the global oilfield service industry experienced the continuous downturn and the oilfield service companies faced the situation of sharp decline or loss in operation result. For example, COSL company estimated that its net profit in 2016 was RMB 11.5 billion, and major international oilfield service companies suffered great loss as well.

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(5). Analysis of investments

A. Significant equity investment

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

B. Significant non-equity investment

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

C. Information of financial assets measured at fair value

☐Applicable √Not Applicable

(6) Sales of major assets and equity

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

(7). Information on the Company's subsidiaries and shareholding companies

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
		%	RMB'000	RMB'000	RMB'000	RMB'000	
SOSC	RMB 4,000,000,000	100	74,110,170	70,111,210	3,998,961	-16,097,754	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited *	RMB 700,000,000	100	13,020,103	12,396,528	623,575	-3,861,291	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited *	RMB 450,000,000	100	11,933,422	10,825,828	1,107,594	-3,373,930	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited *	RMB 250,000,000	100	7,137,969	5,735,151	1,402,818	-256,828	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited *	RMB 860,000,000	100	3,214,395	2,858,926	355,469	-989,629	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited *	RMB 890,000,000	100	4,953,665	2,728,809	2,224,856	-673,131	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited *	RMB 300,000,000	100	6,580,753	3,465,900	3,114,853	-664,532	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited *	RMB 300,000,000	100	4,486,763	3,926,100	560,662	-1,075,087	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation *	RMB 500,000,000	100	18,457,490	23,980,464	-5,522,974	-4,953,778	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited *	RMB 2,000,000,000	100	5,780,912	1,914,409	3,866,503	-313,975	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation *	RMB 700,000,000	100	3,956,167	2,925,262	1,030,905	61,762	Petroleum engineering technical service

Name of company	Revenue	Operating profit
	RMB'000	RMB'000
SOSC	42,923,500	-15,994,808
Sinopec Shengli Oil Engineering Company Limited*	8,110,754	-3,884,821
Sinopec Zhongyuan Oil Engineering Company Limited *	6,813,327	-3,257,296
Sinopec Jianghan Oil Engineering Company Limited *	3,908,241	-247,034
Sinopec East China Oil Engineering Company Limited *	1,526,241	-993,905
Sinopec North China Oil Engineering Company Limited*	3,404,147	-675,108
Sinopec Southwest Oil Engineering Company Limited *	2,817,564	-674,920
Sinopec Oil Engineering Geophysical Company Limited *	3,571,192	-1,042,034
Sinopec Oil Engineering and Construction Corporation *	13,263,322	-4,908,722
Sinopec Shanghai Offshore Oil Engineering Company Limited *	997,760	-386,442
Sinopec International Petroleum Service Corporation *	1,127,396	72,810

* Note: The Company holds shares though SOSC.

Section 5 Report of the Board of Directors

Explaination about the operating situation of Sinopec Oil Engineering and Construction Corporation

In 2016, the net loss of Sinopec Oil Engineering and Construction Corporation was RMB 4.95 billion, increasing a further loss of RMB4.51 billion compared to last year. The main reasons were: 1) Affected by the continuous decline of overall investment and the fierce market competition, the operating revenue of Sinopec Oil Engineering and Construction Corporation continued to decrease in 2016. The operating revenue in 2016 which was RMB 12.83 billion, decreased by 16.6% compared with the previous year of RMB 15.38 billion. 2) Since duration of some construction projects extended, project cost increased, and variation and claims of projects didn't meet the expectation, Sinopec Oil Engineering and Construction Corporation suffered a loss of RMB 3 billion. Projects with relatively large losses included Saudi Arabia Yanbu-to-Medina Water Pipeline project and Saudi Arabia Agriculture Pipeline Project, with corresponding losses of RMB 1.14 billion and RMB 760 million respectively.

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

(1) Competitive Structure and Development Trend

The world's economy continues to stay in a slow and unstable recovery in 2017, and the oil prices is expected to rise thanks to the cutting production agreement signed among main oil producing countries, but factors and powers for increasing oil prices are insufficient. And China continues to deepen the supply-side structural reform, slow down the growth of energy consumption, and accelerate the development of low carbon clean energy. Meanwhile, China's economy still grows at a medium or high rate, and the consumption for oil and chemical products will keep rising. The oil companies' capital expenditure for upstream exploration and development will be increases with growing prices. Thus, it is predicted that conditions for oil service provides are hard to be changed and the competition is still very intense. But with the added capital expenditure for upstream exploration and development, the business circumstances of oil services will grow better.

(2) Business Strategy in 2017

The Company will actively take opportunities of the domestic and overseas oil companies' increasing capital expenditure for upstream exploration and development, take reducing losses as the primary task, and leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and expand external markets outside Sinopec in order to make profits. It will continue to deepen reforms, become linear and healthier, and improve competitiveness. It will strengthen the cost control, tap potentialities and increase profits. And it will still focus on science and technology development and promote capabilities of innovation as well as making benefits to ensure a better business performance. The Company puts emphasis on the following aspects:

A. Geophysical service

The Company will continue to serve Sinopec Group in exploration with the most optimized technology, the most applicable equipment and the most efficient teams, particularly in Sichuan basin, Yin'e basin in Inner Mongolia and offshore exploration in the west of the Weizhou of Guangxi Province; to foster integrated capabilities of acquisition, processing and interpretation; to deepen cooperation with China Geological Survey, Shaanxi Yanchang Petroleum Group, and Beijing Energy Investment Holding Co. Ltd.; to better manage some significant Myanmar projects in Algeria,, Bangladesh and Saudi Arabia; to explore overseas markets in Bolivia, Egypt and Kuwait; and to extend emerging markets of smart pipelines as well as geophysical mapping information business. It completed annual acquisition of 2D seismic data reaching 26,100 kilometers, and 3D of 16,100 sq. kilometers.

B. Drilling Service

The Company will continue to actively follow Sinopec strategies on exploration and development, keep informed of Sinopec needs, and flexibly adjust and distribute its project service capacity in order to consolidate its service market share within Sinopec, particularly such projects as Fuling shale gas project phase II, marine facies gas fields in western Sichuan areas, Shunbei oil field, tapping potentialities projects for mature oil fields in eastern China and tight gas fields in the north of Hubei Province. It will continue to play out its advantage in proprietary technologies and services, and accelerated the development of unconventional and new energy markets such as shale gas, acid gas, coal bed gas and thermal energy; continue to expand its share in overseas markets, further improve its presence in overseas markets, pay close attention to executing and renewing the ongoing projects in Saudi Arabia and Kuwait, strengthen the efficient operation of new drilling rigs in Algeria, and vigorously promote the integrated reservoir services project in Ecuador. The Company will continue to improve the structure of its drilling crews in order to improve efficiency and reduce cost. The company plans to complete drilling footage accumulated for 7,460 kilometers in 2017.

C. Logging/Mud logging service

In 2017, the Company will continue to focus on exploration and development, maintaining internal market share, and expanding external market profits. For internal market, emphasis will be put on key regional projects such as those in Fuling, western Sichuan, southeastern Sichuan and Tarim. For external market, emphasis will be on non-oil fields like projects in Erdos and Shaanxi Yanchang. It will keep advantage in mud logging equipments and further promote sales of logging equipment outside Sinopec while meeting the demand for logging equipment in Sinopec; and optimize the allocation of internal resources such as crews, equipment and staff to reduce lower productivity crews. The company plans to complete logging footage accumulated for 215,530 kilometers, while the mud logging footage accumulated for 6,780 kilometers in 2017.

Section 5 Report of the Board of Directors

D. Downhole operation service

In 2017, on the basis of its shale gas exploration and development in Fuling and western Sichuan, the Company will polish the R&D systems for special downhole operation, promote the application of horizontal well large-scale fracturing and testing technology, pave the way for tight gas exploration and development, further improve supporting technologies for high-temperature high-pressure super-deep oil and gas reservoir well completion and measuring technology, and support deep and super-deep oil and gas reservoir exploration and development in Tarim, etc. It will continue the aims of exploring international markets, reducing operation cost and improving management efficiency to promote the application of integrated technologies for conventional resources and expand the market presence. In 2017, the company plans to complete downhole operation service for 5,448 wells.

E. Engineering and construction service

In 2017, the Company will focus on projects, control projects risks and promote capabilities of making profits. It will make good preparation for some key projects, such as the EPC marine pipeline project in Maoming, Wen-23 natural gas storage and processing project, LNG gas transmission project in Tianjin, EPC project of Sinopec Dalian chemical and industrial institution, the state oil reserve depot project and the pipeline project starting from Xinjiang Province, going across Zhejiang Province and ending in Guangdong Province. In the overseas markets, it will closely follow the national strategy of the Belt and Road. It will improve the risk evaluation as well as risk control mechanisms for overseas projects and actively expand oil, gas and water pipeline projects, oil and gas station, bridge constructions, and tank farms to make better performance in the international markets. In 2017, the company plans to sign new contracts valued RMB 12.8 billion and complete contracts valued RMB 12.6 billion.

F. International business

In 2017, the Company will stay committed to the globalization development strategy. With focus on market exploration, structure adjustment, management enhancement and profit making, it will make tailored development strategies in exploring international markets, vigorously make breakthroughs in providing technical services, optimize the deployment of markets and business overseas, improve capabilities of project management, and push forward the unified management and resources sharing to pave the way for constant and sound development. It will enlarge the market shares of workover drilling, and accelerate the transmission from providing single drilling service to drilling lumpsum and integrated service including drilling, logging and cementing. It will pay more attention on recommending technical services like well comentation and drilling fluid overseas. It will actively develop integrated oilfield service projects, special technologies for exploring and developing shale gas to make profits. In 2017, the company plans to sign new contracts valued USD 2.43 billion and complete contracts valued USD 2.16 billion.

G. Technology development

In 2017, the Company will vigorously promote the practical application of R&D research outcomes and improve capabilities of innovation to meet demands of exploration and development in the markets. It will move fast in building a sound R&D system, allocating its science and technology resources. It will develop a series of integrated supporting technologies, including those for shale gas, acid oil and gas, and shallow water; and the integrated technologies consisted of acquisition, processing and interpretation of seismic data. It will pay more attention on making breakthroughs in developing engineering supporting technologies for deep buried shale gas exploration and development projects. It will recommend and leverage a series of special technologies and products to promote the application of techniques including those for optimized and fast drilling, plugging and so on. It will extend the performance of integrated logging instruments like those for High temperature MWD of 175℃and SINOWSL. It will make breakthroughs in providing technological including the development of the imaging-while-drilling technology and the rotary guide technology, researches on additives like fructuring fluids that are resistant to high temperatures, and experiments on practical efficiency of internet imaging instruments for well testing.

H. Internal reform and management

In 2017, the Company will deepen reforms, adjust the coordination between management' designs and the implications, and forge competitive industrial mechanisms as well as organizations. It will reduce members of the management, optimize organization of the personnel, continue to cut down extra crews of low productivity, and arrange for surplus labor forces. It will upgrade business mechanisms through enhancement of key business, specific implication of technical services, transference the affiliated and social common business to be public, and improve capabilities of innovation. It will further allocate internal resources by raising efficiency of leveraging funds, equipment, human resources and technologies. It will make joint efforts to reduce cost and fees, strengthen the cash flow management. In 2017, the reduced cost and fees are expected to more than that in 2016.

I. Capital Expenditures

The Company's budget for capital expenditure in 2017 is RMB 2.43 billion. It will be spent on efficiently exploring markets, emerging markets, upgrading equipments, treatment of safety risks, and developing ERP systems, etc. To meet demands of markets, it will place the focus on efficiency, strictly control the investment, better use the reserved equities, strengthen resource allocation and improve quality of preparations for projects. It will follow the rule of project approval after the demonstration and decision-making after evaluation. It will strictly check possibilities during the approval and demonstration, control investment and make further movement in allocating resources, transferring development models, adjusting structures, and cultivating its core competitiveness.

Section 5 Report of the Board of Directors

(3) Potential risks

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

A. Risk in fluctuation of international crude oil prices

The majority of the business income of the Company comes from oil and gas technical services. Affected by contracting demand in global oil and gas market and weak economic recovery, international oil prices were at a generally low level in 2016, when the annual average oil price was the lowest in the past 12 years, leading to dual reduction of work volumes and service prices. Although the oil prices rise a little at the beginning of 2017 as a result of the restricted production agreement, the global economy stays in a slow and unstable recovery, and US dollars enter appreciation process, which will make pressure on increasing the oil prices. Thus, the circumstances for the oil field services will turn better but a huge uncertainty is still present.

B. Market competition risk

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

C. Environmental damage, hidden hazards and force majeure risk

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

D. Overseas operation risk

The company has business in many foreign countries who will have political, legal, supervision and management influences on the business. The conditions there are unstable and quite different with those in developed countries. There may also be risks of political volatility, religious issues, pulic security, unstable tax policies, import and export restrictions, and regulatory uncertainties, etc.

E. Exchange rate risk

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

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

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

(1). Assets, liabilities and equity analysis

	As at 31 December 2016	As at 31 December 2015	The rate of change
	RMB'000	RMB'000	%
Total assets	74,493,166	85,307,777	-12.7
Current assets	40,155,491	48,187,792	-16.7
Non-current assets	34,337,675	37,119,985	-7.5
Total liabilities	66,051,574	60,670,824	8.9
Current liabilities	65,115,489	59,909,391	8.7
Non-current liabilities	936,085	761,433	22.9
Total equity attributable to equity shareholders of the Company	8,442,868	24,638,094	-65.7

As at 31 December 2016, the Group's total assets were RMB 74,493,166,000, representing a decrease of RMB 10,814,611,000 from that at the end of 2015, of which: Current assets were RMB 40,155,491,000, representing a decrease of RMB 8,032,301,000 from that at the end of 2015. The decrease was mainly due to a decrease of RMB 4,925,901,000 in amount due from customer for contract works, a decrease of RMB 524,997,000 in inventory, and a decrease of RMB 2,503,101,000 in notes receivable and trade receivable. Non-current assets were RMB 34,337,675,000, representing a decrease of RMB 2,782,310,000 from that at the end of 2015, which was mainly due to a decrease of RMB 2,044,264,000 in property, plant and equipment and a decrease of RMB 726,110,000 in other non-current assets.

As at 31 December 2016, the Group's total liabilities were RMB 66,051,574,000, representing an increase of RMB 5,380,750,000 from that at the end of 2015, of which: Current liabilities were RMB 65,115,489,000, an increase of RMB 5,206,098,000 as compared with the end of 2015, which was mainly due to an increase of RMB 5,096,967,000 in short-term borrowings. Non-current liabilities were RMB 936,085,000, an increase of RMB 174, 652,000 compared with the end of 2015, which was mainly due to an increase of RMB 126,511,000 in long-term borrowings.

As at 31 December 2016, total equity attributable to equity shareholders of the Company was RMB 8,442,868,000, a decrease of RMB 16,195,226,000 as compared with the end of 2015, mainly due to the net loss attributable to equity shareholders of the Company which was RMB 16,198,242,000.

As at 31 December 2016, the Group's ratio of total liabilities to total assets was 88.7%, and 71.1% as at 31 December 2015.

(2). Cash flow analysis

The main items of cash flow of the Group in 2016 and 2015 showed in the following table.

Main items of cash flow	2016	2015
	RMB'000	RMB'000
Net cash(outflow)/inflow from operating activities	(3,855,369)	2,595,785
Net cash outflow from investing activities	(201,380)	(5,003,471)
Net cash inflow from financing activities	4,510,463	3,199,141
Increase in cash and cash equivalents	453,714	791,455
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 year	2,446,923	1,993,209

For the year ended 31 December 2016, the Group's net cash outflow from operating activities was RMB 3,855,369,000, representing an increase of cash outflow by RMB 6,451,154,000 as compared with last year. This was mainly due to an increase of the Group's pre-tax loss in 2016 by RMB 16,356,900,000 as compared with last year.

For the year ended 31 December 2016, the Group's net cash outflow from investing activities was RMB 201,380,000, a decrease of cash outflow by RMB 4,802,091,000 as compared with last year. It was mainly due to the purchase of properties, plants and equipments decreasing by RMB 2,556,284,000 as compared with last year and collection of entrusted loan receivables amounting to RMB 951,000,000.

For the year ended 31 December 2016, the Group's net cash inflow from financing activities was RMB 4,510,463,000, presenting an increase of cash inflow by RMB 1,311,322,000 compared with last year. It was mainly due to mainly due to a year-on-year decrease of RMB 9,152,881,000 in repayment of the borrowings.

Section 5 Report of the Board of Directors

(3). Bank and affiliated company borrowings

As at 31 December 2016, the Company's bank and affiliated company borrowings were RMB 18,000,349,000 (31 December 2015: RMB 12,759,281,000). These borrowings include the short-term borrowings in RMB 17,237,279,000 (including: the long-term borrowings due with one year in RMB 203,548,000), and the long-term borrowings due more than one year of RMB 763,070,000; the fixed-rate loans were RMB 7,680,000,000 and the floating rate loans were RMB 10,320,349,000. As at 31 December 2016, approximately 51.6% (2015: 41.8%) were denominated in Renminbi and approximately 48.4% (2015: 58.2%) were denominated in US Dollars.

(4). Gearing ratio

As at 31 December 2016, the gearing ratio of the Company was 64.9% (31 December 2015: 30.5%). The ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

5. The required information disclosure according to the Listing Rules

(1). Assets Pledge

For the year ended 31 December 2016, there was no pledge on the Group's assets.

(2). Foreign Exchange Risk Management

It is set forth in note 42 of the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(3). Financial Summary

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

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

(4). Reserves

Changes in the reserves of the Group and the reserves of the Company during the reporting period are set forth in the consolidated statements of change in equity on page 163 and notes 29 and 30 to the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(5). Fixed assets

Movements in fixed assets of the Group, during the reporting period, are set forth in note 17 of the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(6). Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 36 of the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(7). Retirement plan

Particulars of the retirement plan operated by the Group are set forth in note 16 of the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(8). Income tax

For the year ended 31 December 2016, the Group's income tax was RMB 311,196,000 (2015: RMB 481,421,000. The main reason for the change of the tax amount is as following: 1) the existence of losses of the Group and part of the subsidiaries, 2) the expansion of the Group's overseas business, and the different calculation method of tax rates in different countries of the Company's overseas subsidiaries, and 3) the fluctuations of the revenue contributions of the Company's certain subsidiaries which enjoy preferential income tax rate. In addition, the Group has paid tax in the countries and regions where it has businesses.

(9). Capitalized Interest

Details of Capitalized Interest of the Group are set out in note 6 of the consolidated financial statements prepared in accordance with the IFRS of the Annual Report.

(10). Environmental policy and performance of the Company

(1) Led by construction of ecological civilization and green low-carbon strategy, the Company continue to carry out clean production, energy saving and emission reduction, carbon asset inventory and verification, and the energy efficiency doubling plan. The special action of blue sky environmental protection is launched and effectiveness of energy and environment work gets sustainable improvement.

(2) In 2016, the Company was not in the list of heavily polluting enterprises released by relevant Chinese environmental department. There wereno significant environmental or other social security issues about the Company.

(3) The Company has established a comprehensive environmental impact assessment system to enhance environmental management and control. In 2016, the Company had no environmental pollution accident, nor had been sued, fined or sanctioned due to environmental pollution or violating environmental laws and regulations.

(11). Compliance with laws and regulations

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

(2) In 2016, the Company strictly abide by the laws and regulations which have significant influence on the Company and has not been complainted, fined or sanctioned due to violating major laws and regulations.

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

(1) There were no employees, customers and suppliers who has significant influence on the Company's prosperity.

(2) For the information about the Company's major clients and suppliers, please refer to the section "Information about major customer and major suppliers " under "Report of the Board of Directors" in this annual report.

(13). Management contract

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

(14). Pre-emptive rights

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

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of their listed securities.

(16) Directors' interests in competing business

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

Section 5 Report of the Board of Directors

(17) Directors' interests in contracts

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

(18) Directors service contracts

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

(19) Permitted indemnity provisions

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

(20) Equity-linked agreement

For the year ended 31 December 2016, except for the Share Option Scheme disclosed under "General Information of the A share option incentive scheme of the Company" under "Significant Events" in this annual report. The Company has not entered into any equity-linked agreement

On behalf of the Board

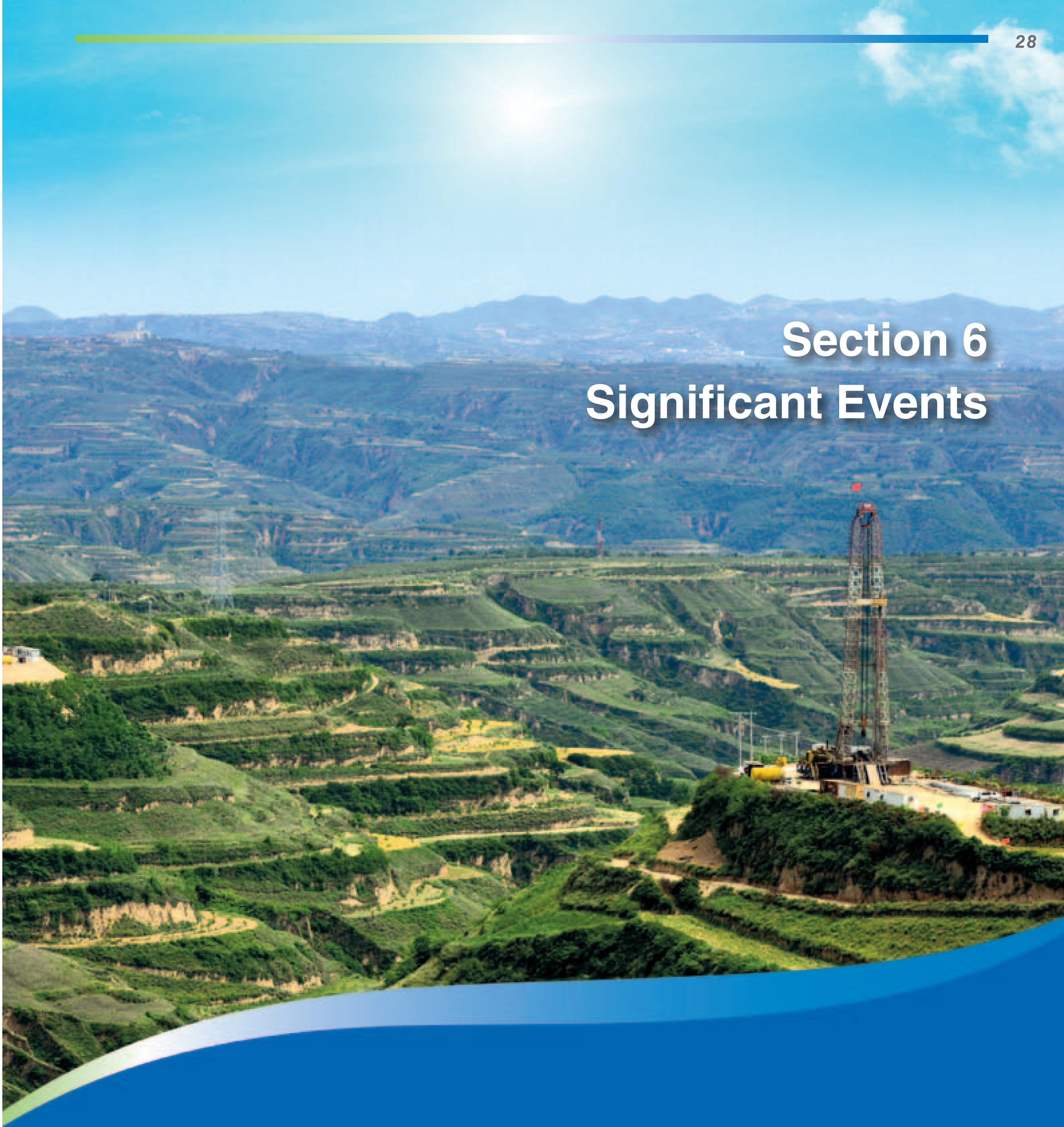
Jiao Fangzheng

Chairman

Beijing, China

28 March 2017

Section 6
Significant Events



Section 6 Significant Events

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

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

The Company's current dividend policy is as follows: during the reporting period, under the situation of: 1) Company has net profit, 2) the Company's positive accumulated undistributed profit and 3) the Company's cash flow meets the requirement of its normal operation and sustainable development, then the Company shall have the dividends and the annual dividends shall not less than 40% of the current net profit attributed to the Company shareholder's. The specific amount of dividends shall be proposed by the Board of Directors of the Company, and be finally approved by the General Meeting. During the process of enacting and excuting of the Company's dividend policy, the independent directors fulfilled their responsibilities following the corresponding obligations, which fully reflected the opinions and demands of minority shareholders and protected their legitimate rights and interests.

Due to the negative of the Company's undistributed profits at the end of 2016, there were no cash dividends. But the Company would strictly implements its "Articles', soon as the achievement of capability for cash dividends, the Company will perform decision-making process in accordance with relevant provisions and play the role of independent directors in order to safeguard the legitimate rights and interests of the minority shareholders.

(2). Profit distribution plan for Ordinary Shares or pre-arranged plan for Ordinary Shares or plan or pre-arranged plan for Capitalization of surplus reserves in the previous three years (inclusive of the reporting period) (in accordance with "PRC ASBE")

Years of distribution	Amount of dividend for every 10 shares	Amount of cash dividends	Numbers of shares converted for every 10 shares	Net profit attributable to equity shareholders of the listed company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement
	(RMB) (Tax included)	(RMB) (Tax included)	(share)	(RMB'000)	(%)
2016	—	—	—	-16,114,763	—
2015	—	—	—	24,478	—
2014	—	—	—	1,229,753	—

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

☐ Applicable √ Not Applicable

Section 6 Significant Events

2. Performance of undertakings

(1). The undertakings made by the Company, shareholders, the defacto controllers, related parties, purchaser or other relevant parties during or until the reporting period.

Background	Type	Party	Undertaking	Date and duration	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
Undertaking regarding share reform	Other	Sinopec, CITIC Limited	Within 12 months from the date their non-tradable A shares in the Company have obtained the right to be tradable on the stock market, they will propose that, subject to compliance with the relevant systems of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance and CSRC, the board of directors of the Company makes a proposal for a share option incentive scheme, with the exercise price of the first grant of share options being not less than RMB 6.64 per A share, being the closing price of the A Shares on 30 May 2013 (such minimum exercise price will be subject to adjustment due to matters for exclusion of rights and dividends prior to the announcement of the proposal for the share option incentive scheme)	Date of undertaking: 20 August 2013 Duration:1 year	Yes	As at 19 August 2014, the Company does not have the conditions of the implementation of equity incentive plan due to the consecutive losses of operating results. China Petrochemical Corporation Board of Directors of the Company made the commitment to draw share option incentive scheme after the completion of Material Assets Reorganisation under the related regulation. On 29 March 2016, the Company held the eighth meeting of the eighth session of the Board of Directors, and approved proposals related with share option incentive. Related proposals were approved at the 2016 first A shareholders class meeting, the 2016 first H shareholders class meeting and the 2016 first extraordinary general meeting held on 25 October 2016.
Undertaking regarding the Material Assets Reorganization	Solve the horizontal competition	China Petrochemical Corporation	The Non-Competition undertaking 1.China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights. 2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. Within 5 years of the Material Assets Reorganisation, China Petrochemical Corporation will find the appropriate opportunity to sell the Petroleum Service Business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the Material Assets Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Date of undertaking: 12 September 2014 Duration: Long Term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

Section 6 Significant Events

Background	Type	Party	Undertaking	Date and duration	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
Undertaking regarding the Material Assets Reorganization	Solve the connected transaction	China Petrochemical Corporation	The undertaking of regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation an its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September 2014 Duration: Long Term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Commitments regarding the Material Assets Reorganization	Other	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.	Date of Commitment: 12 September 2014 Duration: Long Term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

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

☐ Achieved ☐ Not Achieved √ Not Applicable

3. Capital occupancy and progress on settlement of arrears

During the reporting period, there were no appropriation of fund for non-opeational purpose by the controlling shareholders and its related parties.

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

☐ Applicable √ Not applicable

Section 6 Significant Events

5. Analysis and explanation of the Board on the reasons and impact of the changes in accounting policy, accounting estimation and corrections to material accounting errors.

(1). Analysis and explanation of the Board on the reasons and impact of the changes in accounting policy and accounting estimation

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, Hong Kong Stock Exchange and the Company. The changes in accounting lead to the decrease of depreciation and amortization expenses by RMB 799,966,000, and the increase of profit before income tax in 2016 by RMB 799,966,000.

(2). Analysis and explanation of the Board on the reasons and impact of corrections to material accounting errors

☐ Applicable √ Not applicable

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

	The present employment
The name of the domestic accounting firm	Grant Thornton (special general partnership)
The audit period for the domestic accounting firm	2
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The remuneration of the domestic and overseas accounting firm	RMB 9,600,000
The audit period for the overseas accounting firm	2
The accounting firm for Internal Control Audit	Grant Thornton (special general partnership)
The remuneration of the accounting firm for Internal Control Audit	RMB2,000,000

Note: Grant Thornton Hong Kong Limited provided the Company tax services on Hong Kong profit tax declaration in 2016, and the compensation was HKD 10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2016. The Proposal has been approved by the Shareholders at the annual general meeting of 2015 on 6 June 2016.

On 28 March 2017, the Board of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor of the Company for the year 2017. The proposal shall be subject to the approval by the shareholders at the Company's 2016 annual general meeting.

Section 6 Significant Events

7. Situation about confronting the risk of the suspension of listing

(1). Reasons which resulted in the suspension of listing

□ Applicable √ Not applicable

(2). Corresponding measures to be taken by the Company

□ Applicable √ Not applicable

8. Situation about confronting the termination of listing and corresponding reasons

□ Applicable √ Not applicable

9. Insolvency and restructuring

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

10. Material litigation and arbitration

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

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

During the reporting period, neither the Company nor its other Directors, Supervisors, senior management, controlling shareholders or de facto controllers were 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, or 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.

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

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

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

(1). Items related with the share option incentive which has been disclosed in the announcements and there was no progress or change of subsequent implementation.

Item summary	Index
The Company held the eighth meeting of the eighth session of the Board of Directors, and approved the proposals such as Sinopec Oilfield Service Corporation A share option incentive scheme (Draft), and agreed to submit above proposals to the annual general meeting of the Company.	Disclosed on 30 March, 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.
A share option incentive scheme (Draft) was approved by the State-owned Assets supervision and Administration Commission of the State Council.	Disclosed on 1 June, 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.
The Company held the twelfth meeting of the eighth session of the Board of Directors, and approved the proposals such as Sinopec Oilfield Service Corporation A share option incentive scheme (Amended Draft),and agreed to submit above proposals to the annual general meeting of the Company.	Disclosed on 31 August, 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.
The Company's 2016 first extraordinary general meeting, the 2016 first A shareholders class meeting and 2016 first H shareholders class meeting were held and related proposals such as the share option incentive scheme (Draft) were approved.	Disclosed on 26 October, 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.
The Proposal regarding the First Grant of A Share Option Incentive Scheme of Sinopec Oilfield Service Corporation was approved at the fourteenth meeting of the eighth session of the Board of Directors.	Disclosed on 2 November, 2016 on Shanghai Securities News, China Securities, Securities Times and the website of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

(2) Information on the share option incentive scheme of the Company

On 29 March 2016, the relevant proposals in relation to the A share option scheme, such as the A share option incentive scheme (Draft), were approved at the 8th Meeting of the Eighth Session of the Board. On 30 August 2016, the relevant proposals in relation to the A share option scheme such as the A share option incentive scheme (Amendment) were approved at the 12th Meeting of the Eighth Session of the Board. On 25 October 2016, the Company convened the 2016 First Extraordinary General Meeting, the 2016 First A Shareholders Class Meeting and the 2016 First H Shareholders Class Meeting through a combination of on-site voting, online voting (applicable to A shareholders) and solicitation of votes by independent non-executive directors, and relevant proposals such as the A Share Option Incentive Scheme (Amendment) were reviewed and approved, and the A share option incentive scheme of the Company officially took effect. On 1 November 2016, the Proposal regarding the Grant of the A Share Option Incentive Scheme was reviewed and approved at the 14th Meeting of the Eighth Session of the Board. The Company granted 49,050,000 A share options to 477 employees (the "Proposed Grant").

General Information of the A share option incentive scheme of the Company

a. Purpose of the A share option incentive scheme (the Scheme)

To further establish and improve the Company's operational mechanism, establish and improve the incentive and restraint mechanism for the senior management members of the Company, advocate the concept of sustainable development achieved by the Company together with the management and key personnel, effectively incentivise the management team and key personnel, attract and retain talents, enhance the Company's competitive position in the industry, increase the core competitiveness of the Company, and ensure the realisation of the Company's development strategy and operational objectives.

b. Participants of the Scheme

Eligible Participants shall include the Directors, senior management members and key business personnel of the Company. Key business personnel refer to the employees who have a direct impact on, or contribute prominently to, the overall operational performance and the sustainable development of the Company. The Participants of the Proposed Grant under the Scheme include directors, senior management members and key business personnel holding core positions. The aforesaid Participants shall exclude independent non-executive directors, supervisors, directors without holding concurrent senior management positions in the Company, person-in-charge of central enterprises appointed and reported to SASAC, and shall also exclude shareholders independently or jointly holding more than 5% of the Shares and the de facto controllers of the Company, together with their respective spouses, parents or children.

Section 6 Significant Events

c. Total number of issuable shares in the Scheme and proportion of these shares to issued share capital on the date of the annual report

Under the Share Option Scheme, the total number of Underlying Shares to be granted shall neither exceed 10% of the total share capital of the Company (14.143 billion shares) nor exceed 10% of the total A-share capital of the Company (12.043 billion shares). Under the Proposed Grant, the number of the Share Options to be granted by the Company to the Participants shall not be more than 50,850,000, with the corresponding Underlying Shares representing approximately 0.36% of the total share capital of the Company and 0.42% of the total A-share capital of the Company respectively.

d. Maximum entitlement of each participant

Unless approved by a special resolution at a general meeting of Shareholders, the aggregate number of Shares to be granted by each Grantee through the Scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A-share capital of the Company. During the Validity Period of Share Options under the Proposed Grant of Share Options, the maximum proportion of share incentive benefits obtained by the Participant, in principle, shall not exceed 30% of his/her total emolument level (including share incentive benefits) at the Grant Date.

e. The date of confirming shares according to the share options

The Exercise Period for the Options shall be three years after the expiry of the two-year vesting period after the Grant Date. Details about exercise arrangements for granted options are as follows:

Stage	Timing Arrangement	Exercise Ratio Cap
Grant Date	To be determined by the Board upon fulfilment of the grant conditions under the Scheme	
1st Exercise Period	Commencing on the first trading day after the expiration of 24 months from the Grant Date and ending on the last trading day of 36 months from the Grant Date	30%
2nd Exercise Period	Commencing on the first trading day after the expiration of 36 months from the Grant Date and ending on the last trading day of 48 months from the Grant Date	30%
3rd Exercise Period	Commencing on the first trading day after the expiration of 48 months from the Grant Date and ending on the last trading day of 60 months from the Grant Date	40%

If a Participant is also a Director or member of senior management of the Company, at least 20% of the total Options granted to him/her shall not be exercisable until such Participant passes the appraisal during his/her term of office.

f. The vesting period before exercising the share options

The vesting period for each grant of Share Options under the Scheme shall be no less than two years.

g. The amount of money to be payed when applying for or accepting share options (if any), and time limits of payment, notice of payment, or repaying the loans

None

h. Determination of the exercise price

I. Exercise price of the Proposed Grant

The Exercise Price for the Proposed Grant under the Scheme shall be equal to or higher than

i. the average trading price of the A shares of the Company on the trading day immediately preceding the date of the announcement under the Scheme; (RMB4.84);

ii. at least one of the average trading price of A shares during the last 20 trading days, 60 trading days or 120 trading days preceding the date of the announcement under the Scheme (RMB5.30 per share, RMB5.57 per share and RMB7.38 per share, respectively); and

iii. RMB4.43 per share. All shareholders of non-circulating shares of SSC undertook in the equity division reform plan of the Company in August 2013 that they would propose to the Board a share option scheme subject to compliance with the relevant regulations of the SASAC under the State Council and the CSRC, with an initial Exercise Price of the Share Options no lower than RMB6.64 per share. (If there is occurrence of any ex-right or ex-dividend event before the release of the draft share option scheme, the price shall be adjusted accordingly). As the Company carried out capitalisation of surplus reserves in November 2013, the aforesaid initial Exercise Price of the Share Options, i.e. no less than RMB6.64 per share, is adjusted to no less than RMB4.43 per share. (If there is occurrence of any ex-right or ex-dividend event in the Company before the grant of Share Options, the price shall be adjusted accordingly).

II. Exercise price of any other grants of share options

Except for the Proposed Grant, the exercise price for any other grants of share options under the scheme shall be higher of the following prices:

i. the average trading price of the A shares of the Company on the trading day immediately preceding the date of the announcement under the scheme;

ii. at least one of the average trading price of A shares during the last 20 trading days, 60 trading days or 120 trading days preceding the date of the announcement under the scheme

i. Expiry Date

The expiry date of this scheme is at 24 October, 2026.

Information on the Proposed Grant of the share option in 2016

a. Grant date: 1 November 2016

b. Number of share options granted: 49,050,000

c. Number of participants: 477 persons

d. Exercise price of the Proposed Grant

According to the determining principal of exercise price, the exercise price of the Proposed Grant is RMB 5.63 per share (If, during the Validity Period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares or any other events takes place, an adjustment to the number of Share Options shall be made accordingly). For reference only, on the grant date, the closing price of A shares was RMB 3.96 per share, the closing price of H shares was HKD 1.62 per share.

e. Source of shares: A shares issued by the Company to the participants

f. Validity period and exercise arrangement under the Proposed Grant

Under the Scheme, options under the Proposed Grant have a validity period for five years commencing with the grant date. The exercise period for the options shall be three years after the expiry of the two-year vesting period after the grant date. There shall be three exercise periods (one year for each exercise period, same for the following) for each plan of grant under the scheme. And during the 1st, 2nd and 3rd exercise period, there will be 30%, 30% and 40% respectively of the total options granted may be exercised upon fulfilment of the conditions for the exercise of share options.

g. Information on share options granted to directors and senior management

The Proposed Grant covers 2 directors and 7 senior management members, and the total amount of share options granted to them was 1.67 million shares, accounting for 3.4% of the total amount of share options in the Proposed Grant, and accounting for 0.0119% of the total shares of the Company. For the amount of share options granted to each of them, please refer to Information on share options scheme provided to directors, supervisors and senior management during the reporting period in section 9 of this Annual Report.

h. Information on share options granted to key business personnel holding core positions

The Proposed Grant covers 468 key business personnel holding core positions, and the total amount of share options granted to them was 47.38 million shares, accounting for 96.6% of the total amount of the share options in the Proposed Grant, and accounting for 0.335% of the total shares of the Company. During the reporting period, none of the share options granted was exercised, and no share options were cancelled or lapsed.

14. Information on significant connected transactions

(1). The connected transactions related with daily operation

The nature of the transaction classification	Related parties	Amount of transaction	Proportion of the same type of transaction
		RMB'000	(%)
Purchase of materials and equipment	China Petrochemical Corporation and its subsidiaries	5,215,004	22.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	22,567,053	52.6
Receiving of community services	China Petrochemical Corporation and its subsidiaries	1,588,968	100.0
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	277,718	100.0
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	227,264	100.0
Rental expenses	China Petrochemical Corporation and its subsidiaries	130,902	28.6
Loan interest expenses	China Petrochemical Corporation and its subsidiaries	486,755	94.9
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	52,286,133	100.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	47,300,764	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	90,143	100.0
Safety and insurance fund refund	China Petrochemical Corporation	87,340	100.0

Section 6 Significant Events

The Company considers that it is important for the above connected transactions and selection of related parties for transactions and the above transactions would continue to occur. The agreements of connected transaction are based on the Company's operations needs and actual market situation. Purchasing materials and equipment from China Petrochemical Corporation and its subsidiaries will ensure the stable and safe supply of the Company's raw materials. 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, which also constitute the Company's main business income source. The loan made from China Petrochemical Corporation can satisfy the financial needs of the Company under the situation of the fund shortage, which therefore is beneficial to the Company. The pricing of the above transactions were mainly based on the market price or contract price determined through open bidding or negotiation, reflecting the principal of fairness, justice and openness, which is beneficial to the development of Company's main business, and ensure the maximization of the shareholder interests. The above connected transactions have no adverse effects on the profits of the Company or the independence of the Company.

The Company's independent non-executive directors have reviewed all the Company's continued connected transactions, and concluded that (1) the transactions were concluded in the ordinary and usual course of business of the Company; (2) the transactions were concluded based on the normal commercial terms, if there were no comparable items, no less favour than the terms provided to or received from an independent third party; (3) the transactions were in accordance with the relevant agreements, all the clauses of the agreements were fair and reasonable, and was in the interests of the Company's shareholders as a whole; (4) the annual transaction amount of the above connected transactions did not exceed the relevant annual cap of each kind of connected transactions as approved by the independent shareholders.

In accordance with Rule 14A.56 of Listing Rules, the Company's auditor issued its unqualified opinion letter regarding to the Company's disclosure of continuing connected transactions during the reporting period in which contained its findings and conclusions.

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

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

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

(3) Material connected transactions of joint external investment

During the reporting period, no material connected transactions of joint external investment material connected transactions of joint external investment of the Company occurred.

(3). The related obligatory rights and debts

Unit: RMB'000

Related parties	Funds provided to related party			Funds provided to the Company by related party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	18,064,678	-3,213,799	14,850,879	6,056,849	14,789,206	20,846,055
Sinopec Finance Company Limited	—	—	—	2,295,000	-1,035,000	1,260,000
Sinopec Century Bright Capital Investment Limited	—	—	—	9,977,261	-257,187	9,720,074
Total	18,064,678	-3,213,799	14,850,879	18,329,110	13,497,019	31,826,129
Causes of connected claims and debts						Normal production and operation
Influence of connected claims and debts on the Company						No material adverse effect

Section 6 Significant Events

15. Significant contracts and their performance

(1) Trusteeship, sub-contracting and leasing

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

(2). Guarantee

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

(3). Entrusting others to manage cash assets

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

(4). Other significant contract

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

16. Information on social responsibility

(1) Poverty alleviation of listed companies

√ Applicable ☐ Not applicable

In 2016, the Company actively responded to the requirement of The Decision on Winning the Battle of Poverty Alleviation by Central Committee of the Communist Party of China and State Council. Based on its actual conditions, the Company willingly invested RMB 200,000 yuan to help with the construction of Linba village in Beiyuan town, Nanbu County, Sichuan Province, and donated goods worthy of RMB 300,000 yuan.

Indicators	Quantity and implementation
1. Overall situation	
Including: funds	RMB 200,000
goods	RMB 300,000
2. Investment of projects	
(1) Poverty alleviation	
Including:investment of East-West cooperation for poverty alleviation	Clothing donation 2,130 items, worthy of RMB 300,000
(2) Other projects	
Including: number of projects	1
investment amount	RMB 200,000
other projects	Used for the construction of Linba villiage committee in Beiyuan town, Nanbu County, Sichuan Province

(2). Information on social responsibility

For information on social responsibility, please refer to “Report on Social Responsibility for 2016” of the Company.

(3). Description of the environmental protection situations of listed companies and their subsidiaries in heavily polluting industries, as required by the state environment protection department regulations

The Company is not categorized as an “enterprises with serious pollutions” as announced by the relevant environmental protections authorities and it had no material environmental or other social security issues in 2016.

Section 7 Report of the Supervisory Committee

Dear shareholders,

In 2016, all supervisors of the Company follow the relevant provisions of “Company Law of the People’s Republic of China” and “Articles of Association”, complied with principles of honest and obey, actively participate in supervising the Company’s management process, seriously consider major decisions and earnestly fulfill the duties of supervision, in order to safeguard the interests of shareholders and the Company. They all serve their duties of supervision, security and service. Now the 2016 work report of supervisory committee is as follows:

1. Meetings of the supervisory committee

The supervisory committee convened five meetings in 2016 and approved 22 resolutions. In line with a responsible attitude for all shareholders, the Supervisory Committee had serious discussion and careful analysis on every resolutions to make sure its Legal compliance. The details are as follows,

The Company’s sixth meeting of the eighth session of the supervisory committee was held on 29 March, 2016. This meeting deliberated and appoved the Resolution regarding the A Share Option Incentive Scheme (Draft) and its Abstract, Resolution regarding the Administrative Measures on the A Share Option Incentive Scheme, and Resolution regarding verifying the list of Participants of A Share Option Incentive Scheme.

The Company’s seventh meeting of the eighth session of the supervisory committee was held on 30 March, 2016. This meeting deliberated and approved 2015 Supervisory Committee Work Report; 2015 Financial Report; 2015 Annual Report; Resolution of 2015 connected transactions; 2015 Profit Distribution Plan; 2015 Internal Control Evaluation Report; Special report of raised funds on deposit and its actual use in 2015 and Resolution regarding the changes in accounting estimate.

The Company’s eighth meeting of the eighth session of the supervisory committee was held on 28 April, 2016. This meeting deliberated and approved 2016 first season report of the Company, and Resolution in regard to temporarily supplement of current assets by using part of idle raised funds.

The Company’s ninth meeting of the eighth session of the supervisory committee was held on 30 August, 2016. This meeting deliberated and approved 2016 interim report; 2016 interim financial report; Resolution to unditribute 2016 Interim dividend; Special report of raised funds on deposit and its actual use in 2016 Semi-Annual, Resolution regarding to amending the A Share Option Incentive Scheme (Draft) and its Abstract, Resolution in regard to amending the the Administrative Measures on the A Share Option Incentive Scheme, and Resolution in regard to verifying the list of Participants of A Share Option Incentive Scheme.

The Company’s tenth meeting of the eighth session of the supervisory committee was held on 1 November, 2016. This meeting deliberated and approved the Verificaition Oponion regarding the List of Participants and the Number of the Share Options (Adjusted) under the First Grant of the Share Option Incentive Scheme, and Resolution regarding the First Grant under the Share Option Incentive Scheme.

Besides, the supervisory committee of the Company issued Verification Opinion of 2016 third-quarter report of the Company on 26 October, 2016.

2. Fulfillment of duties

In 2016, the Company convened eight meetings of the board and four General Meetings. The supervisory committee performed its duties of supervision in law, supervised the decision-making process of the General Meetings and meetings of the board in Legal compliance by attending the General Meetings and meetings of the board. The supervisory committee attended the internal meetings of the Company on time, strengthened communications with the management and the related functional departments and paid close attention to the Company’s significant decision about operating situation and internal reform. The supervisory committee agreed that in 2016, all resolutions were effectively implemented, and the decision-making process of the General Meetings and meetings of the board were legal. The supervisory committee has no violation on supervision affairs during this reporting period.

2.1 Information on the operations according to the law

During the reporting period, the board of directors and management standardized the operation of the Company in strict accordance with the Company Law of the People’s Republic of China, Articles of Association and related regulations in the place of listing, diligently fulfilled their duties, and earnestly implemented resolutions of General Meetings. Decisions and operating activities of the Company complied with laws, relugations and “Articles of Association”. During the reporting period, we didn’t find any violation of laws, rules and regulations, the articles of association or behaviors that would damage the interests of the Company or shareholders.

Section 7 Report of the Supervisory Committee

2.2 Check the company's financial situation

The financial report the Company prepared in 2016 reflected the operation results on the Company's financial situation truly and just which conforms to relevant regulations of domestic and foreign securities regulatory authorities. The disclosed information of the report were true and accurate. We didn't find any violation of secret protection requirements in report preparation and review personnel.

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

During the reporting period, the supervisory committee supervised the actual use of the Company's raising fund. The supervisory committee agreed that the use of raising fund has been strict followed by the Company's Raising Fund Management Method, and conformed to relevant regulations of domestic and foreign securities regulatory authoritie and the Company's Corporate Governance System, which was beneficial to the Company's continueing development. There was no situation of changing the investment of raised fund or of damaging the shareholders' equity.

2.4 Information of connected transactions

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

2.5 Verification of the list of participants of A share option incentive scheme

During the reporting period, the supervisory committee verified the list of participants of A share option incentive scheme of the Company, and considered that: the participants of share option incentive scheme had the qualification required by the Company Law of the People's Republic of China, Articles of Association and other related regulations., met the requirements for incentive objects ruled by the Administrative Measures Governing Share Incentive Schemes of Listed Companies and the Interim Measures for the Implementation of Share Incentive Schemes by (Domestic) State-controlled Listed Companies, and complied with the scope of incentive objects set by the Share Option Incentive Scheme and its Abstract. The participants' qualification as the incentive objects of the share option incentive scheme is legal and valid.

2.6 Estabilishment of the internal control system

The company has established and implemented effectively the internal control system and issued inner control evaluation report comprehensively, truly and objectively. There was no find of existence significant deficiencies about the internal control system.The establishment of internal control system was a continuous work, and the company shall improve it in accordance with the business development.

In 2017, the board of directors will continue to uphold the principle of good faith and diligence, conscientiously perform supervisory duties, and enhance the supervision and inspection to protect interests of shareholders and the company.

Chairman of the supervisory committee

Hu Guoqiang

Beijing, China

28 March 2017

Section 8 Changes in Ordinary Shares and Information on Shareholders

1. Changes in Share Capital of Ordinary Shares

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

A. Details of the changes in share capital are as follows:

Unit: Share

	Before change		Increase/(decrease) (+/-)					After change	
	Numbers of shares	Per cent (%)	New issue	Stock dividends	Conversion from Reserve	Others	Sub-total	Numbers of shares	Per cent (%)
I. Shares with selling restrictions:	11,592,660,995	82.0	—	—	—	-2,368,333,333	-2,368,333,333	9,224,327,662	65.2
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned companies	10,259,327,662	72.6	—	—	—	-1,035,000,000	-1,035,000,000	9,224,327,662	65.2
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	—	—	—	—	—	—	—	—	—
II.Shares without selling restrictions	2,550,000,000	18.0	—	—	—	+2,368,333,333	+2,368,333,333	4,918,333,333	34.8
1. RMB-denominated ordinary shares	450,000,000	3.2	—	—	—	+2,368,333,333	+2,368,333,333	2,818,333,333	20.0
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	—	—	—	—	—	—	—	—	—
III.Total shares	14,142,660,995	100.0	—	—	—	—	—	14,142,660,995	100.0

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

During the reporting period, the Company's share capital structure has been changed. On 3 March 2016, the lock-up period of 1,333,333,333 A shares with selling restrictions ended and became tradable in the market. On 22 August 2016, the lock-up period of 1,035,000,000 A shares held by CITIC Limited ended and became tradable in the market.

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

During the reporting period, only the share capital structure of the Company changed. There was no change in total number of shares. Therefore, financial indicators such as earnings per share and net assets per share in 2016 were not influenced.

Section 8 Changes in Ordinary Shares and Information on Shareholders

(2). Changes in Shares with Selling Restrictions

Unit: Share

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of expired shares with selling restrictions during the reporting period	Change in number of shares with selling restrictions during the reporting period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Termination date of the lock-up period
China Petroleum Chemical Corporation	9,224,327,662	0	0	9,224,327,662	In accordance with the Material Assets Reorganisation plan, within 36 months from 31 December 2014, the Company's non-public offering stocks to CPC cannot be transferred.	—
CITIC Limited	1,035,000,000	1,035,000,000	0	0	The original non-circulating shareholder made the commitment of limited sale in the Company's share reform program.	22 August 2016
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.47 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 FengqingNo. 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

Section 8 Changes in Ordinary Shares and Information on Shareholders

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of expired shares with selling restrictions during the reporting period	Change in number of shares with selling restrictions during the reporting period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Termination date of the lock-up period
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 No.223 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
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

Section 8 Changes in Ordinary Shares and Information on Shareholders

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of expired shares with selling restrictions during the reporting period	Change in number of shares with selling restrictions during the reporting period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Termination date of the lock-up period
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 Bnak-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 Houdao 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-ICBC-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
Total	11,592,660,995	2,368,333,333	0	9,224,327,662	—	—

2. Share issue and listings

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

During the reporting period, the Company didn’t issue common stock, convertible bonds, warrant-bonds, corporate bonds, or other derivative securities.

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

☐ Applicable √ Not applicable

(3). Internal employee shares

The Company has not issued any internal employee shares till the end of the reporting period.

Section 8 Changes in Ordinary Shares and Information on Shareholders

3. Information on Shareholders and the de facto Controller

(1). Number of shareholders

As at 31 December 2016, the number of shareholders of the Company was 158,404, including 158,043 holders of A shares and 361 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules on the HKSE.

As at 28 February 2017, the number of shareholders of the Company was 156,203, including 155,843 holders of A shares and 360 registered holders of H shares.

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

Shareholdings of the top ten shareholders Names of shareholders	Nature of shareholders	Number of shares held increased/ decreased by(shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation	State-owned legal person	0	9,224,327,662	65.22	9,224,327,662	0
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”) *	Overseas legal person	448,000	2,086,450,496	14.75	0	0
CITIC Limited	State-owned legal person	0	1,035,000,000	7.32	0	0
Darry Asset Management (Hangzhou) Co., Ltd.	Others	0	133,333,333	0.94	0	133,333,300
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	Others	-169,325,673	124,007,660	0.88	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	Others	0	13,333,300	0.09	0	Unknown
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	Others	0	10,842,727	0.08	0	Unknown
Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan	Others	-12,477,500	10,300,000	0.07	0	Unknown

Section 8 Changes in Ordinary Shares and Information on Shareholders

Shareholdings of top ten shareholders of shares without selling restrictions Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
HKSCC (Nominees) Limited*	2,086,450,496	H Share
CITIC Limited	1,035,000,000	A Share
Darry Asset Management (Hangzhou) Co., Ltd	133,333,333	A Share
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	124,007,660	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	66,666,666	A Share
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	10,842,727	A Share
Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan	10,300,000	A Share
Yunnan International Trust Co., Ltd.-Yunduantonghui Investment Trust Plan	10,028,200	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, "Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd." and "Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan" belong to Huaan Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned s hareholders.	

Note: Agent for different clients

(3) Number of shares held by the top ten shares holders with selling restrictions and restrictions 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
China Petrochemical Corporation	9,224,327,662	31 December 2017	9,224,327,662	3 years

Section 8 Changes in Ordinary Shares and Information on Shareholders

4. Information on Controlling Shareholders and de facto Controller

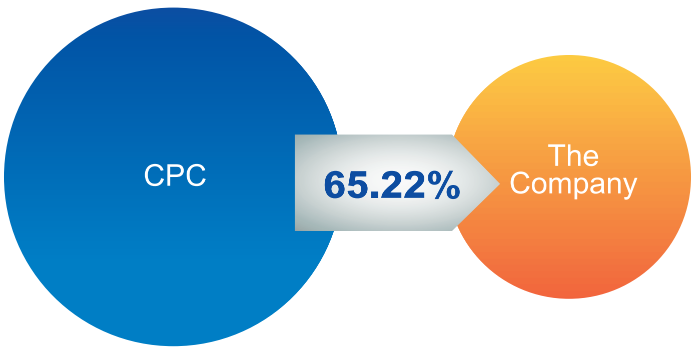
(1). Information on controlling shareholder

A. Legal Representative

Name of the holding shareholder	China Petrochemical Corporation
Legal representative	Wang Yu-pu
Date of establishment	14 September 1983
Organization number	10169286-X
Registered capital	RMB 274,866 billion
Principal activities	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in–well operation services, manufacture and maintenance of production equipment, engineering construc tion, utility services and social services.

CPC's subsidiaries and associates listed in domestic and overseas during the reporting period	Name of company	Number of share held (shares)	Shareholding (%)
	Sinopec	85,792,671,101	70.86%
	SINOPEC Engineering (Group) Co., Ltd	2,907,856,000	65.67%
	Kingdream Public Limited Company	351,351,000	58.74%
	China Merchants Energy Shipping Co., LTD	912,886,426	17.23%

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



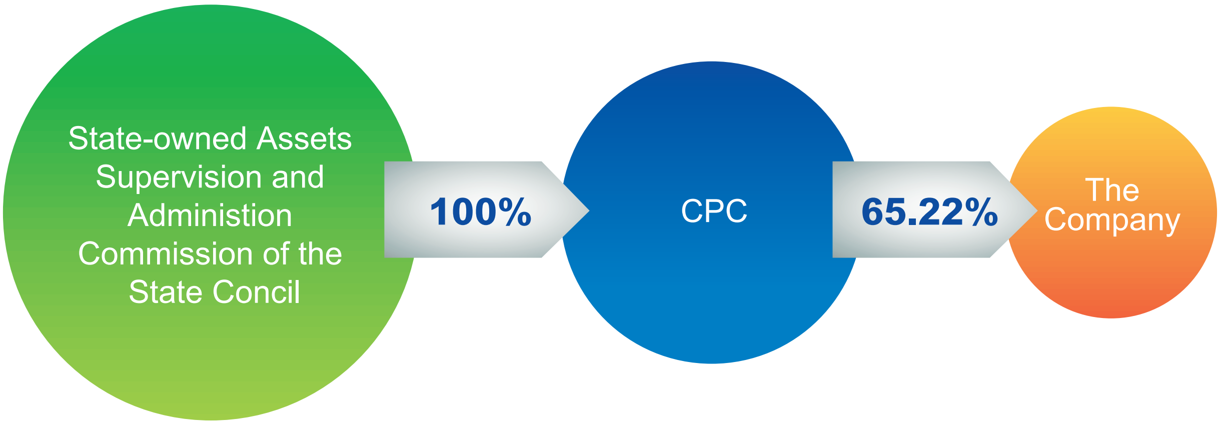
Section 8 Changes in Ordinary Shares and Information on Shareholders

(2) The de facto controller

A. Legal Representative

The de facto controller is also China Petrochemical Corporation. See more information in this section relating to controlling shareholder.

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



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

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

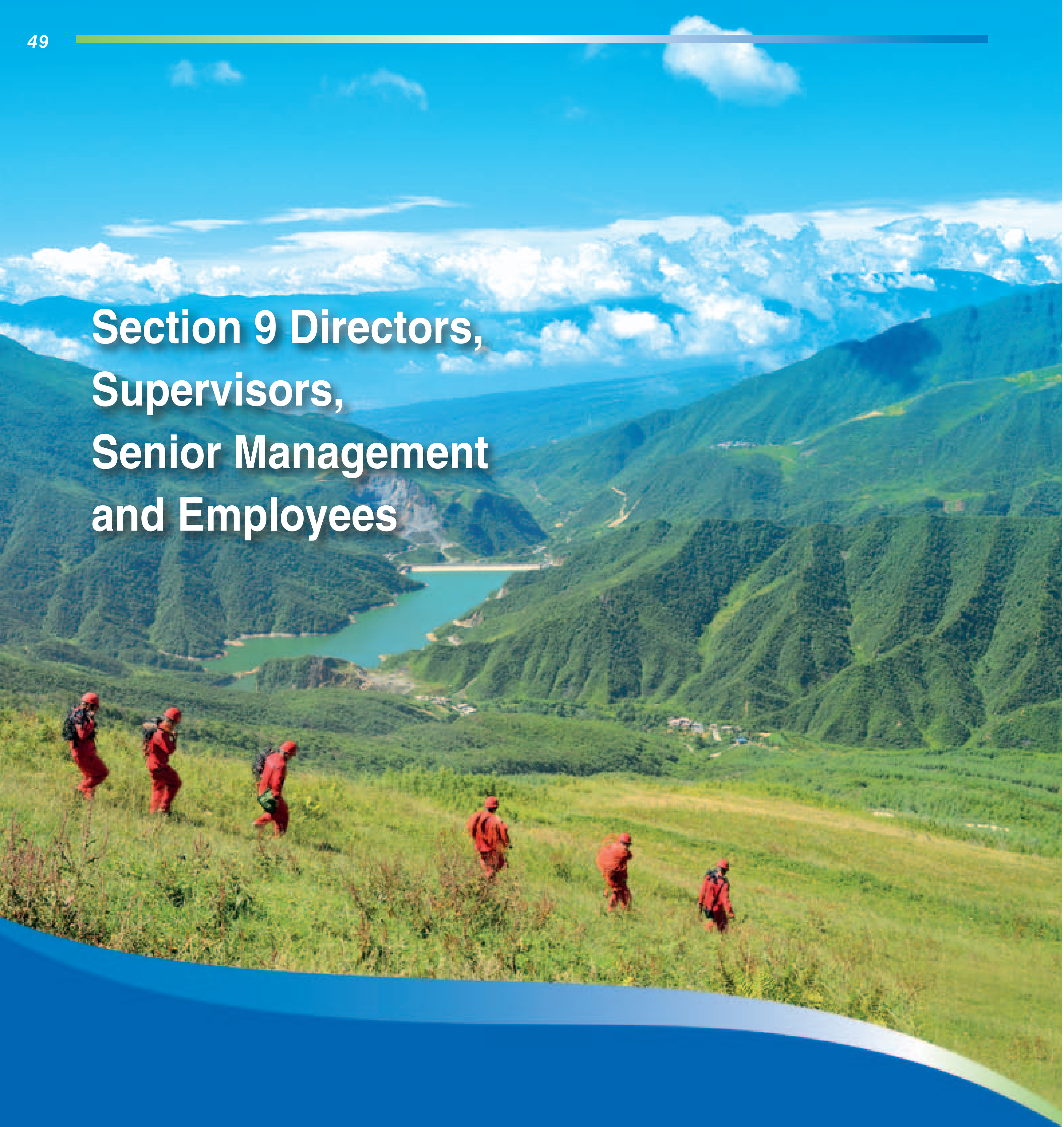
6. The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares

As at 31 December 2016, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

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

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2016, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules")) of the Company.

Section 9 Directors, Supervisors, Senior Management and Employees



Section 9 Directors, Supervisors, Senior Management and Employees

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

(1). Information on the change of shareholdings and on the remuneration of current directors, supervisors and senior management, and former directors, supervisors and senior management during the reporting period.

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether receive remuneration from related partis of the Company
Jiao Fangzheng	Chairman	Male	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Sun Qingde	Vice Chairman General Manager	Male	55	6 June, 2016 11 March 2016	8 February 2018	0	0	No Change	415,350	No
Zhou Shiliang	Director, Deputy General Manager	Male	59	9 February 2015	8 February 2018	0	0	No Change	553,800	No
Li Lianwu	Director	Male	59	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Hong	Director	Male	58	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Jiang Bo	Independent Non-Excutive Director	Female	61	9 February 2015	8 February 2018	0	0	No Change	200,000	No
Zhang Huaqiao	Independent Non-Excutive Director	Male	53	9 February 2015	8 February 2018	0	0	No Change	200,000	No
Pan Ying	Independent Non-Excutive Director	Male	47	16 December 2015	8 February 2018	0	0	No Change	200,000	No
Hu Guoqiang	Chairman of Supervisory Committee	Male	52	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Zou Huiping	Supervisor	Male	56	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	52	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Qin	Supervisor	Female	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Cong Peixin	Supervisor	Male	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Hongshan	Supervisor	Male	56	23 February 2017	8 February 2018	0	0	No Change	—	Yes
Du Guangyi	Supervisor	Male	51	9 February 2015	8 February 2018	0	0	No Change	522,300	No
Zhang Yongjie	Deputy General Manager	Male	53	9 February 2015	8 February 2018	0	0	No Change	546,400	No
Lu Baoping	Deputy Genearl Manager	Male	55	30 August, 2016	8 February 2018	0	0	No Change	—	Yes
Liu Rushan	Deputy General Manager	Male	55	9 February 2015	8 February 2018	0	0	No Change	500,900	No
Wang Hongchen	Chief Financial Officer	Male	53	9 February 2015	8 February 2018	0	0	No Change	460,800	No
Zhang Jinhong	Deputy General Manager	Male	53	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Huang Songwei	Deputy General Manager	Male	52	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Li Honghai	Secretary to the board	Male	53	9 February 2015	8 February 2018	0	0	No Change	366,920	No
Zhu Ping	Former Vice Chairman, Former General Manager	Male	53	9 February 2015	11 March 2016	0	0	No Change	135,225	No
Wen Dongfen	Former Supervisor	Female	52	9 February 2015	2 August 2016	0	0	No Change	—	Yes
Geng Xianliang	Former Deputy General Manger	Male	52	9 February 2015	5 July 2016	0	0	No Change	292,192	No
Xu Weihua	Former Supervisory	Male	53	9 February 2015	22 February 2017	0	0	No Change	578,200	No

Note:

1. Mr. Sun Qingde was appointed as the General Manager of the Company since 11 March 2016, therefore he received 9 months' salary in 2016.
2. Mr. Zhu Ping resigned since 11 March 2016, therefore he received 3 months' salary in 2016.
3. Mr. Geng Xianliang resigned since 5 July 2016, therefore he received 7 months' salary in 2016.
4. Except for Mr. Sun Qingde, Mr. Zhu Ping, and Mr. Geng Xianliang, all directors, supervisors and senior management received 12 months' salary in 2016.

Section 9 Directors, Supervisors, Senior Management and Employees

Information about current directors, supervisors and senior management

(1) Director

Mr. JIAO Fangzheng*, aged 54, Chairman. Mr. Jiao is a professor-level senior engineer with a Ph.D. degree. In January 1999, he was appointed as Chief Geologist in Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in February 2000, he was appointed as Vice President and Chief Geologist of Sinopec Zhongyuan Oilfield Company; in July 2000, he was appointed as Deputy Director General of Sinopec Petroleum Exploration & Development Research Institute; in March 2001, he was appointed as Deputy Director General of Sinopec Exploration & Production Department; in June 2004, he was appointed as Director of Northwest Petroleum Administration of China Petrochemical Corporation and as President of Sinopec Northwest Oilfield Company; in October 2006, he was appointed as Vice President of Sinopec Corp; in July 2010, he was appointed as the Director General of Sinopec Exploration & Production Department; in July 2014, he was appointed as Deputy General Manager of China Petrochemical Corporation; in May 2015, he was appointed as the Director and Senior Vice President of Sinopec. Mr. Jiao was appointed as Director of SOSC in August 2012; in September 2014, he was elected as Chairman of SOSC; and in February 2015, he was elected as Chairman of the company.

Mr. SUN Qingde#, aged 55, Vice Chairman and General Manager. Mr. Sun is a professor-level senior engineer with a Ph. D degree. He has been working for Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation as the deputy general manager of Drilling Company, the manager of Zhongyuan Argentina Company, the deputy manager of the Third Drilling Company and the manager of the Second Drilling Company; in December 2001, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; from December 2012, he acted as the Excutive Director and General Manager of Sinopec Zhongyuan Oil Engineering Company Limited; from September 2014, he acted as Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation and General Manager of Sinopec Henan Oilfield Branch Company. Since March 2016, he was appointed as the General Manager of the company. Since June 2016, he was appointed as the Vice Chairman of the company.

Mr. ZHOU Shiliang#, aged 59, Director and Deputy General Manager. Mr. Zhou is a professor-level senior engineer with a master degree. In February 2000, he was appointed as Deputy Director of Yunnan-Guizhou-Guangxi Petroleum Exploration Administration of China Petrochemical Corporation; in September 2000, he was appointed as Manager of Sinopec Yunnan-Guizhou-Guangxi Oilfield Company; in April 2002, he was appointed as Party Secretary and Deputy Manager of Sinopec South Prospecting and Exploiting Company; in April 2006, he was appointed as Party Secretary and Deputy Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in November 2007, he was appointed as HR Department Head of China Petrochemical Corporation; and from May 2009 to May 2015, he acted as Employee Representative Supervisor of Sinopec Corp. Since June 2012, he has acted as Chairman of Supervisory Board, the Secretary of CPC Committee and Discipline Inspection Committee, and Chairman of the Labour Union of SOSC. Since September 2014, he has served as the Secretary of CPC Committee, Director and Deputy General Manager of SOSC; and in February 2015, he was appointed as the Secretary of CPC Committee, Director and Deputy General Manager of the company.

Mr. LI Lianwu*, aged 59, Director. Mr. Li is a professor-level senior engineer with a M.A. degree. In January 2000, he was appointed as Deputy Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in April 2006, he was appointed as Director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; in August 2000, he was appointed as Manager of Sinopec Henan Oilfield Company; and in December 2008, he was appointed as General Manger of Sinopec Henan Oilfield Company. Since September 2014, he has served as Party Secretary of Sinopec Oil and Gas Exploration and Development Company and Deputy Director of Oil Field Exploration and Development Department of Sinopec Corp. Since September 2014, he has served as Director of SOSC; and in February 2015, he was appointed as Director of the company.

Mr. ZHANG Hong*, aged 58, Director. Mr. Zhang is a senior accountant with a bachelor degree, and is currently Deputy Director of Audit Department of CITIC Limited, and obtained the qualification of CPA of the PRC. Mr. Zhang held the position of Deputy Director of Audit Department of CITIC Group since January 2010. He has been held the position of Deputy Director of Audit Department of CITIC Limited since December 2011. Mr. Zhang has been engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. He held the position of Director of Sinopec Yizheng Chemical Fibre Company Limited from December 2002 to February 2015. Since June 2015, he was appointed as Director of the company.

Ms. JIANG Bo+, aged 61, independent non-executive Director. Ms. Jiang is a senior economist and senior accountant with PH.D. degree. Since August 1983, she has been working in the General Office, Accounting & Auditing Department, and the International Division of Head Office of the Agricultural Bank of China. In October 1993, she was appointed as General Manager of the International Division of China Everbright Bank; in May 1996, she was appointed as Managing Director and Vice President of China Everbright Bank; in April 2007, she was appointed as Managing Director, Vice President and Chief Auditing Officer of China Everbright Bank; in November 2007, she was appointed as Vice President and Chief Auditing Officer of China Everbright Bank; and from August 2009 to January 2017, she was appointed as Chief Financial Officer and Chairman of the Labour Union of China Everbright Group. In December 2010, Ms. Jiang was appointed as Director of Shenyin & Wanguo Securities; since January 2011, she has served as Director of China Everbright Financial Holding Asset Management Co., Ltd.; she became Director of China Everbright Group Company Limited (Hong Kong) in January 2014; in June 2014, she has served as Director of China Sun Life Everbright Life. Since February 2015, she was appointed as independent non-executive Director of the company.

Mr. ZHANG Huaqiao+, aged 53, independent non-executive Director. Mr. Zhang obtained a master degree in Economics from the Financial Research Institute of the People's Bank of China and a master degree in Economics from the Australian National University. He worked in the Planning Division of the People's Bank of China. After this, he worked with foreign investment banks for 15 years (including 11 years of experience in UBS) in Hong Kong. He currently serves as the Chairman of Manniu Investment Company, an Independent Non-executive Director of Yancoal Australia Limited which is an Australian Securities Exchange listed company, an Independent Nonexecutive Director of Fosun International Limited (HK656), Luye Pharma Group Ltd. (HK2186), Zhong An Real Estate Limited, China Huirong Financial Holdings Limited (HK1290), Logan Property Holdings Company Limited (HK3380), Wanda Commercial Properties (Group) Co., Limited, Oriental City Group, and a Non-executive Director of China Smartpay Group Holdings Limited and Boer Power Holdings Limited, all of which are Hong Kong Stock Exchange listed companies. Since February 2015, he was appointed as independent non-executive Director of the company.

Section 9 Directors, Supervisors, Senior Management and Employees

Mr. PAN Ying+, aged 47, independent non-executive Director, citizen of United States, bachelor degree. Mr. PAN began to work at China's State Administration of Foreign Exchange ("SAFE") in 1991, and was responsible for establishing SAFE Investment Company, Ltd., in 1994 based in Hong Kong. Mr. PAN joined Seagate Global Group Ltd., in Los Angeles in 1997 and served as CEO of SeaBright Asset Management Limited in 2004. He began to act as CEO of Everbright Ashmore (Beijing) Real Estate Investment Consultants Limited, a member of the management committee of China Everbright Limited, and a member of the investment & strategy committee, executive committee and audit committee of Everbright Prestige Capital. Since December 2015, he was appointed as independent non-executive Director of the company.

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

(2) Supervisor

Mr. HU Guoqiang, aged 52, Chairman of Supervisory Committee, Employee Representative Supervisor. Mr. Hu is a Senior Accountant, Bachelor Degree. In March, 1998, Mr. Hu was appointed as the Deputy Manager of sales department (sales company) in SINOPEC Star Petroleum Co., Ltd; in October, 2001, Mr. Hu was appointed as the director of Enterprise Reform Department in SINOPEC Star Petroleum Co., Ltd; in July 2003, Mr. Hu was appointed as the audit inspection commissioner in the Audit Bureau of China Petrochemical Corporation; in June, 2004, Mr. Hu was appointed as the chief accountant of headquarters of Sinopec Western New Exploration Project; in January, 2007, Mr. Hu was appointed as the vice director of Audit Bureau in China Petrochemical Corporation. In March, 2015, Mr. Hu was appointed as the Secretary of Discipline Inspection Committee the company. Since April 2015, he was appointed as supervisor of the company.

Mr. ZOU Huiping, aged 56, Supervisor. Mr. Zou is a professor-level senior accountant with a college diploma. In November 1998, he was appointed as Chief Accountant of Guangzhou Petrochemical General Plant of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director of the Finance & Assets Department of China Petrochemical Corporation; in December 2001, he was appointed as Deputy Director of the Finance & Planning Department of China Petrochemical Corporation; in March 2006, he was appointed as Director of the Finance & Assets Division of Sinopec Asset and Management Corporation, Director of the Auditing Department of both China Petrochemical Corporation; and in May 2006, he was appointed as Supervisor of Sinopec Corp. Since August 2012, he has been serving as a supervisor of SOSC. Since February 2015, he was appointed as supervisor of the company.

Mr. DU Jiangbo, aged 52, Supervisor. Mr. Du is a professor-level senior economist with a M.A. degree. In September 2006, he was appointed as Head of the Legal Affairs Division of Headquarters of Sichuan-East China Gas Transmission Construction Project. In November 2010, he was appointed as Deputy Director of the Legal Affairs Division of China Petrochemical Corporation; and in March 2015, he was appointed as Director of the Legal Affairs Department of China Petrochemical Corporation. Since June 2015, he was appointed as supervisor of the company.

Ms. ZHANG Qin, aged 54, Supervisor. Ms. Zhang is a professor-level senior administration engineer with a master degree. In December 1998, she was appointed as Head of the Political Work Department, Propaganda Office of China Petrochemical Corporation; in December 2008, she was appointed as Deputy Director of the Political Work Department of China Petrochemical Corporation; in January 2009, she was appointed as the Direct Deputy Secretary of CPC Committee, and the Direct Secretary of Discipline Inspection Committee of China Petrochemical Corporation; and from March 2015, she was appointed as the Deputy Director of the Political Work Department. Since September 2014, she has been serving as a supervisor of SOSC. Since February 2015, she was appointed as supervisor of the company.

Mr. CONG Peixin, aged 54, Supervisor. Mr. Cong is a professor-level senior administration engineer with a bachelor degree. In June 2002, he was appointed as Deputy Director of Party Work Department of Sinopec Star Petroleum Co., Ltd.; in August 2003, he was appointed as Manager of Corporate Culture Department (Party Work Division) of Sinopec International Petroleum Exploration and Production Corporation; in December 2011, he was appointed as Deputy Secretary of the Discipline Inspection Committee of Sinopec International Petroleum Exploration and Production Corporation; and in April 2013, he was appointed as Deputy Director of the Supervisory Administration of China Petrochemical Corporation. Since September 2014, he has been serving as a supervisor of SOSC. Since February 2015, he was appointed as supervisor of the company.

Mr. ZHANG Hongshan, aged 56, Employee Representative Supervisor. Mr Zhang is a professor-level senior engineer with a M.A. degree. In April 2005, he was appointed as Deputy Chief Engineer of the Shengli Petroleum Administration, and Director of the Production Management Department of the Shengli Petroleum Administration of China Petrochemical Corporation; in August 2007, he was appointed as Assistant Director of the Shengli Petroleum Administration, and Director of the Production Management Department of Shengli Petroleum Administration of China Petrochemical Corporation; in July 2010, he was appointed as Deputy General Manager of Sinopec Shengli Oilfield Branch Company. Since December 2016, he was appointed as the Secretary of CPC Committee and Deputy General Manager of Sinopec Shengli Oil Engineering Company Limited. Since February 2017, he was appointed as employee representative supervisor of the company.

Mr DU Guangyi, aged 51, Employee Representative Supervisor, Mr. Du is a professor-level senior engineer with a Ph.D degree. In December 2001, he was appointed as Deputy Director of Zhongyuan Petroleum Exploration Administration; during the period of March 2002 to July 2004, he served as the Chairman of Shanghai Sangao Petroleum Equipment Co., Ltd., concurrently; during the period of March 2003 to February 2007, he served as the Chairman of Henan Zhongyuan Green Energy Hi-Tech Co., Ltd., concurrently; in January 2013, he was appointed as the Secretary of CPC Committee and Discipline Inspection Committee, and Chairman of the Labour Union of Sinopec Zhongyuan Oil Development Co. Since March 2016, he was appointed as Executive Director, General Manager, and Deputy Secretary of of CPC Committee. Since February 2015, he was appointed as employee representative supervisor of the company.

Section 9 Directors, Supervisors, Senior Management and Employees

(3) Senior management

Mr. ZHANG Yongjie, aged 53, Deputy General Manager. Mr. Zhang is a senior engineer with a Master degree. In April 2002, he was appointed as Deputy General Manager and General Manger of the Foreign Trade and Economic Corporation under Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in December 2003, he was appointed as Deputy General Manager of Sinopec International Petroleum Service Corporation; and in November 2010, he was appointed as Director and General Manager of Sinopec International Petroleum Service Corporation. Since June 2012, Mr. Zhang has acted as Deputy General Manager of SOSC and also Director and General Manager of Sinopec International Petroleum Service Corporation. Since June 2012, he has been serving as Deputy General Manager of SOSC. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. LU Baoping, aged 55, Deputy General Manager. Mr Lu is a professor-level senior engineer with a Ph.D. degree. In September 2001, he was appointed as Deputy General Manager of SINOPEC Star Petroleum Co., Ltd. In June 2003, he was appointed as Deputy Manager of Sinopec International Petroleum Exploration and Production Corporation. In April 2009, he was appointed as President of Sinopec Petroleum Engineering Technology Research Institute. From December 2012 to September 2014, he was appointed as Deputy Manager of SOSC. Since August 2016, he was appointed as Deputy Manager of the company.

Mr. LIU Rushan, aged 55, Deputy General Manager. Mr. Liu is a professor-level senior engineer with a Ph.D. degree. In July 2000, he was appointed as Chief Engineer of Sinopec Petroleum Exploration & Development Research Institute; since December 2001, he served as Deputy Director of the Oilfield Operations Department of China Petrochemical Corporation; from October 2005 to January 2007, he was also appointed as Deputy Head of Sinopec Western Petroleum Engineering Technical Services Management Centre; and in April 2009, he was appointed as Secretary of CPC Committee and Vice President of Sinopec Petroleum Engineering Technology Research Institute. Since January 2013, Mr. Liu has acted as Deputy General Manager of SOSC and Director of Special Operations Division. Since February 2015, he was appointed as Deputy General Manager of the company.

Mr. WANG Hongchen, aged 53, Chief Accountant. Mr. Wang is a professor-level senior accountant with a M.A. degree. In April 1997, he was appointed as Head of the Enterprise Reform Office of State-owned Assets Administration Bureau under the State Council; in September 1998, he was appointed as Head of the Oilfield Operations Finance Office under the Group's Finance Department; in February 2000, he was appointed as Head of the Finance Office of Sinopec Oilfield Division; in September 2006, he was appointed as Director of the Planning and Finance Department under the board of Sichnan – East China Gas Transmission Construction Project of Sinopec; and in January 2008, he was appointed as Chief Accountant of Sinopec Zhongyuan Oilfield Company. Since January 2013, Mr. Wang has acted as Chief Accountant of SOSC. Since February 2015, he was appointed as Chief Accountant of the company.

Mr. ZHANG Jinhong, aged 53, Deputy General Manager. Mr. Zhang is a Professor-level Senior Accountant, Master degree. In October, 2000, he was appointed as the vice chief accountant and manager of drilling department of Jiangsu Petroleum Exploration Bureau of Sinopec Group; in July, 2004, he was appointed as the vice chief accountant and manager of the engineering technology management department; in June, 2008, he was appointed as the vice director of Huadong Bureau of Sinopec Group; in December 2012, he was appointed as the Executive Director, General Manager and Party Secretary of Sinopec Huadong Oilfield Service Corporation. Since April 2015, he was appointed as Deputy General Manager of the company.

Mr. HUANG Songwei, aged 52, Deputy General Manager. Mr. Huang is a Professor-level Senior Engineer, Master Degree. In June, 2006, he was appointed as the chief engineer of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in May, 2002, he was appointed as the vice manager of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporationl; in April, 2004, he was appointed as the Party Secretary of Talimu Zhongyuan Drilling Company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in February, 2005, he was appointed as the manager of the fourth drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in July, 2011, he was appointed as the vice chief engineer of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation and the manager and party secretary of southwest drilling company. In January, 2013, he was appointed as the vice general manager of Sinopec Zhongyuan Oilfield Service Corporation. Since April 2015, he was appointed as Deputy General Manager of the company.

Mr. LI Honghai, aged 53, Secretary to the Board. Mr. Li is a professor-level senior economist with a Ph.D. degree. Since June 2000, he had held the position of Deputy Manager, Secretary to the Board, and Assistant to the Chairman of Zhongyuan Petroleum Company Limited; in December 2004, he was appointed as Manager of Zhongyuan Petroleum Company Limited; in December 2006, he was appointed as Deputy Chief Economist of Sinopec Zhongyuan Oilfield Company; in May 2007, he was appointed as Head of the General Administration under the Enterprise Reform Department of China Petrochemical Corporation, and also as Head of the Assets Operation Division in August the same year; in June 2008, he was appointed as Head of the Assets Operation Division under the Enterprise Reform Department of China Petrochemical Corporation; and in July 2010, he was appointed as Head of the Assets Operation Division under the Capital Operations Department of China Petrochemical Corporation. Since September 2014, he has been serving as Secretary to the Board of SOSC. Since February 2015, he was appointed as Secretary to the Board of the company.

Section 9 Directors, Supervisors, Senior Management and Employees

(2). Information on share option scheme provided to directors, supervisors and senior management

√Applicable □Not Applicable

Name	Position	Number of share options held at the beginning of 2016	Number of share options newly granted during the reporting period	Exercisible share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (RMB/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period (yuan/share)
Sun Qingde	Vice Chairman, General Manager	0	210,000	0	0	5.63	210,000	4.10
Zhou Shiliang	Director、Deputy Manger	0	210,000	0	0	5.63	210,000	4.10
Zhang Yongjie	Deputy Manager	0	190,000	0	0	5.63	190,000	4.10
Lu Baoping	Deputy Manager	0	190,000	0	0	5.63	190,000	4.10
Liu Rushan	Deputy Manager	0	190,000	0	0	5.63	190,000	4.10
Wang Hongchen	Chief Financial Officer	0	180,000	0	0	5.63	180,000	4.10
Zhang Jinhong	Deputy Manager	0	180,000	0	0	5.63	180,000	4.10
Huang Songwei	Deputy Manager	0	180,000	0	0	5.63	180,000	4.10
Li Honghai	Secretary to the Board	0	140,000	0	0	5.63	140,000	4.10
Total	/		1,670,000	0	0	/	1,670,000	/

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

(1). Information on holding positions

Name	Name of corporate shareholders	Position held in corporate shareholders	The starting date of term in office	The termination
Jiao Fangzheng	China Petrochemical Corporation	Vice President of Sinopec Corp	2014 July	—
Zhang Hong	CITIC Limited	Deputy Director of Audit Department	2011 December	—
Zou Huiping	China Petrochemical Corporation	Director of the Auditing Department	2006 March	—
Du Jiangbo	China Petrochemical Corporation	Director of the Legal Affairs Department	2015 March	—
Zhang Qing	China Petrochemical Corporation	Deputy Director of the Political Work Department	2015 March	—
Cong Peixin	China Petrochemical Corporation	Deputy Director of the Supervisory Administration	2013 April	—

(2). Information on holding positions in other enterprises

Name	Name of other ent erprises	Position held in other ente rprises	Beginning date of term	End date of term
Jiao Fangzheng	Sinopec	Director; Senior Vice President Director of Exploration & Production Department	27 May 2015 July 2010	— December 2016
Li Lianwu	Sinopec	Party Secretary of Sinopec Oil and Gas Exploration and Development Company/ Deputy Director of Exploration & Production Department of Sinopec	September 2014	—
Zou Huiping	Sinopec	Supervisor	24 May 2006	—
Wen Dongfen	Sinopec	Chief Financial Offier Director of the Finance Department	28 December 2015 November 2015	29 July 2016
Geng Xianliang	Kingdream Public Limited Company	Chairman	11 June 2015	5 July 2016
Lu Baoping	Sinopec Petroleum Engineering Technology Research Institute	President	April 2009	—

Section 9 Directors, Supervisors, Senior Management and Employees

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

Decision procedure of the remuneration of directors, supervisors and senior management.	The remuneration of directors and supervisors are approved by the General Meeting of shareholders, the remuneration of senior management are approved by the board of directors.
The basis of remuneration determination of directors, supervisors and senior management.	Decided by the duties and responsibilities of directors, supervisors and senior management, and by the performance of the company.
The information of payable remuneration of directors, supervisors and senior management.	RMB 6,354,487
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB 6,354,487

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

Name	Position	Change	Reason for change
Zhu Ping	Vice Chairman, General Manager	Resigned	Change of work
Geng Xianliang	Deputy General Manager	Resigned	Personal reason
Sun Qingde	Deputy Manager	Appointed	Appoined by the Board of Directors
Sun Qingde	Director	Elected	Elected at General meeting
Sun Qingde	Vice Chairman	Elected	Elected by the Board of Directors
Wen Dongfen	Supervisory	Resigned	Change of work
Lu Baoping	Deputy Manager	Appointed	Appoined by the Board of Directors
Xu Weihua	Employee Representative Supervisor	Resigned	Change of work
Zhang Hongshan	Employee Representative Supervisor	Elected	Elected at the workers' congress

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

As nominated by the Chairman, the Board resolved that Mr. Sun Qingde was appointed as the General Manager of the Company with effect from 11 March 2016 until the end of the eighth session of the Board.

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

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

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

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

As nominated by the General Manager, the Board resolved that Mr. Lu Baoping was appointed as the Deputy Manager of the Company. The term was effective from 30 August 2016 until the end of the eighth session of the Board.

Mr. Xu Weihua, the Employee Representative Supervisor of the Company, tendered his resignation as supervisor due to change of work. The valid date was from 22 February 2017. The Company expresses its sincere gratitude to Mr. Xu Weihua for his hard work and contributions to the Company during his term of office.

Mr. Zhang Hongshan was elected as the Employee Representative Supervisor of the eighth session of the Supervisory Committee at the workers' congress. The term of Mr. Zhang Hongshan was effective from 23 February 2017 until the end of the eighth session of the Supervisory Committee.

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

□Applicable √Not Applicable

Section 9 Directors, Supervisors, Senior Management and Employees

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

(1). Personnel information

The number of the Company' serving staff	120
The number of the Company's subsidiaries' serving staff	81,220
The total number of the serving staff	81,340
The number of retired staff whose expense should be born by the company and its subsidiaries	5,570
Professional composition	
Type of Professional	Number of the staff
Production Staff	40,792
Technical Staff	24,707
Researcher	3,619
Financial Staff	2,209
Marketing and Administrative Staff	7,684
Others	2,329
Total	81,340
Education	
Type	Number of the staff
Master or above	2,139
Bachelor	24,728
Junior college	15,910
Others	38,563
Total	81,340

(2). Remuneration Policies

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

(3). Training plan

Committed to staff training, the Company has established a differentiated and multi-tiered training management system which focuses on promoting staff fulfillment of responsibilities and talent building. Centered on central tasks in production and operation, the Company carries out the management, professional skills, operating skills and international training programs, highlights trainings in market development, overseas key positions, domestic project managers, conducts training for transferred employees and ability trainings, make effective use of various trainings such as on-job training, off-job training and online training to realize the mutual development of the employees and the Company. In 2016, the Company hosted the business competition in the drilling fluid workers and drilling fluid professional. By constructing such platforms for frontline talents' self-demonstration and fast growth, the overall quality of frontline teams was improved.

7. Directors' and Supervisors' Interests and Short Positions in Share, Underlying Shares and Debentures

As at 31 December 2016, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the HKSE by the Directors and Supervisors pursuant to the Model Code as contained in Appendix 10 to the Listing Rules.

Section 9 Directors, Supervisors, Senior Management and Employees

8. Directors' and Supervisors' service contracts

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

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

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

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

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

9. Directors' and Supervisors' interests in contracts

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

10. Special treatment to Directors, Supervisors and Senior Management

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

Section 10 Corporate Governance

1. Information on Corporate Governance

During the reporting period, the Company operated regularly according to domestic and foreign regulations. Based on Articles of Association, related laws and regulations, regulatory rules of the Company's listing place, and the Company's actual situation, the Company kept developing and effectively executing working system and working procedure of the Board and all specialized committees.

During the reporting period, corporate governance of the Company was complied with the relevant regulation requirements related with listed companies' corporate governance which were published by regulators and stock exchanges. The Company coordinated the operation effectively by way of general meetings, the board of directors, specialized committees, the supervisory committee and the management under the leadership of the general manager, and implemented efficient internal control system, bringing about further normalization of internal management and improvement of management level.

In 2016, the Company kept managing the insider registration, and enhanced the confidentiality of insider information such as annual reports before official disclosure, etc. During the reporting period, the Information Disclosure System, and Insider Registration Management System were effectively executed by the management of the Company, and there were no insiders' illegal trading of company stock or significant mistakes of annual reports.

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

2. Summary of Shareholders' Meetings

During the reporting period, the Company held the annual general meeting for the year 2015 on 6 June 2016, and the 2016 first extraordinary general meeting, the 2016 first A shareholders class meeting and the 2016 first H shareholders class meeting on 25 October 2016. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resoultions	Disclosure date of resolutions
The annual general meeting for the year 2015	6 June 2016	www.sse.com.cn www.hkexnews.hk	7 June 2016
The 2016 first extraordinary general meeting	25 October 2016	www.sse.com.cn www.hkexnews.hk	26 October 2016
The 2016 first A shareholders class meeting	25 October 2016	www.sse.com.cn www.hkexnews.hk	26 October 2016
The 2016 first H shareholders class meeting	25 October 2016	www.sse.com.cn www.hkexnews.hk	26 October 2016

Section 10 Corporate Governance

3. Performance of the Directors

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

Name of Director		Attendance at shareholders' meetings						Attendance at the Board meetings
	Whether as Independent Director	Supposed Number of times for attending at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Whether not attending in person for two consecutive times	Number of times for attending at shareholders' meetings
Jiao Fangzheng	No	8	4	4	0	0	No	4
Sun Qingde	No	4	2	2	0	0	No	4
Zhou Shiliang	No	8	4	4	0	0	No	4
Li Lianwu	No	8	3	4	1	0	No	3
Zhang Hong	No	8	3	4	1	0	No	3
Jiang Bo	Yes	8	4	4	0	0	No	4
Zhang Huaqiao	Yes	8	2	4	2	0	No	0
Pan Ying	Yes	8	4	4	0	0	No	4

The Board meetings held during the year (No. of times)	8
Including: meetings held on site (No. of times)	4
Meetings held by correspondence (No. of times)	4
Meetings held by correspondence on site and by correspondence (No. of times)	0

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

During the reporting period, the Company's independent directors did not raise objections against the proposals of the meetings of board of directors or the proposals which does not require the review on the board meetings. The detailed information related to the performance of the independent directors is published in the report of the Company's independent directors 2016 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

Section 10 Corporate Governance

4. Important comments and suggestions from the special committee under the board of directors during the reporting period

The audit committee made significant suggestions as follows:

(1). Faced with low oil price, accelerate the speed of labor reduction & efficiency enhancement and business transformation, gradually transform business to high-end business, improve the proportion of high-end business, and reduce the headcounts.

(2). Vigorously explore domestic markets outside Sinopec and overseas markets.

(3). Pay close attention to the exchange rate risk and take effective measures to control the risk.

(4). Continue to promote internal integration and restructuring, optimize the management mechanism of the Company, and further achieve synergetic effects of internal resources.

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

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

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

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

7. Regarding the performance evaluation, stimulating and binding mechanism

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

According to the share option incentive scheme and its supporting stipulations approved by the 2016 first extraordinary general meeting, the 2016 first A shareholders class meeting, and the 2016 first H shareholders class meeting, the Company has satisfied the requirements of granting share options. According to the scheme, the Company's directors Mr. Sun Qingde and Mr. Zhou Shiliang, and Deputy Managers, Mr. Zhang Yongjie, Mr. Lu Baoping, Mr. Liu Rushan, Mr. Zhang Jinhong and Mr. Huang Songwei, Chief Financial Officer Mr. Wang Hongchen, and the Secretary to the board Mr. Li Honghai are qualified participants of the incentive scheme. They have been granted with the share options on 1 November, 2016. For detailed information of share options granted, please refer to Chapter 9.1. (2). Share options awarded for Directors, Supervisors and Senior Management.

Section 10 Corporate Governance

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

The Company has disclosed the internal control self-evaluation report

In 2016, the Company kept improving the internal control system and risk management system, and made the operation of the Company more normalized, scientific and systematic by way of strengthening control and enhancing supervision. The Board will take responsibility for establishing and maintaining sufficient internal control of financial report and will guarantee its effective implementation. The board of supervisors conduct supervision on the board of directors about establishment and implement of internal control. Managers take charge of organizing routine operation of internal control. In 2016, the board of directors assessed internal control of the Company during the past year, in accordance with "basic norms of enterprise internal control", "application guidelines of enterprises internal control", "evaluation guidelines of enterprises internal control" and concluded that there is no important deficiency or significant deficiencies till 31 December 2016. The internal control system of the Company's financial report is sound and effective.

The Board approved the Company's 2016 annual self-assessment of internal control on 28 March 2017. Please visit the website of the Hongkong stock exchange or the website of the Shanghai Stock Exchange for details of the report. All members of the board of directors ensure that this report is true, accurate and complete and there is no false records, misleading statements or major omissions.

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

☐ Applicable √ Not Applicable

9. Information about the audit report of internal control

Whether disclose the audit report of internal control: yes

Grant Thornton (Special General Partnership) audited the Company's internal control till 31 December 2016 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2016 annual internal control audit report disclosed on 29 March 2017.

10. Compliance with Code of Corporate Governance Practices of HKSE

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

A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The eighth term of the Board held eight meetings in 2016, including four regular meetings. The Directors' attendance of the Board meetings is set forth in item 3 "Performance of duties by the Directors" of this section.

(2) All Directors can raise matters in the agenda for the Board meetings and have the right to ask for more related documents.

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

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

(5) The Secretary to the Board continuously provides service for the Directors and reminds all Directors in order to ensure them to follow all applicable rules and regulations of domestic and overseas regulatory authorities.

A.2 Chairman and Chief Executive Officer

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

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

Section 10 Corporate Governance

A.3 The Board composition

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

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

(3) The independent non-executive directors are identified in all corporate communications in which also listed all the directors' names. The list of the current Directors of the Company had been published on its website and the HKSE's website.

A.4 Appointment, re-election and removal

(1) All Directors are elected by shareholders' general meetings for a term of no more than 3 years. A Director may serve consecutive terms get re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.

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

A.5 Nomination Committee

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

A.6 Responsibilities of Directors

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

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

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

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

A.7 Supply of and access to information

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

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

(3) The Board Secretary provides sustainable services for all Directors. Directors can review all Board documents and relevant information at all times.

Section 10 Corporate Governance

B. Remuneration of Directors and Senior Management

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

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

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

C. Accountability and audit

C.1 Financial reporting

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

(2) The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Company as at 31 December 2016 and of the Company's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis. The Board of directors and all directors warranted that there were no material omissions, or misrepresentations or misleading statements contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

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

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

C.2 Risk management and internal control

(1) The Company has set up and kept improving risk management and internal control system to guard against the operational, financial and compliance risks. The Board is the decision-making body of internal control and risk management, and takes responsibility for examining the effect of internal control system and risk management procedures. The board of directors and the audit committee receive documents about internal control and risk management from the Company's management regularly (at least once a year). Significant issues about internal control and risk management will be reported to the Board and the audit committee. The Company has set up the internal audit department, which is equipped with sufficient professional staff. Internal control & management department and internal audit department report to the audit committee regularly (at least twice a year).

(2) As for internal control, the Company adopts the international internal control frame structure proposed by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. Based on the Articles of Association and current management system, and combined with domestic and foreign supervisory regulations, the Company made the internal control manual and continuously improved it, and realized total-factor internal control of internal environment, risk evaluation, control activities, information & communication, and internal supervision. Meanwhile, the Company continuously supervised and evaluated its internal control, included the corporate and regional companies into the internal control and evaluation scope by comprehensive inspections such as periodic test, self-examination, audit examination, etc., and made internal control evaluation report. The board of directors reviews internal control evaluation report annually. For the information about the internal control during the reporting period, please refer to 2016 Internal Control Evaluation Report Prepared by the Company.

The Company developed and implemented Information disclosure system and insider registration system. The Company assessed the implement of system periodically and disclosed it according to related regulations. For detailed information about information disclosure system, please refer to the website of the Company.

(3) As for the risk management, the Company adopts the enterprise risk management frame made by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. It developed risk management system and established risk management organization system. The Company organizes annual risk evaluation every year, recognizes significant risks, implements responsibilities for risk management, makes corresponding strategies and measures for significant risks based on internal control system, and tracks the implement of corresponding measures for significant risks on a regular basis, in order to make sure that the Company's significant risks can get enough attention, supervision and response.

(4) During the reporting period, the Board of the Company assessed internal control and risk management, and the Board considers the Company's internal control and risk management is effective.

Section 10 Corporate Governance

C.3 The Audit Committee

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

(2) The Company has published the terms of reference of the Audit Committee. According to the terms of reference, the Audit Committee assist the Board in financial reports, risk management and internal control. The terms of reference are available for inspection at the website of the Company and the Hong Kong Stock Exchange for reference.

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

(4) During the reporting period, the Audit Committee held 5 meetings. The review opinions were given at the meetings and submitted to the Board of Directors after signed by members. During the reporting period, the Board and the Audit Committee did not have any different opinion.

As the recommend of the thirteenth audit meeting of the eighth term of the Board, the fifteenth meeting of the eighth term Board of Directors of the Company has resolved to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2017, appoint Grant Thornton (Special General Partnership) as the Company's auditor regarding internal control for 2017, and proposed to authorize the Board to fix their remuneration. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2016 AGM.

An analysis of remuneration in respect of audit services is set forth in item 6 of the "Significant Events" section in this Annual Report.

D. Delegation by the Board

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

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

(3) The attendance record of the eighth term of the Board's Committee meeting during the reporting period is as follows.

The Audit Committee

Name	attended in Person	attended by Proxies	Times of Absence
Jiang Bo	5	—	—
Li Lianwu	5	—	—
Pan Ying	5	—	—

The Remuneration Committee

Name	attended in Person	attended by Proxies	Time of Absence
Pan Ying	4	—	—
Jiang Bo	4	—	—
Li Lianwu	4	—	—

Section 10 Corporate Governance

E. Communication with shareholders

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

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

(3) Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The auditors of the Company also attend the 2015 annual general meetings.

F. The secretary to the Board

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

(2) The secretary to the board will actively participate in career development trainings and has already been trained over 15 hours during the reporting period.

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Auditors' Report

SINOPEC OILFIELD SERVICE CORPORATION

For the year ended 31 December 2016

To the Board of Sinopec Oilfield Service Corporation

Opinion

We have audited the accompanying Financial Statements of Sinopec Oilfield Service Corporation ("SSC"),which comprises the company and consolidated balance sheets at 31 December 2016, the company and consolidated income statement, the company and consolidated cash flow statement, the company and consolidated statement of changes in owners' equity and notes to the financial statements for the years ended 31 December 2016.

In our opinion, the accompanying financial statements are prepared in accordance with Accounting Standards for Business Enterprises.The financial position of SSC for the year ended 31 December 2016, and the results of its operations and cash flows for the year ended 31 December 2016 are fairly presented in all material respects.

Basis for opinion

We conducted our audit in accordance with China Registered Accountants Auditing Standard. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the CRAAS's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Description of the matter

The Group recognised service income and construction contract revenue by providing petroleum engineering and technical services to petroleum exploration and development companies at home or abroad, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services. According to the accounting policies, when the outcome of such contract can be estimated reliably, operating revenue and operating costs associated with the contract shall be recognised by reference to the stage of completion of the contract activity at the end of the reporting period. Under the percentage of completion method, the stage of completion and the estimated total costs are mainly relied on management's estimation and judgement. Hence, we have identified the revenue recognition as a key audit matter.

Refer to notes III, 26 (Revenue), Note III, 32(5) (Critical accounting judgement and estimates) for related disclosures of accounting policy, significant accounting judgement and estimate about revenue recognition, other detailed information are set out in Note V 35 and Note XII, 5.

Audit procedures

We have understood, assessed and tested the design and implementation of internal control of the management's determination on the stage of completion, the actual contract costs incurred and the estimated total costs to evaluate the operating effectiveness of such internal controls.

We have reviewed contracts and interviewed with the management, to understand and assess the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted costs; We have performed variance analysis by comparing the accumulated costs incurred up to the end of the reporting period with the budgeted costs, and checked the significant costs incurred subsequent to reporting period and assessed the reasonableness of the contract budgeted costs.

We have tested, on a sample basis, the application of the percentage of completion by cross-checking the principal terms set out in the relevant contracts to the supporting documents, such as acceptance certificates and progress reports being issued by customers; We have also evaluated the budgeted revenue, budgeted costs and budgeted gross profit of sub-divisional contracts by analysis and calculation. Meanwhile we have tested, on a sample basis, the amount and period of the aforesaid revenue recognised having regard to respective stage of completion at the end of the reporting period.

We found that the management's judgment in determining the stage of completion and the estimated total costs is supported by available evidence.

Impairment assessment of property, plant and equipment, and special tools of petroleum engineering

Description of the matter

The carrying values of property, plant and equipment and other non-current operating assets as at December 31, 2016 were approximately RMB28.81 billion and the carrying values of special tools of petroleum engineering in long-term deferred expenses were RMB4.05 billion. The management determined the property, plant and equipment and other non-current assets having impairment indicators in accordance with CASBE 8 - "Impairment of Assets". The capital expenditure from major customers was declined due to global low crude prices, leading to substantial decline in the workload of the Group and operating loss was generated for the financial year of 2016. Accordingly, management considered that there were impairement indicators in property, plant and equipment and other non-current assets.

Management performs an impairment assessment and test on recoverable amount when indicators of impairment of property, plant and equipment and other non-current assets are identified, in accordance with CASBE 8 - "Impairment of Assets". In determining the present value of future cash flow, the management requires the exercise of significant judgement on the estimations of revenue growth rates, service price, growth rates of relevant operating costs, and discount rates of such asset (or asset group). After the evaluation, the management considered no provision for impairment of assets was necessary during the period. We identified the assessment of impairment of property, plant and equipment and other non-current assets as a key audit matter because the impairment assessments contain numerous estimation and judgement, and the significant balance of aforesaid assets

Refer to notes III, 21 (Impairment of Assets), notes III. 32(3) (Critical accounting judgement and estimates) for related disclosures of accounting policy, significant accounting judgement and estimate about Impairment of Assets. Other detailed information are set out in notes V, 11 and notes V, 14.

Audit procedures

We have understood and assessed the internal control of the Group's identification of impairment indicators and the measurement of recoverable amount, and tested on the opertaing effectiveness of such internal controls; we have performed physical inspection of relevant assets, to evaluate any indication of impairment of assets; we have evaluated the competency, professional quality and objectivity of the external valuer; we have assessed the appropriateness of valuation method adopted by the Group's management with reference to the external valuation report; we have reviewed the key assumptions and parameters adopted by the management for cash flow forecasts, including comparing the key assumptions and parameters with supporting evidence to consider the appropriateness of the assumptions and estimations.

We found that the management's judgment in determining the impairment assessment on property, plant and equipment and other non-current assets is supported by available evidence.

Change in useful lives of property, plant and equipment

Description of the matter

Being approved by the Board of the Directors, the changes in useful lives of oil rigs, marine drilling equipment, oil well test equipment, oil well logging equipment and other oil engineering equipment are effective from 1 January 2016. Such changes reduced depreciation of the property, plant and equipment and amortisation of other non-current assets of approximately RMB799,966,000 for the year of 2016, and loss before income tax for the year of 2016 reduced RMB799,966,000 accordingly. Management reviewed the useful lives of preperty, plant and equipment at the end of each reporting period and concluded the change in useful lives of such assets was required in accordance with CASBE 4 - "Property, Plant and Equipment" Since the estimated assets useful lives are mainly relied on management's judgement that is subject to bias, and based on management's past experience with the expected technical changes, also the amount is significant, hence, we have identified the change in useful lives of property, plant and equipment as a key audit matter.

Refer to notes III (Property, plant and equipment), and notes III, 32(4) (Critical accounting judgement and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about property, plant and equipment. Other detailed information are set out in notes III, 33(2).

Audit procedures

We have understood and assessed the internal control of the Group's identification of change in accounting estimates, and tested on the operating effectiveness of such internal controls; we have also understood and evaluated the reasonableness of the change in useful lives of property, plant and equipment by discussing with the management; we have performed physical inspection of relevant assets, on a sample basis, to understand whether the useful lives of assets are required to be extended; we have inspected, on a sample basis, relevant asset's appraisal results of the technical standards and quality standards and evaluated whether the change in estimated useful lives of relevant assets are adopted practically; and we have re-performed a test on the financial impact of the change in the estimated useful lives, and reviewed the appropriateness of relevant accounting treatments.

We found that the management's judgment in determining the change in useful lives of property, plant and equipment is supported by available evidence.

Other information

The directors are responsible for the other information. The other information comprises all the information in the 2016 annual report of the Company, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparation of financial statements, the directors of the Company are responsible for the assessment of going concern capacity and disclosure of the related matters in application of going concern basis unless the directors plan to liquidate the company, cease to operate or have no other realistic choices.

The management is responsible for supervising the financial reporting process of the company.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CRAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with CRAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton China

Certified Public Accountants: Liu Zhizeng
Certified Public Accountants: Wang Tao

Beijing, China

March 28, 2017

CONSOLIDATED BALANCE SHEETS

Expressed in RMB thousand

Items	Notes	At 31 December 2016	At 31 December 2015
Current assets:			
Cash at bank and on hand	V.1	2,449,935	2,011,590
Financial assets at fare value through profit or loss			—
Notes receivable	V.2	851,624	141,132
Accounts receivable	V.3	23,907,534	27,121,127
Prepayments	V.4	352,972	460,035
Interest receivables		—	—
Dividend receivables		23	6
Other receivables	V.5	2,822,409	2,432,785
Inventories	V.6	9,318,377	14,769,275
Non-current assets due within one year	V.7	1,011,028	2,493,030
Other current assets	V.8	416,676	82,062
Total current assets		41,130,578	49,511,042
Non-current assets:			
Available-for-sale financial assets	V.9	24,389	40,494
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	V.10	221,329	216,400
Investment property		—	—
Fixed assets	V.11	28,807,257	29,008,189
Construction in progress	V.12	866,846	2,710,178
Construction materials		—	—
Disposal of fixed assets		2,066	4,023
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	V.13	185,325	182,203
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses	V.14	3,071,828	3,447,818
Deferred income tax assets	V.15	183,548	187,430
Other non-current assets		—	—
Total non-current assets		33,362,588	35,796,735
Total assets		74,493,166	85,307,777

CONSOLIDATED BALANCE SHEETS (Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2016	At 31 December 2015
Current liabilities:			
Short-term loans	V.16	17,033,731	12,070,312
Financial liabilities at fair value through profit or loss		—	—
Bills payable	V.17	2,013,497	1,284,745
Accounts payable	V.18	28,296,730	28,909,101
Advances from customers	V.19	10,673,978	9,263,970
Employee benefits payable	V.20	171,657	187,561
Taxes payable	V.21	1,050,339	2,612,168
Interest payables	V.22	73,627	14,823
Dividend payables		—	—
Other payables	V.23	5,541,678	5,473,433
Non-current liabilities due within one year	V.24	220,908	87,360
Other current liabilities	V.25	15,267	
Total current liabilities		65,091,412	59,903,473
Non-current liabilities:			
Long-term loans	V.26	763,070	618,969
Bonds payables		—	—
Long-term payables	V.27	57,641	57,072
Long-term employee benefits payable		—	—
Special payables	V.28	—	1,051
Estimated liabilities		—	—
Deferred income	V.29	112,171	59,008
Deferred income tax liabilities	V.15	27,280	31,251
Other non-current liabilities		—	
Total non-current liabilities		960,162	767,351
Total liabilities		66,051,574	60,670,824
Share capital	V.30	14,142,661	14,142,661
Capital reserve	V.31	8,897,232	8,894,216
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve	V.32	176,068	259,547
Surplus reserve	V.33	200,383	200,383
Retained earnings	V.34	-14,973,476	1,141,287
Equity attributable to the parent company		8,442,868	24,638,094
Minority interests		-1,276	-1,141
Total equity		8,441,592	24,636,953
Total liabilities and equity		74,493,166	85,307,777

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

Chairman: *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 31 December 2016	At 31 December 2015
Current assets:			
Cash at bank and on hand	XIV.1	382,997	419,118
Financial assets at fare value through profit or loss		—	—
Notes receivable		—	—
Accounts receivable		—	—
Prepayments		—	—
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	XIV.2	5,179,627	5,157,515
Inventories		—	—
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		5,562,624	5,576,633
Non-current assets:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	XIV.3	20,215,327	20,215,327
Investment property		—	—
Fixed assets		—	—
Construction in progress		—	—
Construction materials		—	—
Disposal of fixed assets		—	—
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets		—	—
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets		—	—
Other non-current assets		—	—
Total non-current assets		20,215,327	20,215,327
Total assets		25,777,951	25,791,960

BALANCE SHEETS(Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2016	At 31 December 2015
Current liabilities:			
Short-term loans		—	—
Financial liabilities at fair value through profit or loss		—	—
Bills payable		—	—
Accounts payable		—	—
Advances from customers		—	—
Employee benefits payable		—	—
Taxes payable		189	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		—	—
Total current liabilities		1,119,991	1,119,871
Non-current liabilities:			
Long-term loans		—	—
Bonds payables		—	—
Long-term payables		—	—
Long-term employee benefits payable		—	—
Special payables		—	—
Estimated liablities		—	—
Deferred income		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
Total non-current liabilities		—	—
Total liabilities		1,119,991	1,119,871
Share capital	XIV.5	14,142,661	14,142,661
Capital resreve	XIV.6	11,754,334	11,751,318
Less:treasury stock		—	—
Other comprehensive income		—	—
Special reserve		—	—
Surplus reserve	XIV.7	200,383	200,383
Retained earnings	XIV.8	-1,439,418	-1,422,273
Equity attributable to the parent company		24,657,960	24,672,089
Minority interests		—	—
Total equity		24,657,960	24,672,089
Total liabilities and equity		25,777,951	25,791,960

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	2016	2015
1.Revenue	V.35	42,923,500	60,349,334
Less: Cost of sales	V.35	53,516,744	54,568,960
Business taxes and surcharges	V.36	401,551	712,093
Selling expenses	V.37	58,558	62,315
General and administrative expenses	V.38	3,756,029	4,043,145
Finance costs	V.39	477,258	657,090
Impairment losses on assets	V.40	754,346	171,376
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	V.41	29,034	-8,910
Including: Investment income from investments in associates and joint ventures		979	-11,958
2.Operating profits (loss in "-")		-16,011,952	125,445
Add: Non-operating income	V.42	337,844	471,912
Including: Gains from disposal of non-current assets		18,288	28,751
Less: Non-operating expenses	V.43	129,594	91,617
Including: Losses on disposal of non-current assets		86,600	28,489
3.Profit before income tax (loss in "-")		-15,803,702	505,740
Less: Income tax expense	V.44	311,196	481,421
4.Profit for the year/period (loss in "-")		-16,114,898	24,319
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:			
– The owners' of SOSC		-16,114,763	24,478
– Minority interests		-135	-159
5.Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
6.Total comprehensive income		-16,114,898	24,319
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-16,114,763	24,478
– Minority shareholders		-135	-159
7.Earnings per share			
– Basic		-1.139	0.002
– Diluted		-1.139	0.002

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	2016	2015
1.Revenue	XIV.9	—	—
Less: Cost of sales	XIV.9	—	—
Business taxes and surcharges	XIV.10	34	32
Selling expenses	XIV.11	—	—
General and administrative expenses	XIV.12	22,180	3,440
Finance costs	XIV.13	-5,069	-25,924
Impairment losses on assets	XIV.14	—	—
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	XIV.15	—	—
Including: Investment income from investments in associates and joint ventures		—	—
2.Operating profits (loss in "-")		-17,145	22,452
Add: Non-operating income	XIV.16	—	—
Including: Gains from disposal of non-current assets		—	—
Less: Non-operating expenses	XIV.17	—	—
Including: Losses on disposal of non-current assets		—	—
3.Profit before income tax (loss in "-")		-17,145	22,452
Less: Income tax expense	XIV.18		—
4.Profit for the year/period (loss in "-")		-17,145	22,452
Including: Profit from combined party before business combination under common control		—	—
Profit for the year/period attributable to:			
– The owners' of SOSC		-17,145	22,452
– Minority interests		—	—
5.Other comprehensive income after tax		—	—
Other comprehensive income after tax for the year/period attributable to:			
– The owners' of parent company		—	—
– Minority shareholders		—	—
6.Total comprehensive income		-17,145	22,452
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-17,145	22,452
– Minority shareholders		—	—
7.Earnings per share			
– Basic		—	—
– Diluted		—	—

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

Director: *Jiao Fangzheng*

General Manager: *Sun Qingde*

Chief Financial Officer: *Wang Hongchen*

Manager of accounting department: *Song Daoqiang*

CONSOLIDATED CASH FLOW STATEMENTS

Expressed in RMB thousand

Items	Notes	2016	2015
1. Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		47,690,251	65,281,258
Tax refund received		224,461	315,041
Cash received from other operating activities	V.45	3,307,468	3,204,955
Subtotal of cash inflow from operating activities		51,222,180	68,801,254
Cash paid for the purchases of goods and receiving of services		33,405,999	41,795,765
Cash paid for employees and on behalf of employees		13,858,573	15,761,606
Taxes paid		3,274,857	5,516,054
Cash paid for other operating activities	V.45	4,590,069	3,151,900
Subtotal of cash outflow from operating activities		55,129,498	66,225,325
Net cash flow from operating activities	V.46	-3,907,318	2,575,929
2. Cash flows from investing activities:			
Cash received from the investments		951,000	—
Cash received from the investment income		28,055	3,007
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		17,146	26,518
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities	V.45	—	—
Subtotal of cash inflow from investing activities		996,201	29,525
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		1,228,157	3,853,945
Cash paid for the investments		4,000	1,217,392
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities	V.45	—	—
Subtotal of cash outflow from investing activities		1,232,157	5,071,337
Net cash flow from investing activities		-235,956	-5,041,812

CONSOLIDATED CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

Items	Notes	2016	2015
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		—	5,954,000
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		52,017,245	55,567,800
Cash received from issuance of bonds		—	—
Cash received for other financing activities	V.45	5,071	25,932
Subtotal of cash inflow from financing activities		52,022,316	61,547,732
Cash paid for repayments of borrowings		47,074,937	56,227,818
Cash paid for distribution of dividend, profit or payments of interests		431,845	333,053
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities	V.45	54,013	1,793,139
Including:Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		47,560,795	58,354,010
Net cash flow from financing activities		4,461,521	3,193,722
4. Effect of exchange rate changes on cash and cash equivalents		135,467	63,616
5. Net changes in cash and cash equivalents		453,714	791,455
Add: Cash and cash equivalents at beginning of year/period	V.46	1,993,209	1,201,754
6. Cash and cash equivalents at end of year/period	V.46	2,446,923	1,993,209

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	2016	2015
1.Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		—	—
Tax refund received		—	—
Cash received from other operating activities		412,093	—
Subtotal of cash inflow from operating activities		412,093	—
Cash paid for the purchases of goods and receiving of services		—	—
Cash paid for employees and on behalf of employees		—	—
Taxes paid		34	3,008
Cash paid for other operating activities	XIV.19	453,251	5,197,501
Subtotal of cash outflow from operating activities	453,285	5,200,509	
Net cash flow from operating activities	XIV.20	-41,192	-5,200,509
2.Cash flows from investing activities:			
Cash received from the investments		—	—
Cash received from the investment income		—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities	XIV.19	—	—
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	XIV.19	—	—
Subtotal of cash outflow from investing activities		—	—
Net cash flow from investing activities		—	—

CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

Items	Notes	2016	2015
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		—	5,954,000
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		—	—
Cash received from issuance of bonds		—	—
Cash received for other financing activities	XIV.19	5,071	25,932
Subtotal of cash inflow from financing activities		5,071	5,979,932
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.19	—	360,305
Including:Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		—	360,305
Net cash flow from financing activities		5,071	5,619,627
4.Effect of exchange rate changes on cash and cash equivalents		—	—
5.Net changes in cash and cash equivalents		-36,121	419,118
Add: Cash and cash equivalents at beginning of year/period	XIV.20	419,118	—
6.Cash and cash equivalents at end of year/period	XIV.20	382,997	419,118

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

Director: *Jiao Fangzheng*

General Manager: *Sun Qingde*

Chief Financial Officer: *Wang Hongchen*

Manager of accounting department: *Song Daoqiang*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB thousand

Items	Amount of this period									
	Equity attributable to the the parent company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk resere	Retained earnings	Minority interests	Total equity
Balance at 31 December 2015	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	—	—	—	—	—	—	—	—	—	—
Balance at 1 January 2016	14,142,661	8,894,216	—	—	259,547	200,383		1,141,287	-1,141	24,636,953
Changes during the period (decrease in "-")	—	3,016	—	—	-83,479	—	—	-16,114,763	-135	-16,195,361
I. Total comprehensive income	—		—	—	—	—	—	-16,114,763	-135	-16,114,898
II Increase or decrease of capital	—	3,016	—	—	—	—	—	—	—	3,016
1.Contribution of capital	—		—	—	—	—	—	—	—	—
2.Share payments recognised in equity	—	3,016	—	—	—	—	—	—	—	3,016
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	—	—	—	—	-83,479	—	—	—	—	-83,479
1.Provided during the period	—	—	—	—	615,847	—	—	—	—	615,646
2.Used during the period (expressed in "-")	—	—	—	—	-699,326	—	—	—	—	-699,125
VI. Others	—	—	—	—		—	—	—	—	—
Balance at 31 December 2016	14,142,661	8,897,232	—	—	176,068	200,383	—	-14,973,476	-1,276	8,441,592

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

Items	Amount of this period									
	Equity attributable to the the parent company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk resere	Retained earnings	Minority interests	Total equity
Balance at 31 December 2015	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138
Add:Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—
Balance at 1 January 2016	12,809,328	4,275,032	—	—	295,568	200,383	—	1,116,809	-982	18,696,138
Changes during the period (decrease in "-")	1,333,333	4,619,184	—	—	-36,021	—	—	24,478	-159	5,940,815
I. Total comprehensive income	—	—	—	—	—	—	—	24,478	-159	24,319
II Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	—	—	5,952,517
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	—	—	—	—	-36,021	—	—	—	—	-36,021
3.Provided during the period	—	—	—	—	951,980	—	—	—	—	951,980
4.Used during the period (expressed in "-")	—	—	—	—	-988,001	—	—	—	—	-988,001
VI. Others	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2016	14,142,661	8,894,216	—	—	259,547	200,383	—	1,141,287	-1,141	24,636,953

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

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

STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB thousand

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
Balance at 31 December 2015	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	—	—	—	—	—	—	—	—
Balance at 1 January 2016	14,142,661	11,751,318	—	—	—	200,383	-1,422,273	24,672,089
Changes during the period (decrease in "-")	—	3,016	—	—	—	—	-17,145	-14,129
I. Total comprehensive income	—	—	—	—	—	—	-17,145	-17,145
II Increase or decrease of capital	—	3,016	—	—	—	—	—	3,016
7.Contribution of capital	—	—	—	—	—	—	—	
8.Share payments recognised in equity	—	3,016	—	—	—	—	—	3,016
9.Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
7.Provision of surplus reserve	—	—	—	—	—	—	—	—
8.Distribution to (from) shareholders	—	—	—	—	—	—	—	—
9.Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
9.Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
10.Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
11.Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
12.Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	—	—	—	—
5.Provided during the period	—	—	—	—	—	—	—	—
6.Used during the period (expressed in "-")	—	—	—	—	—	—	—	—
VI. Others	—	—	—	—	—	—	—	—
Balance at 31 December 2016	14,142,661	11,754,334	—	—	—	200,383	-1,439,418	24,657,960

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 this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
Balance at 31 December 2015	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120
Add:Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
Balance at 1 January 2016	12,809,328	7,132,134	—	—	—	200,383	-1,444,725	18,697,120
Changes during the period (decrease in "-")	1,333,333	4,619,184	—	—	—	—	22,452	5,974,969
I. Total comprehensive income	—	—	—	—	—	—	22,452	22,452
II Increase or decrease of capital	1,333,333	4,619,184	—	—	—	—	—	5,952,517
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	—	—	—	—	—	—	—	—
Balance at 31 December 2016	14,142,661	11,751,318	—	—	—	200,383	-1,422,273	24,672,089

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

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

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 refered 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 respetively. The Company's A shares were listed and commenced trading on the SSE on 11 April 1995.

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

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

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

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

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (SASAC Property Right [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC,the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. And CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 22 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 22 August 2016, 1,035,000,000 shares held by CITIC Limited has been available for trading. Pursuant to the resolutions of general meeting of shareholders of the Company, the Company converted 5 shares for each 10 H shares and A shares that were registered on 13 November 2013 and 20 November 2013, respectively from share premium into share capital. Additional 700,000,000 H shares and additional 1,300,000,000 A shares were thus issued and the transaction was completed on 22 November 2013.

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

I. COMPANY GENERAL INFORMATION (Continued)

1. Company Profile (Continued)

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)”.

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 fifteenth meeting of the eighth term Board of Directors of the Company on 28 March 2017.

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 accumulated loss is RMB14,973,476 thousand, current liabilities exceed current assets of approximately RMB23,960,834 thousand as at 31 December 2016(Current liabilities exceed current assets of RMB10,392,431 thousand in 2015),committed capital expenditures are approximately RMB0.64 billion. The directors of the Company has assessed that the Group has generated sufficient cash flow for many years and is expected to be continued 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 characterisitics, the specific accounting policies are set out in Note III, 16, Note III, 19, notes III, 22 and Note III, 26.

1. Declaration of compliance with the 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 31 December 2016 and the Company’s and the consolidated operating results at 31 December 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.

4. Functional currency

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Business combinations

(1) Business combination involving entities under common control

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

Business combinations involving enterprises under common control and achieved in stages

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

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

(2) Business combination involving entities not under common control

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

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

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

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

Trasactions, for the purchase of tne 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 releted 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

6. Method of preparing consolidated financial statements (Continued)

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

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

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

② Not related to a package transaction: Recognised in capital reserve (other capital reserve) as equity

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

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

(1) Joint operation

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

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

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

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

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

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

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

(2) Joint ventures

A joint venture is a joint arrangement whereby the group that 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(2) Translation of foreign currency information

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

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

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

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

When disposing overseas operations and losing control, the "Translation reserve" related to the overseas operation presented in the shareholders' 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.

10. Financial instruments

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

(1) Recognition and Derecognition of financial instruments

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

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

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

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

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

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

(2) Classification and measurement of financial assets

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

Financial assets at fair value through profit or loss

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

Held-to maturity investments

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

Receivables

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial instruments

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

Available-for-sale financial assets

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

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

(3) Classification and Measurement of financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

Distinction between financial liabilities and equity instruments

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

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

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

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

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

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

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

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

(4) Derivative financial instruments and embedded derivatives

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial instruments (Continued)

(5) Fair value of financial instruments

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

(6) Impairment of financial assets

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

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

1) significant financial difficulty of the debtor or obligor;

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

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

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

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

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

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

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

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

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

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

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

Financial asset measured at amortized cost

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

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

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

Available-for-sale financial assets

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

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

Financial assets measured at cost

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial instruments (Continued)

(7) Transfer of financial assets

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

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

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

(8) Offseting financial assets and financial liabilities

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

11. Fair value measurement

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

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

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

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

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

For the assets and liabilities measured at fair value or disclosure at financial statements, Fair value hierarchies are categorized into three levels as the lowest 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Receivables (Continued)

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

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

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

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

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

The classification of credit risk combination is as follows:

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

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

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

13. Inventories

(1) Category of inventory.

Inventories include raw materials, work in progress, spare parts, turnover materials, finished goods, issuing goods and amounts for project contracts due from customers, etc.

(2) Determination of cost

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

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

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Inventories (Continued)

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortization methods of turnover materials

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

14. Assets Held for sale and discontinued operations

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

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

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

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

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

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

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

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

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

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

15. Long-term equity investment

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

(1) Recognition of investment cost

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Long-term equity investment (Continued)

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

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

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

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

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

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

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

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

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

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

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Long-term equity investment (Continued)

(4) Held-for-sale equity investment

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

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

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

(5) Impairment test and Impairment provision

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

16. Fixed assets

(1) Recognition and initial measurement of fixed asset

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

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

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

(2) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. Fixed assets start to be depreciated from the day the assets to the expected conditions for use and stop to be depreciated when the assets are derecognized and are divided into hold-for-sale as non-current assets. For 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

16. Fixed assets (Continued)

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

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

(1) 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.

(2) Overhaul costs

The overhaul costs occurred in regular inspection of property, plant and equipment are recognised in the cost of property, plant and equipment if there is undoubted evidence to confirm that they meet the recognition criteria of fixed assets, otherwise, the overhaul costs are recognised in profit or loss for the current period. Property, plant and equipment are depreciated during the intervals of the regular overhaul.

17. Construction in progress

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

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

18. Borrowing costs

(1) Recognition principle of capitalization of borrowing costs

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

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

2) Borrowing costs are being incurred; and

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

(2) Capitalization period of borrowing costs

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

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Intangible assets

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

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

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

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

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

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

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

20. Research and development expenditure

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

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

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

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

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

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

21. Impairment of assets

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

21. Impairment of assets (Continued)

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

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

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

22. Long-term deferred expenses

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

23. Employee benefits

(1) The scope of employee benefits

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

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

(2) short-term employee benefits

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

(3) Post-employment benefits

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

The basic pension insurance

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

Pension plan

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

(4) Termination benefits

The Group recognises termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The Group cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or (ii) The Group recognises the payment of the termination benefits costs and expenses.

(5) other long-term employee benefits

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

24. Provisions

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

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

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

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

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

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

25. Share-based payment and equity instruments

(1) Category of share-based payment

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

(2) Fair value of equity instrument

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

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

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

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

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Revenue

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

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

(1) Sale of goods

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

(2) Providing of services

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

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

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

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

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

(3) Transfer of the right to use assets

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

(4) Construction contracts

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

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

The stage of completion of an engineering construction contract is determined according to 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 a 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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.

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

28. Deferred tax assets and deferred tax liabilities

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

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

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

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

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

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

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. Operating leases and finance leases

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

(1) As lessor

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

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

(2) As lessee

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

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

30. Safety costs

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

31. Repurchase of shares

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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 is determined by the higher amount of fair value deducting disposal costs and net present value of future cash flows expected from the assets(or asset group). As the Group is unable to obtain the open market price of the assets(or asset group), it cannot accurately estimate the fair value of the assets. In determining the present value of future cash flow, significant judgment is required on future cash flow of the asset(or asset group), related revenue growth rate, operating expense and the discount rate used to calculate the present value. The Group uses all the relevant information available in estimating the recoverable amount, including the prediction on the relevant future revenue growth rate and operating cost and expenses based on reasonable assumptions. In 2016, the management referred to the evaluation of the fair value of long assets by the third independent evaluation institute, after a full assessment of operating environment, the group strategy and the profitability of the past operating project, it was determined that the fixed assets and construction in progress are not impaired on 31 December 2016. The management believes that any changes of assumptions in impairment model will not affect the assessment of impairment by management at the end of 2016.

(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 judgment 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.

Reasons and content of changes in accounting estimates	Affected items in report	Affected amount
According to provisions of the "VAT accounting regulations"(Cai Kuai(2016) No.22), the amount of assets or liabilities affected by the VAT-related transactions after 1st May 2016, should be adjusted as regulated. The "business tax and surcharges" item in income statement is adjusted to "tax and surcharges" item, property tax, land use tax, vehicle and vessel tax and stamp duty that charged to administrative expense are adjusted to "tax and surcharges" since 1st May 2016	Tax and surcharges Administrative expenses	93,545 -93,545

The above changes in accounting policy have no effect on the opening and ending balance of net assets and retained earnings.

(1) Significant changes in accounting estimates

The reasons and content of changes in accounting estimates

In recent years, Sinopec Oilfield Service Corporation(the "Company" or "we") has been elevating the technical standards and quality standards of equipment assets for petroleum engineering, enhancing regular repairs and maintenance of equipment assets persistently, and the application of new technology and new technical process has gradually reduced the working intensity of equipment, the usage lifespan of some equipment assets and special tools of petroleum engineering is obviously lengthened. In order to reflect more accurately the practical condition of the depreciation term of years for fixed assets such as some equipment assets and specialized tools of petroleum engineering, according to the Accounting Standards for Business Enterprises" and the relevant requirements, the Company has adjusted the depreciation term of years of some equipment assets and special tools of petroleum engineering, the particulars are as follow: the depreciation term of oil drilling rig has changed from 12 years to 15 years, the depreciation terms of oil hole testing equipment, mud-logging equipment and logging equipment has changed from 12 years to 15 years, the depreciation terms of offshore drilling equipment, offshore operation equipment and parts of oil and gas exploration equipment has changed from 18 years to 22 years.

Meanwhile, the Company has adjusted to amortization of onshore camping house from 3 years to 5 years., and the amortization policy for on shore drilling tools in use has been changed from the full amount cumulative amortization method based on hole-depth to the excess amount cumulative amortization methond based on hole-depth.

The above changes in accounting estimates are approved by the 9th Meeting of the Eighth Session and are implemented with effect from I January 2016.

(2) Effects of Changes in Accounting Estimates on financial items

In accordance of "CASBE 28- Accounting policy, Accounting estimate changes and Corrections of errors", the above changes in accounting estimates is adopted to prospective application, retrospective adjustment will not be carried out in the disclosed consolidated financial statement, therefore there in no effect on the financial position and operating outcomes for prior years.

The above adjustments made to depreciation and amortization term of years of assets resulted in a decrease in depreciation and amortization expenses by approximately RMB 799,966,000 in 2016, resulted in a increase in profit before income tax by approximately RMB 799,966,000.

IV. TYPES OF TAXES AND TAX RATES

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

Corporate income tax:

Taxpayer	Tax rate%
Sinopec Southwest Oil Engineering Company Limited	15、25
Sinopec Oil Engineering Design Company Limited	15
Sinopec Zhongyuan Oil Engineering Design Company Limited	15
Sinopec Henan Oil Engineering Design Company Limited	15
Sinopec Oil Engineering geophysical 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 Shui Zhi Fa[2014]No.8)issued by SiChuan province state taxation bureau directly-managed branch bureau.

In accordance to “Notification of publicity of proposed list of Shandong Province High-tech enterprises subject to review in 2015” (Lu Ke Zi [2015]No.154 issued by Science and Technology Department of Shandong Province, Department of Finance of Shandong Province, The State Tax Administration of Shandong Province, The Local Tax Administration of Shandong Province, Sinopec Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to to “Notification of 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 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%.

In accordance to “Notification of publicity of the second batch of proposed list of High-tech enterprises subject to review issued by Beijing Taxation Administration” (Jing Ke Fa [2015]No.548 issued by Science and Technology Department of Beijing Province, Department of Finance of Beijing Province, The State Tax Administration of Beijing Province, The Local Tax Administration of Beijing Province, Sinopec Oil Engineering geophysical Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Items	At 31 December 2016			At 31 December 2015		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	9,734	—	—	9,221
RMB	—	—	2,019	—	—	2,036
USD	449	6.9370	3,115	428	6.4936	2,781
BRL	2	2.1170	5	182	1.6805	306
DZD	15,131	0.0626	947	3,810	0.0607	231
SAR	449	1.8497	830	827	1.7318	1,432
KWD	39	22.6293	882	22	21.3621	465
KZT	9,225	0.0208	192	13,688	0.0191	262
BOB	63	1.0039	63	102	0.9397	96
Others	—	—	1,681	—	—	1,612
Cash at banks:	—	—	2,383,630	—	—	1,983,693
RMB	—	—	776,503	—	—	614,393
USD	106,476	6.9370	738,624	146,020	6.4936	948,239
BRL	632	2.1170	1,337	1,293	1.6805	2,172
DZD	1,881,388	0.0626	117,762	1,125,901	0.0607	68,329
SAR	68,181	1.8497	126,116	44,186	1.7318	76,523
KWD	13,263	22.6293	300,137	6,271	21.3621	133,967
KZT	955,177	0.0208	19,892	225,218	0.0191	4,308
BOB	141,289	1.0039	141,843	4,518	0.9397	4,245
Others	—	—	161,416	—	—	131,517
Among cash at bank: Related Parties	—	—	1,099,702	—	—	958,159
Including:RMB	—	—	163,100	—	—	75,707
USD	82,657	6.9370	573,394	115,581	6.4936	750,540
SAR	51,524	1.8497	95,305	14,024	1.7318	24,288
Others	—	—	267,903	—	—	107,623
Other monetary funds:	—	—	56,571	—	—	18,676
RMB	—	—	8,786	—	—	1,218
USD	6,446	6.9370	44,717	2,225	6.4936	14,448
AED	131	1.8890	248	131	1.7699	233
DZD	8,444	0.0626	529	12,219	0.0607	742
KZT	1,608	0.0208	33	2,244	0.0191	43
BOB	209	1.0039	210	—	—	—
Others	—	—	2,048	—	—	1,992
Total:			2,449,935			2,011,590
Amount deposited abroad:			1,472,479			1,364,170

At 31 December 2016, the Group's restricted cash such as margin deposit is RMB3,012thousand(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 31 December 2016	At 31 December 2015
Bank acceptance bills	445,415	129,487
Trade acceptance bills	406,209	11,645
Total	851,624	141,132

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

(2) At 31 December 2016, the endorsed undue notes receivable

Type	recognized amount at 31 December 2016	derecognized amount at 31 December 2016
Bank acceptance bills	1,070,492	—
Trade acceptance bills	677,550	—
Total	1,748,042	—

Bank acceptance bills and trade acceptance bills for discounts are accepted by banks with higher credit rating or Sinopec Finance Co.Ltd. Because of the low credit risk and deferred payment risk, the bills has been recognized. In addition, the interest rate risk associated with the notes has been transferred to banks and Sinopec Finance Co.Ltd, the ownership of the major risk and remuneration has been transferred at the same time.

(3) As at 31 December 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
Issuer 1	2016/12/29	2017/11/6	40,000
Issuer 2	2016/12/29	2017/11/6	29,922
Issuer 3	2016/9/23	2017/3/23	11,226
Issuer 4	2016/9/23	2017/3/22	10,000
Issuer 5	2016/9/23	2017/3/22	10,000
Total			101,148

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable

	At 31 December 2016	At 31 December 2015
Accounts receivable	25,084,707	27,698,918
Less: provision for bad debts	1,177,173	577,791
Net	23,907,534	27,121,127

(1) Accounts receivable disclosed by categories

Type	At 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	1,034,023	4.12	169,948	16.44	864,075
Provision for bad and doubtful debts collectively					
Including: Ageing groups	9,371,644	37.36	1,007,225	10.75	8,364,419
Related party grouping	14,679,040	58.52	—	—	14,679,040
Subtotal	24,050,684	95.88	1,007,225	4.19	23,043,459
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	25,084,707	100.00	1,177,173	4.69	23,907,534

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

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

Accounts receivable (By entity)	Amount	Bad debt provision	Provision proportion	Provision reason
Entityt A	1,034,023	169,948	16.44	Provision made on the basis of the expected loss rate
Total:	1,034,023	169,948	16.44	

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

Ageing	At 31 December 2016					At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	7,417,921	79.16	—	—	7,417,921	7,667,831	88.65	—	—	7,667,831
1 – 2 years	1,135,122	12.11	340,537	30	794,585	519,319	6.00	155,796	30	363,523
2 – 3 years	379,783	4.05	227,870	60	151,913	161,474	1.87	96,884	60	64,590
Over 3 years	438,818	4.68	438,818	100	—	300,913	3.48	300,913	100	—
Total	9,371,644	100	1,007,225	—	8,364,419	8,649,537	100	553,593	—	8,095,944

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 RMB600,366,000 (At year 2015:RMB148,394,000). During the reporting period, the Group did not have accounts receivable for which a full provision or a significant provision was made in the previous years that were recovered or reversed partly or in full amount.

(3) Written-off of accounts receivable

During the reporting period, the Group witten-off of accounts receivable RMB 984,000, there is no written-off of accounts receivable occurred by related party transactions.

(4) As at 31 December 2016 the five largest accounts receivable are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision
Entity A	Related party	12,886,965	51.37	—
Entity B	Related party	1,577,791	6.29	—
Entity C	Third party	1,152,395	4.59	75,259.00
Entity D	Third party	1,034,023	4.12	169,948.00
Entity E	Third party	633,025	2.52	—
Total		17,284,199	68.90	245,207.00

4. Prepayments

	At 31 December 2016	At 31 December 2015
Prepayments	374,398	474,961
Less: provision for bad debts	21,426	14,926
Net	352,972	460,035

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

Ageing	At 31 December 2016		At 31 December 2015	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	324,235	86.60	441,709	93.00
1 – 2 years	34,550	9.22	18,835	3.96
2 – 3 years	11,380	3.04	12,303	2.59
Over 3 years	4,233	1.14	2,114	0.45
Total	374,398	100.00	474,961	100.00

(2) As at 31 December 2016, the five largest prepayments are analysed as follows:

Company Name	Relationship with the company	Amount	Percentage of total prepayments
Entity A	Third party	52,565	14.04
Entity B	Related party	19,143	5.11
Entity C	Third party	12,154	3.25
Entity D	Third party	9,750	2.60
Entity E	Third party	8,346	2.23
Total		101,957	27.23

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables

	At 31 December 2016	At 31 December 2015
Other receivables	3,325,742	2,816,399
Less: provision for bad debts	503,333	383,614
Net	2,822,409	2,432,785

(1) Other receivables disclosed by categories:

Type	At 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables of individually significant amount and with provision made on an individual basis	27,797	0.84	27,797	100.00	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	2,905,013	87.35	475,536	16.37	2,429,477
Related party grouping	392,932	11.81	—	—	392,932
Subtotal	3,297,945	100.00	475,536	14.42	2,822,409
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	3,325,742	100.00	503,333	15.13	2,822,409

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	383,614	13.62	2,432,785
Receivables of individually insignificant amount and with provision made on an individual basis	—	—	—	—	—
Total	2,816,399	100.00	383,614	13.62	2,432,785

Receivables of individually insignificant amount but with provision made on an individual basis

Other receivable (By entity)	Amount	Bad debt provision	Provision proportion	Provision reason
Entityt A	27,797	27,797	100.00	The debtor has been insolvent and suffering losses for several years
Total:	27,797	27,797	100.00	

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

Ageing	At 31 December 2016					At 31 December 2015				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	2,213,730	76.20	—	—	1,277,522	2,049,119	79.94	—	—	2,049,119
1 – 2 years	240,634	8.28	72,190	30	168,444	170,252	6.64	51,076	30	119,177
2 – 3 years	118,258	4.07	70,955	60	47,303	28,712	1.12	17,227	60	11,485
Over 3 years	332,391	11.44	332,391	100	—	315,311	12.30	315,311	100	—
Total	2,905,013	100.00	475,536	—	2,429,477	2,563,394	100	383,614	—	2,179,780

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables (Continued)

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

(3) During the reporting period, the Group didn't write off other receivables.

(4) Other receivables disclosed by nature:

Items	At 31 December 2016	At 31 December 2015
Imprest	51,969	66,734
Guarantee	884,389	780,753
Amount paid on behalf	1,311,545	1,150,581
Temporary payment	704,098	451,067
Escrow funds	9,710	9,680
Loan	—	10,000
Deposits	46,722	48,525
Export tax refund receivable	6,712	2,823
Others	310,597	296,236
Total	3,325,742	2,816,399

(5) As at 31 December 2016, the five largest other receivables are analysed as follows:

Company Name	Relationship with the company		Amount Items	Percentage of total other receivable	Ending balance of bad debt provision
Entity A	Third party	Amount paid on behalf	956,375	0.29	—
Entity B	Third party	Temporary payment	277,911	0.08	—
Entity C	Related party	Amount paid on behalf、Guarantee	245,491	0.07	—
Entity D	Third party	Amount paid on behalf、Guarantee	174,201	0.05	21,782
Entity E	Third party	Amount paid on behalf、Guarantee	166,339	0.05	166,339
Total			1,820,317	0.55	188,121

6. Inventories

(1) Inventories by categories

Category	At 31 December 2016			At 31 December 2015		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,240,714	7,724	1,232,990	1,732,626	7,724	1,724,902
Work in progress	78,390	—	78,390	141,177	—	141,177
Finished goods	120,924	—	120,924	76,995	—	76,995
Turnover materials	20,120	—	20,120	33,895	—	33,895
Amounts due from customers for contract work	7,900,334	35,686	7,864,648	12,814,579	24,030	12,790,549
Others	1,305	—	1,305	1,757	—	1,757
Total	9,361,787	43,410	9,318,377	14,801,029	31,754	14,769,275

As at 31 December 2016 and 2015, no capitalised borrowing costs were included in the balance of inventories, and the above inventories were not pledged.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories (Continued)

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

Category		Increase during the period		Written back during the period		
	At 1 January 2016	Provision	Others	Reversal or Write-off	Others	At 31 December 2016
Raw materials	7,724	—	—	—	—	7,724
Amounts due from customers for contract work	24,030	11,656	—	—	—	35,686
Total	31,754	11,656	—	—	—	43,410

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

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

(3) Completed yet settled assets formed by construction contracts

Items	At 31 December 2016
Contract cost incurred	41,075,287
Plus: recognized profit	82,740
Less: Loss on contracts	35,686
Less:Progress billings	33,257,693
Book value of completed yet settled assets formed by construction contracts	7,864,648

7. Non-current assets due within one year

Items	At 31 December 2016	At 31 December 2015
Long-term deferred expenses due within one year	1,011,028	1,396,030
Cross-border Double-sided Fund Pool in RMB	—	1,097,000
Total	1,011,028	2,493,030

8. Other current assets

Items	At 31 December 2016	At 31 December 2015
VAT tax credit	325,005	72,466
VAT to be certified	18,642	9,596
Prepaid VAT	65,073	—
Prepaid income tax	7,956	—
Total	416,676	82,062

9. Available-for-sale financial assets

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

Items	At 31 December 2016			At 31 December 2015		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Availabel-for-sale equity instruments	40,494	16,105	24,389	40,494	—	40,494
Including:based on cost	40,494	16,105	24,389	40,494	—	40,494
Total	40,494	16,105	24,389	40,494	—	40,494

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(2) Available-for-sale of equity instruments measured at costs

Investee	Balance amount				Provision for diminution in value					
	At 1 January 2016	Increase during the period	Decrease during the period	At 31 December 2016	At 1 January 2016	Increase during the period	Decrease during the period	At 31 December 2016	Percentage of the shareholding held	cash dividend
Sinopec&Tharwa Drilling Company	21,973	—	—	21,973	—	—	—	—	3.375	—
Shengli oilfield Niuzhuang Petroleum Development Co., Ltd	2,000	—	—	2,000	—	—	—	—	1.73	500
Dongying Kewei Intelligent Technology Co., Ltd	416	—	—	416	—	—	—	—	19.04	—
Zhongyuan Petroleum Equipment Co., Ltd	16,105	—	—	16,105	—	16,105	—	16,105	19	—
Total	40,494	—	—	40,494	—	16,105	—	16,105	—	500

(3) The impairment of Available-for-sale financial assets

Category	Availabel-for-sale equity instruments	Availabel-for-sale debt instruments	Total
Amount of impaiement at 1 January 2016	—	—	—
Increase during the period	16,105	—	16,105
Including:transfer from other comprehensive income	—	—	—
Decrease during the period	—	—	—
Including:rise in fair value after balance sheet date	—	—	—
Amount of impaiement at 31 December 2016	16,105	—	16,105

10. Long-term equity investments

Name of company		The fluctuation of this period									
	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	At 31 December 2016	The ending balance of impairment
①Joint venture											
SinoFTS Petroleum Services Ltd. (SinoFTS)	177,155	—	—	376	—	—	—	—	—	177,531	—
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	17,273	—	—	143	—	—	—	—	—	17,416	—
Sinopec Gulf Petroleum Engineering Services, LLC	13,383	—	—	—	—	—	—	—	—	13,383	—
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,111	—	—	53	—	—	50	—	—	1,114	—
Subtotal	208,922	—	—	572	—	—	50	—	—	209,444	—
②Associates											
Sinopec International Trading (Nigeria) Company Limited	128	—	—	—	—	—	—	—	—	128	—
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	3,500	—	—	114	—	—	—	—	—	3,614	—
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,000	—	—	351	—	—	—	—	—	2,351	—
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	1,850	—	—	236	—	—	—	—	—	2,086	—
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	—	2,000	—	-299	—	—	—	—	—	1,701	—
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	—	2,000	—	5	—	—	—	—	—	2,005	—
Subtotal	7,478	4,000	—	407	—	—	—	—	—	11,885	—
Total	216,400	4,000	—	979	—	—	50	—	—	221,329	—

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

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed assets

(1) Fixed assets by categories

Items	Buildings	Equipment and others	Total
Cost:			
1. At 31 December 2015	1,269,666	57,710,585	58,980,251
2. Increase in the year	107,281	3,130,392	3,237,673
(1) Purchase	2,524	132,890	135,414
(2) Transferred from construction in progress(b)	104,757	2,997,502	3,102,259
3. Written back during the year	45,226	1,620,938	1,666,164
(1) Disposal/write-off	45,226	1,620,938	1,666,164
4. At 31 December 2016	1,331,721	59,220,039	60,551,760
Accumulated depreciation:			
1. At 31 December 2015	377,666	29,312,301	29,689,967
2. Increase in the year	50,890	3,253,206	3,304,096
(1) Depreciation (a)	50,890	3,253,206	3,304,096
3. Written back during the year	37,301	1,491,320	1,528,621
(1) Disposal/write-off	37,301	1,491,320	1,528,621
4. At 31 December 2016	391,255	31,074,187	31,465,442
Provision for impairment			
1. At 31 December 2015	8,501	273,594	282,095
2. Increase in the year	—	—	—
(1) Provision	—	—	—
(2) Other additions	—	—	—
3. Written back during the year	65	2,969	3,034
(1) Disposal/write-off	65	2,969	3,034
4. At 31 December 2016	8,436	270,625	279,061
Net carrying amount			
1. At 31 December 2016	932,030	27,875,227	28,807,257
2. At 31 December 2015	883,499	28,124,690	29,008,189

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

(a) At 31 December 2016, depreciation of fixed assets amounted to RMB3,304,096,000 (2015: RMB3,922,511,000), were included in operating expense RMB3,274,515,000, selling expense RMB579,000 and administrative expense RMB29,002,000 (2015: RMB3,890,615,000, RMB720,000 and RMB31,176,000).

(b) At year 2016, the total cost of fixed assets transferred from construction in progress is RMB3,102,259,000 (2015: RMB707,049,000)

(2) Fixed assets rented under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Net carrying amount
Equipment	77,897	17,852	—	60,045
Total	77,897	17,852	—	60,045

(3) The situation of premises without qualified ownership certificates

There had been a total amount of 31 premises without qualified ownership certificates up to 31 December 2016, totaling amount in cost of RMB221,267,000, in accumulated depreciation of RMB17,307,000 and net book value of RMB203,960,000.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Construction in progress

(1) Details of construction in progress

Items	At 31 December 2016			At 31 December 2015		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	21,711	3,502	18,209	74,143	3,502	70,641
Major Materials and equipment procurement projects	767,095	91,762	675,333	2,638,344	91,762	2,546,582
Other construction projects	173,304	—	173,304	92,955	—	92,955
Total	962,110	95,264	866,846	2,805,442	95,264	2,710,178

(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	Capitalised rate%	At 31 December 2016
	A	B	C	D				E=A+B-C-D
No.7 self-elevating drilling paltform	1,511,714	28,231	1,539,945	—	6,590	—	—	—
Shenli operating 90 meters	344,031	148,294	—	—	22,844	13,375	3.915	492,325
25 m working platform project	394,298	53,237	447,535	—	8,479	—	—	—
8000HP Multipurpose Supply Vessel	141,749	40,053	181,802	—	5,210	2,562	4.73	—
Kuwait workover rig	—	184,767	184,767	—	—	—	—	—
Algeria rigs purchase	—	107,126	107,126	—	—	—	—	—
Bolivian road construction	—	14,892	14,892	—	—	—	—	—
No.3 drilling paltform crane update project	—	149	—	—	—	—	—	149
ERP construction project	—	18,841	—	—	—	—	—	18,841
Shengli submarine pipeline inspection	—	208	—	—	—	—	—	208
Total	2,391,792	595,798	2,476,067	—	43,123	15,937	—	511,523

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
No.7 self-elevating drilling paltform	1,503,430	100.00	100.00	loans、Selfraised
Shenli operating 90 meters	700,000	70.00	70.00	loans、Selfraised
25 m working platform project	466,030	100.00	100.00	loans、issue of ordinary shares
8000HP Multipurpose Supply Vessel	195,000	99.40	100.00	loans、issue of ordinary shares
Kuwait workover rig	186,400	99.12	100.00	Selfraised
Algeria rigs purchase	122,200	87.66	100.00	Selfraised
Bolivian road construction	15,000	99.28	100.00	Selfraised
No.3 drilling paltform crane update project	30,000	0.50	0.50	Selfraised
ERP construction project	83,660	22.50	22.50	Selfraised
Shengli submarine pipeline inspection	15,000	1.38	1.38	Selfraised
Total	—	—	—	—

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Patent rights	Computer software	Others	Total
Cost:					
1. At 31 December 2015	117,134	186	118,716	57,343	293,379
2. Increase in the year	6,040	—	23,256	16,541	45,837
(1) Purchase	6,040	—	23,256	16,541	45,837
3. Written back during the year	—	—	—	—	—
(1) Disposal/write-off	—	—	—	—	—
4. At 31 December 2016	123,174	186	141,972	73,884	339,216
Accumulated amortization:					
1. At 31 December 2015	12,180	37	84,147	14,812	111,176
2. Increase in the year	2,816	19	10,627	29,253	42,715
(1) Provision	2,816	19	10,627	29,253	42,715
(2) Other additions	—	—	—	—	—
3. Written back during the year	—	—	—	—	—
(1) Disposal/write-off	—	—	—	—	—
4. At 31 December 2016	14,996	56	94,774	44,065	153,891
Provision for impairment					
1. At 31 December 2015	—	—	—	—	—
2. Increase in the year	—	—	—	—	—
3. Written back during the year	—	—	—	—	—
4. At 31 December 2016	—	—	—	—	—
Carrying amount					
1. At 31 December 2016	108,178	130	47,198	29,819	185,325
2. At 31 December 2015	104,954	149	34,569	42,531	182,203

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

There was no land use right without qualified ownership certificates.

For the year ended 31 December 2016, amortisation of intangible assets amounted to RMB42,715,000 (2015: RMB18,937,000), were included in profit and loss.

14. Long-term deferred expenses

Items	At 31 December 2015	Increase in the year	Decrease in the year		At 31 December 2016
			Amortisation in the year	Other decreases	
Special tools of petroleum engineering	3,632,121	1,041,843	1,559,126	—	3,114,838
Other tools of Petroleum engineering	608,650	217,738	337,799	—	488,589
Camping house	533,495	143,338	232,502	—	444,331
Other long-term deferred expenses	69,582	21,377	55,861	—	35,098
Total	4,843,848	1,424,296	2,185,288	—	4,082,856
Including:Amount due within one year	1,396,030	—	—	—	1,011,028
Due over one year	3,447,818	—	—	—	3,071,828

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities without offsetting

Items	At 31 December 2016		At 31 December 2015	
	Deductible/taxable temporary differences	Deferred incoome tax assets/liabilities	Deductible/taxable temporary differences	Deferred incoome tax assets/liabilities
Deferred income tax assets				
Provision for assets impairment and influence on depreciation	204,823	51,206	208,720	52,180
provision for bad debts	542,097	132,342	505,053	123,483
Deferred income	—	—	47,070	11,767
Subtotal	746,920	183,548	760,843	187,430
Deferred income tax liabilities				
Revaluation of assets	110,059	26,929	126,119	30,827
Depreciation of fixed assets	1,957	351	2,441	424
Subtotal	112,016	27,280	128,560	31,251

(2) Details of unrecognised deferred income tax assets of deductible temporary differences and tax losses:

The tax losses of the Group can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Group, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future.

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

Items	At 31 December 2016	At 31 December 2015
Deductible temporary differences	1,480,823	684,991
Tax losses	19,054,303	4,605,881
Total	20,535,126	5,290,872

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

Years	At 31 December 2016	At 31 December 2015	Note
year 2016	—	33,472	
year 2017	944,730	951,210	
year 2018	1,143,155	1,143,155	
year 2019	1,551,644	1,551,644	
year 2020	783,452	926,400	
year 2021	14,631,322	—	
Total	19,054,303	4,605,881	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Short-term loans

Items	Currency	At 31 December 2016	At 31 December 2015
Unsecured borrowings from related parties	RMB	9,175,114	5,185,324
	USD	7,858,617	6,884,988
Total		17,033,731	12,070,312

As at 31 December 2016, no assets of the Group were pledged.

As at 31 December 2016, the Group has no overdue short-term borrowings.

As at 31 December 2016, the interest rate range of short-term borrowings is 1.85%-4.20% (31 December 2015: 1.48%-7.60%)

17. Bills payable

Category	At 31 December 2016	At 31 December 2015
Bank acceptance bills	2,013,497	1,284,745
Total	2,013,497	1,284,745

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

18. Accounts payable

Items	At 31 December 2016	At 31 December 2015
Payables for materials	8,254,619	8,675,845
Payables for construction	7,743,968	7,790,790
Payable for labour cost	8,663,426	8,772,052
Payables for equipment	3,031,689	3,074,973
Others	603,028	595,441
Total	28,296,730	28,909,101

Important accounts payable aged over one year:

Items	At 31 December 2016	Overdue reasons
Entity A	227,266	Retention money、Unsettled
Entity B	73,479	Retention money、Unsettled
Entity C	72,694	Retention money、Unsettled
Entity D	69,577	Retention money、Unsettled
Entity E	57,764	Retention money、Unsettled
Total	500,780	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Advances from customers

Items	At 31 December 2016	At 31 December 2015
Advances for construction labor and service	1,690,005	1,459,457
Amounts due to customers for contract work	8,983,973	7,804,513
Total	10,673,978	9,263,970

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

Items	At 31 December 2016	Overdue reasons
Entity A	215,874	Not yet finalised
Entity B	137,243	Not yet finalised
Entity C	79,598	Not yet finalised
Entity D	37,638	Not yet finalised
Entity E	36,723	Not yet finalised
Total	507,076	

(2) Completed yet settled assets formed by construction contracts

Items	At 31 December 2016
Progress billings	28,603,058
Less:Contract cost incurred	18,303,557
plus recognised profit	1,315,528
Amounts due to settled yet completed contract work	8,983,973

20. Employee benefits payable

Items	At 31 December 2015	Increase in the year	Decrease in the year	At 31 December 2016
Short term employee benefits	187,561	12,202,839	12,218,743	171,657
Post-employment benefits	—	1,669,953	1,669,953	—
Termination benefits	—	48,212	48,212	—
Total	187,561	13,921,004	13,936,908	171,657

(1) Short-term employee benefits

Items	At 31 December 2015	Increase in the year	Decrease in the year	At 31 December 2016
Wages or salaries, bonuses, allowances and subsidies	24,388	7,470,867	7,466,201	29,054
Staff welfare	—	1,143,406	1,143,406	—
Social security contributions	23	844,137	843,265	895
Including: 1. Basic medical insurance	—	598,822	598,822	—
2. Supplementary medical insurance	—	85,638	84,766	872
3. Work-related injury insurance	—	62,209	62,209	—
4. Birth insurance	—	32,436	32,436	—
5. Other insurance	23	65,032	65,032	23
Housing funds	1,357	815,219	814,994	1,582
Labor union and employee education funds	109,866	229,776	210,682	128,960
Others	51,927	1,699,434	1,740,195	11,166
Total	187,561	12,202,839	12,218,743	171,657

As at 31 December 2016, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2017.

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 31 December 2016
Basic pension insurance	—	1,274,972	1,274,972	—
Unemployment insurance	—	62,053	62,053	—
Annuity	—	332,928	332,928	—
Total	—	1,669,953	1,669,953	—

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

Items	At 31 December 2015	Increase in the year	Decrease in the year	At 31 December 2016
Termination benefits	—	48,212	48,212	—

During this report, the Group paid RMB48,212,000 compensation to the resigning employee for terminating labor relation.

21. Taxes payable

Items	At 31 December 2016	At 31 December 2015
Value added tax ("VAT")	634,768	1,843,544
Business tax	8,389	77,802
Urban maintenance and construction tax	52,592	117,536
Education surtax	31,513	77,055
Corporate income tax	92,768	244,493
individual income tax	123,214	135,757
Withholding tax	45,147	44,233
Others	61,948	71,748
Total	1,050,339	2,612,168

22. Interest payable

Items	At 31 December 2016	At 31 December 2015
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	3,181	1,618
Interest payable of short term loan	70,446	13,205
Total	73,627	14,823

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Other payables

Items	At 31 December 2016	At 31 December 2015
Guarantee	525,496	497,300
Deposits	127,046	156,200
Amount paid on behalf	435,177	291,281
Temporary receipts	219,838	370,126
Escrow payments	33,676	30,549
Withheld payments	86,055	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	395,487	323,233
Total	5,541,678	5,473,433

As at 31 December 2016, other payables with aging over 1 year with a carrying amount of RMB4,448,495,000 (31 December 2015: RMB4,370,650,000). Those except the undisbursed amount due to the Sinopec group generated from capital restructuring funds and the net proft and loss at transition period, are mainly construction projects retention money,deposits, guarantee and so on.Those payables are unsettled due to the guarantee period isn't end or not yet reached the settlement period.

24. Non-current liabilities due within one year

Items	At 31 December 2016	At 31 December 2015
Long-term loans within one year	203,548	70,000
Long-term payables within one year	17,360	17,360
Total	220,908	87,360

(1) Long-term loans within one year

Items	At 31 December 2016	At 31 December 2015
Mortgage loan	—	—
Loans on credit	203,548	70,000
Total	203,548	70,000

(2) Long-term payables within one year

Items	At 31 December 2016	At 31 December 2015
Payables of finance lease	17,360	17,360
Others	—	—
Total	17,360	17,360

25. Other current liabilities

Items	At 31 December 2016	At 31 December 2015
Short-term bonds payable	—	—
Output VAT to be certified	15,267	—
Total	15,267	—

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Long-term loans

Items	At 31 December 2016	Range of interest rate	At 31 December 2015	Range of interest rate
Pledge loan	520,275	6.14%-6.69%	487,020	5.63%-5.79%
Loans on credit	446,343	4.73%-6.96%	201,949	2.43%-6.15%
Subtotal	966,618	—	688,969	—
Less: Long-term loans within one year	203,548	4.73%-6.96%	70,000	5.75%-6.15%
Total	763,070		618,969	

As at 31 December 2016, the Group has no overdue long-term loans.

27. Long-term payables

Items	At 31 December 2016	At 31 December 2015
Finance leases liabilities	50,924	68,514
Others	24,077	5,918
Subtotal	75,001	74,432
Less: Long-term payables within one year	17,360	17,360
Total	57,641	57,072

28. Specific payable

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 31 December 2016	Reasons
Compensation of relocation	651	—	651	—	Relocation of public interests
Constraction of weilding platform for oil equipment	400	—	400	—	Appropriation
Total	1,051	—	1,051	—	

29. Deferred income

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 31 December 2016
Government grants related to assets	10,365	1,490	104	11,751
Government grants related to income	48,643	302,532	250,755	100,420
Total	59,008	304,022	250,859	112,171

Including: Details of deferred income – Government grants

Government grants projects	At 31 December 2015	Increase in current year	Recognised in non-operating income in current year	At 31 December 2016	Related to assets/income
The 863 plan of developing radar imaging prototype	2,300	1,490	—	3,790	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	5,441	5,480	384	Related to income
National special research	47,432	75,051	25,002	97,481	Related to income
Labor insurance fee refund	—	8,114	8,114	—	Related to income
Other government grants	788	13,225	11,458	2,555	Related to income
Subsidies of stable post	—	4,782	4,782	—	Related to income
Consumption tax refund	—	175,996	175,996	—	Related to income
Bonded financial subsidies	—	14,370	14,370	—	Related to income
Pension allowance	—	5,110	5,110	—	Related to income
Subsidies of reemployment	—	443	443	—	Related to income
Total:	59,008	304,022	250,859	112,171	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Share capital(Unit: thousand shares)

At 31 December 2016:

Items	At 1 january 2016	Changes in current (+、-)		Subtotal	At 31 December 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
Total	14,142,661	—	—	—	14,142,661

At 31 December 2015:

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

Approved by “Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement” (CSRC Permit [2014] No. 1370) issued by China Securities Regulatory Committee, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd on 13 February 2015, the net proceeds from the issuing were approximately RMB5,952,517,000. 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.

31. Capital reserve

At 31 December 2016:

Items	At 1 January 2016	Increase for the period	Decrease for the period	At 31 December 2016
Share premium	8,826,247	—	—	8,826,247
Other capital reserve	67,969	3,016	—	70,985
Total	8,894,216	3,016	—	8,897,232

At 31 December 2015:

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Capital reserve (Continued)

Reasons for the change are as follows:

Items	2016	2015
Capital reserve at 31 December 2015	8,894,216	4,275,032
Increase for the period:	3,016	4,619,184
Acquisition of subsidiaris' minority interest(a)	—	4,619,184
Payment of unexercised share options(b)	3,016	—
Devrease for the period:	—	—
Including: Convert capital reserve into share capital	—	—
Capital reserve at 31 December 2016	8,897,232	8,894,216

(a) The net proceeds raised from the issuing in February 2015 is RMB 5,952,517,000, RMB 4,619,184 were recognized as capital reserve.

(b) Details refer to Note XI.Payment of share options.

32. Special reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 31 December 2016
Special reserve	259,547	615,847	699,326	176,068
Total	259,547	615,847	699,326	176,068

In accordance with PRC regulations, the Group appropriated production safety fund of RMB615,847,000 to specific reserve for the year ended 31 December 2016 (2015: RMB951,980,000), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2016, the Group utilised production safety fund amounting to RMB699,326,000 (2015: RMB988,001,000) which was of expenditure nature.

33. Surplus reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 31 December 2016
Statutory surplus reserve	200,383	—	—	200,383
Total	200,383	—	—	200,383

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Retained earnings

Items	2016	2015	Appropriation/ distribution ratio
Retained earnings at 31 December 2015	1,141,287	1,116,809	
Add:Net profit attributable to parent company	-16,114,763	24,478	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Retained earnings at 31 December 2016	-14,973,476	1,141,287	
Including:Surplus reserve attributable to parent company extracted by subsidiaries	10,481	84,767	

35. Revenue and cost of sales

Items	2016		2015	
	Revenue	Cost	Revenue	Cost
Major business	42,284,743	53,037,300	59,510,677	53,988,138
Other business	638,757	479,444	838,657	580,822
Total	42,923,500	53,516,744	60,349,334	54,568,960

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	2016		2015	
	Revenue	Cost	Revenue	Cost
Geophysics	3,605,915	4,208,691	5,285,158	4,848,851
Drilling Engineering	19,368,752	24,841,079	28,561,068	26,177,621
Logging and Mud Logging	1,537,768	2,051,517	2,445,848	2,053,196
Special Down-hole Operations	3,867,913	4,775,774	6,916,025	6,108,349
Engineering Construction	12,827,062	16,026,093	15,378,795	14,208,553
Others	1,077,333	1,134,146	923,783	591,568
Total	42,284,743	53,037,300	59,510,677	53,988,138

(2) Business revenue (Classified by area)

Area	2016	2015
China mainland	29,581,782	45,626,033
Hong Kong, Macao, Taiwan and overseas	12,702,961	13,884,643
Total	42,284,743	59,510,676

36. Tax and surcharges

Items	2016	2015
Business tax	37,515	219,512
Urban maintenance and construction tax	84,068	222,767
Education surtax	60,134	166,420
Overseas tax	120,515	90,637
Land use tax	63,922	—
Stamp duty	17,983	—
Others	17,414	12,757
Total	401,551	712,093

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Selling expenses

Items	2016	2015
Freight	2,955	3,733
Commission fee	74	—
Staff costs	36,339	37,923
Depreciation	579	720
Transportation	5,086	5,022
Storage charges	57	79
Sales service fees	4,654	5,332
Business promotion fee	553	902
Office expense	2,179	2,307
Others	6,082	6,297
Total	58,558	62,315

38. General and administrative expenses

Items	2016	2015
Repair and maintenance	358,983	353,271
Staff costs	915,534	918,775
Integrated service	1,588,968	1,642,645
Research and development expenses	362,586	448,185
Taxes	53,395	174,291
Transportation	83,568	84,040
Rental expenses	52,525	74,486
Depreciation and amortization	38,608	41,408
Consultation	14,087	4,669
Property insurance	7,836	11,615
Others	279,939	289,760
Total	3,756,029	4,043,145

39. Finance costs

Items	2016	2015
Interest expenses	496,071	340,679
Less:Interest capitalized	21,006	32,239
Less: Interest income	34,256	38,267
Exchange losses/(gains), net	-57,250	334,117
Bank charges and others	93,699	52,800
Total	477,258	657,090

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

The capitalized interest is reckoned in construction in progress.The capitalised rate used to calculate capitalized borrowing cost is 3.92%-6.83% in 2016(2015: 3.12%-5.86%).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Impairment losses on assets

Items	2016	2015
(1) Provision for bad debts	726,585	171,376
(2) Provision for decline in the value of inventories	11,656	—
(3) Provision for decline in the value of available for sale financial assets	16,105	—
Total	754,346	171,376

41. Investment income

Items	2016	2015
Investment income from long-term equity investments under equity method	979	-11,958
Investment income from available-for-sale financial assets	500	642
Interest income from entrusted loan investment	27,555	2,406
Total	29,034	-8,910

42. Non-operating income

(1) Breakdown of non-operating income

Items	2016	2015	Recognised as non-recurring income
Total gains from disposal of non-current assets	18,288	28,751	18,288
Including:Gains from disposal of fixed assets	12,158	10,127	12,158
Others	6,130	18,624	6,130
Government grants	250,859	381,690	74,863
Penalty income	23,612	4,238	23,612
Waived payables	8,344	35,404	8,344
Asset inventing surplus	200	1,169	200
Compensation received	1,991	3,217	1,991
Others	34,550	17,443	34,550
Total	337,844	471,912	161,848

(2) Breakdown of government grants

Items	2016	2015	Related to assets/income
Consumption tax refund	175,996	270,584	Related to income
National special research	25,002	43,194	Related to income
Labor insurance fee refund	8,114	3,671	Related to income
Pension allowance	5,110	919	Related to income
Subsidies of reemployment	443	712	Related to income
Industry support fund	—	14,749	Related to income
Subsidies of stable post	4,782	1,334	Related to income
Bonded financial subsidies	14,370	31,053	Related to income
Other government grants related to income	11,458	12,955	Related to income
National 863 project	5,480	1,501	Related to assets
Other government grants related to assets	104	1,018	Related to assets
Total	250,859	381,690	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Non-operating expenses

Items	2016	2015	Recognised as non-recurring income
Loss on disposal of non-current assets	86,600	28,489	86,600
Including:Loss on disposal of fixed assets	85,259	28,489	85,259
Others	1,341	—	1,341
Donation	301	9,375	301
Loss on fixed assets written off	1,017	9,127	1,017
Penalty	6,890	20	6,890
Compensation	10,714	11,959	10,714
Others	24,072	32,647	24,072
Total	129,594	91,617	129,594

44. Income tax expense

(1) Details of income taxes expenses

Items	2016	2015
Current tax in accordance with tax laws and related regulations	311,285	527,816
Deferred income tax	-89	-46,395
Total	311,196	481,421

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

Items	2016	2015
Profit before income tax	-15,803,702	505,740
Taxation calculated at the statutory tax rate	-3,950,926	126,435
Effect of other tax rates used by certain subsidiaries	167,863	-18,015
Adjustments of current tax in previous years	-17,943	72,017
Equity method accounting for the joint venture and associates' profit or loss	-245	2,990
Non-taxable income (expressed in "-")	—	—
Non-deductible costs, expenses and losses	322,368	213,209
Effect on the change in statutory tax rate on opening balance of deferred tax	4,776	—
Reversal of previously recognized deferred tax assets	—	—
Effect of utilization of unrecognised tax losses and deductible temporary differences	-12,079	-82,204
Effect of unrecognised tax losses and deductible temporary differences	3,871,339	236,966
Tax effect on research and development expenses (expressed in "-")	-73,957	-69,977
Others	—	—
Income tax expense	311,196	481,421

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	2016	2015
Amount paid on behalf	1,169,855	1,147,490
Government grants	304,456	398,028
Temporary receipt and payment	380,067	346,649
Guarantee	1,248,382	1,028,462
Compensation	2,511	4,995
Deposits	86,827	108,324
Others	115,370	171,007
Total	3,307,468	3,204,955

(2) Cash paid for other operating activities

Items	2016	2015
Temporary receipt and payment	450,779	168,886
Repair and maintenance expenses	358,983	303,271
Guarantee	1,337,572	647,970
Travelling expenses	83,568	83,982
Motor vehicle expenses	13,793	15,069
Handling charges	54,846	34,904
Conference expenses	7,440	8,547
Deposits	103,280	83,270
Integrated service	1,588,968	1,642,386
Others	590,840	163,615
Total	4,590,069	3,151,900

(3) Cash received from other financing activities

Items	2016	2015
Receipt of capital return to for the 2012 restructuring	5,071	25,932
Total	5,071	25,932

(4) Cash paid for other financing activities

Items	2016	2015
Finance lease expenses	22,310	21,190
Notes acceptance fees	782	136
Exchange loss from dollar loan replacement	—	11,508
Recapitalization fund paid to the Sinopec group	—	1,400,000
Payment of funds from restructuring and business combinations	—	360,305
Payment of guarantee and commitment fees	27,206	—
Payment of internal borrowing interest shall bot be deducted from the input VAT	3,715	
Total	54,013	1,793,139

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	2016	2015
1. Reconciliation of net profits to cash flows from operating activities:		
Net (loss)/profit	-16,114,898	24,319
Add: Provision for impairment losses on assets	754,346	171,376
Depreciation of fixed assets	3,304,096	3,922,511
Amortization of intangible assets	42,715	18,937
Amortization of long-term deferred expenses	2,185,288	2,342,209
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	70,658	-262
Losses on retirement of fixed assets (Gain as in "-")	1,017	9,375
Fair value losses (Gain as in "-")	—	—
Finance costs (Income as in "-")	454,809	648,779
Investment losses(Income as in "-")	-29,034	8,910
Decrease in deferred tax income assets (Increase as in "-")	3,882	-30,751
Increase in deferred income tax liabilities (Decrease as in "-")	-3,971	-15,644
Decrease in inventories (Increase as in "-")	5,439,242	-2,833,004
Decrease in operating receivables (Increase as in "-")	1,159,341	1,296,286
Increase in operating payables (Decrease as in "-")	-1,094,346	-2,951,091
Safety costs	-83,479	-36,021
Payment of unexercised share options	3,016	—
Net cash flows from operating activities	-3,907,318	2,575,929
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	2,446,923	1,993,209
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 in cash and cash equivalents	453,714	791,455

(2) Composition of cash and cash equivalents

Items	2016	2015
1. Cash	2,446,923	1,993,209
Including: Cash in hand	9,734	9,221
Cash at bank	2,383,630	1,983,693
Other monetary funds	53,559	295
2. Cash equivalents	—	—
3. Closing balance of cash and cash equivalents	2,446,923	1,993,209
4. Restricted funds	3,012	18,381
5. Balance of cash on hand and at bank	2,449,935	2,011,590

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Restricted asstes

Items	2016	Restricted reasons
Cash at bank and on hand	3,012	Guarantee
Total	3,012	—

48. Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,662,627
Including: USD	113,371	6.9370	786,456
EUR	94	7.3068	690
BRL	634	2.1170	1,342
DZD	1,904,962	0.0626	119,238
KWD	13,302	22.6293	301,019
KZT	966,010	0.0208	20,117
SAR	68,630	1.8497	126,946
BOB	141,562	1.0039	142,116
Others	—	—	164,703
Accounts receivable			5,888,115
Including: USD	641,671	6.9370	4,451,272
EUR	5,879	7.3068	42,954
BRL	591	2.1170	1,251
DZD	533,731	0.0626	33,408
KWD	26,452	22.6293	598,591
KZT	5,699,359	0.0208	118,689
SAR	241,498	1.8497	446,706
BOB	44,355	1.0039	44,528
Others	—	—	150,716
Other receivables			1,833,988
Including: USD	168,282	6.9370	1,167,375
EUR	115	7.3068	839
BRL	37,163	2.1170	78,674
DZD	154,478	0.0626	9,669
KWD	6,420	22.6293	145,275
KZT	16,980	0.0208	354
SAR	203,889	1.8497	377,140
BOB	35,544	1.0039	35,683
Others	—	—	18,979

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Foreign currency items (Continued)

Items	Original	Exchange rate	Amount (RMB)
Accounts payable			1,607,373
Including: USD	137,373	6.9370	952,957
BRL	24,096	2.1170	51,011
DZD	113,689	0.0626	7,116
KWD	2,715	22.6293	61,428
KZT	811,628	0.0208	16,902
SAR	253,426	1.8497	468,770
BOB	1,617	1.0039	1,624
Others	—	—	47,565
Other payables			296,552
Including: USD	17,256	6.9370	119,707
EUR	224	7.3068	1,638
BRL	3	2.1170	6
DZD	251,317	0.0626	15,731
KWD	945	22.6293	21,389
KZT	136,171	0.0208	2,836
SAR	60,544	1.8497	111,990
BOB	2,455	1.0039	2,464
Others	—	—	20,791
Dividend payable			
Including: USD	1,590	6.9370	11,030
Short-term loans			
Including: USD	1,132,855	6.9370	7,858,617
Long-term loans			
Including: USD	127,810	6.9370	886,618

VI. CHANGES IN SCOPE OF CONSOLIDATION

There are no changes in scope of consolidation for the year ended 31 December 2016.

VII. EQUITIES IN OTHER ENTITIES

1. Equities in principal subsidiaries

Name	Place of Major operation activities	Place of registration	Nature of business	% of shareholding held directly	% of shareholding held indirectly	Ways of acquisition
Sinopec Oilfield Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control
Sinopec Shengli Oil Engineering Company Limited	China	Dongying, Shandong	Petroleum Engineering	100		Business combination under common control
Sinopec Zhongyuan Oil Engineering Company Limited	China	Puyagn, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec Jianghan Oil Engineering Company Limited	China	Qianjiang, Hubei	Petroleum Engineering	100		Business combination under common control
Sinopec East China Oil Engineering Company Limited	China	Nanjing, Jiangsu	Petroleum Engineering	100		Business combination under common control
Sinopec Jiangsu Oil Engineering Company Limited	China	Yangzhou, Jiangsu	Petroleum Engineering	100		Business combination under common control
Sinopec North China Oil Engineering Company Limited	China	Zhengzhou, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec Henan Oil Engineering Company Limited	China	Zhengzhou, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec South West Oil Engineering Company Limited	China	Chengdu, Sichuan	Petroleum Engineering	100		Business combination under common control
Sinopec Oil Engineering Geophysical Company Limited	China	Beijing	Geophysical prospecting	100		Business combination under common control
Sinopec Oil Engineering and Construction Corporation	China	Beijing	Engineering and Construction	100		Business combination under common control
Sinopec Shanghai Offshore Oil Engineering Company Limited	China	Shanghai	Offshore Petroleum Engineering	100		Business combination under common control
Sinopec International Oil Engineering Company Limited	China	Beijing	Petroleum Engineering	100		Business combination under common control

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

Name	Place of major operational activities	Place of registration	Nature of business	% of shareholding held Directly	% of shareholding held Indirectly	Method of accounting
① Joint ventures						
SinoFTS Petroleum Services Ltd. (SinoFTS)	Beijing	Beijing	Petroleum service	55.00		Equity method
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	Beijing	Beijing	Oilfield Service	50.00		Equity method

The Group holds 55% shareholding of and 50% voting rights of SinoFTS. Both parties to the joint venture must reach an agreement when an essential financial and operation decision is supposed to be made.

VII. EQUITIES IN OTHER ENTITIES (Continued)

1. Equities in principal subsidiaries (Continued)

(2) Financial information of principal joint ventures

	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
Items	Closing balance	Opening balance	Closing balance	Opening balance
Current assets:	124,168	119,001	91,745	58,786
Included: Cash and cash equivalents	6,367	100,495	2,531	15,963
Non-current assets	243,480	253,812	6,409	5,402
Total assets	367,648	372,813	98,154	64,188
Current liabilities	23,934	-16,995	63,321	29,642
Non-current liabilities	18,448	64,620	—	—
Total liabilities	42,382	47,625	63,321	29,642
Net assets	325,266	325,188	34,833	34,546
Shareholder's equity	178,896	178,853	17,416	17,273
Carrying amount of equity investment in joint ventures	177,531	177,155	17,416	17,273

	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	For the year ended 31 December		For the year ended 31 December	
Items	2016	2015	2016	2015
Revenue	82,180	2,104	62,328	39,465
Finance costs	1,409	-1,747	-246	-1,414
Income tax expense	—	—	—	—
Net profit	683	-15,393	287	-7,056
Other comprehensive income	—	—	—	—
Total comprehensive income	683	-15,393	287	-7,056
Dividend received from joint ventures	—	—	—	—

(3) Financial information of other joint ventures and associates

Items	For the current period and the closing balance	For the previous period and the opening balance
Joint ventures		
Total investment from the Group	14,497	14,494
Equity contributed to the Group		
Net profit	53	36
Other comprehensive income	—	—
Total comprehensive income	53	36
Associates:		
Total investment from the Group	11,885	7,478
Equity contributed to the Group:		
Net profit	407	—
Other comprehensive income	—	—
Total comprehensive income	407	—

(4) The Group has signed the investment contract and remains RMB129,625,000 on 31 December 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 year ended 31 December 2016 and the year 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	31-Dec-16	31-Dec-15
Fixed interest rate financial instruments		
Financial instruments		
including:Cash and cash equivalents	**461,775**	419,649
Financial liabilities		
Including: Short-term borrowings	**7,680,000**	5,185,324
Long-term borrowings	**—**	—
Long-term payables	**50,924**	68,514
Floating interest rate financial instruments		
Financial assets		
including:Cash and cash equivalents	**1,988,160**	1,591,941
Financial liabilities		
Including:Short-term borrowings	**9,353,731**	6,884,988
Long-term borrowings	**966,618**	688,969

As at 31 December 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 RMB38,701,000 (2015: RMB28,402,000).

The financial instruments held by the Group at the date of balance sheet expose the Group to fair value interest rate risk. Under the hypothesis of a floating interest rate at the date of balance sheet, the effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the recalculation of these financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the date of balance sheet expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenues at the floating interest rate. The analysis of the previous period is based on the same hypothesis and method

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(1) Market risk (Continued)

Foreign curreccy risk

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

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

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

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

	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
Items	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
USD	9,828,929	8,169,100	6,405,103	5,760,091
SAR	580,760	314,487	950,792	721,927
KWD	82,817	72,080	1,044,885	645,233
BRL	51,017	41,028	81,267	135,656
Others	116,667	109,830	902,683	627,238
Net exposure in RMB	10,660,190	8,706,525	9,384,730	7,890,145

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange agreements or currency swap agreements to mitigate the foreign currency risk. The Group has not entered into any forward exchange agreements or currency swap agreements in the year ended 2016 and 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 31 December 2016		As at 31 December 2015	
Appreciation in USD	5%	-128,393	5%	-90,338
Depreciation in USD	-5%	128,393	-5%	90,338
Appreciation in SAR	5%	13,876	5%	15,279
Depreciation in SAR	-5%	-13,876	-5%	-5,279
Appreciation in KWD	5%	36,078	5%	21,493
Depreciation in KWD	-5%	-36,078	-5%	-21,493
Appreciation in BRL	5%	1,134	5%	3,549
Depreciation in BRL	-5%	-1,134	-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 sate-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit risk exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on it customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

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

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(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:

	At 31 December 2016				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,449,935	—	—	—	2,449,935
Notes receivable	851,624	—	—	—	851,624
Accounts receivable	23,907,534	—	—	—	23,907,534
Interests receivable	23	—	—	—	23
Other receivables	2,822,409	—	—	—	2,822,409
Non-current assets due within one year	1,011,028	—	—	—	1,011,028
Other current assets	416,676	—	—	—	416,676
Total assets	31,459,229	—	—	—	31,459,229
Financial liabilities:					
Short-term borrowings	17,033,731	—	—	—	17,033,731
Notes payable	2,013,497	—	—	—	2,013,497
Accounts payable	28,296,730	—	—	—	28,296,730
Employee benefits payable	171,657	—	—	—	171,657
Tax payable	1,050,339	—	—	—	1,050,339
Interest payables	73,627	—	—	—	73,627
Other payables	5,541,678	—	—	—	5,541,678
Non-current liabilities due within 1 year	220,908	—	—	—	220,908
Long-term borrowings	—	242,795		520,275	763,070
Long-term payables	—	17,360	40,281	—	57,641
Financial lease payables of unrecognized financial expenses	3,418	2,116	813	—	6,347
Total liabilities	54,405,585	262,271	41,094	520,275	55,229,225

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(3) Liquidity risk (Continued)

The financial assets and liabilities of the Group at 31 December 2015 are analyzed by their maturity date below at their undiscounted contractual cash flows as follows:

	At 31 December 2015				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,011,590	—	—	—	2,011,590
Notes receivable	141,132	—	—	—	141,132
Accounts receivable	27,081,195	—	—	—	27,081,195
Interests receivable	6	—	—	—	6
Other receivables	2,432,785	—	—	—	2,432,785
Non-current assets due within one year	1,097,000	—	—	—	1,097,000
Other current assets	82,062	—	—	—	82,062
Total assets	32,845,770	—	—	—	32,845,770
Financial liabilities:					
Short-term borrowings	12,070,312	—	—	—	12,070,312
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	5,473,433	—	—	—	5,473,433
Non-current liabilities due within 1 year	87,360	—	—	—	87,360
Long-term borrowings	—	**131,949**		**487,020**	618,969
Long-term payables	—	**17,360**	**39,712**	—	57,072
Financial lease payables of unrecognized financial expenses	4,720	**3,418**	**2,929**	—	11,067
Total liabilities	50,644,223	**152,727**	**42,641**	**487,020**	51,326,611

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

2. Capital management

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

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

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

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

Items	At 31 December 2016	At 31 December 2015
Short-term borrowings	17,033,731	12,070,312
Long-term borrowings due within 1 year	203,548	70,000
Long-term payables due within 1 year	17,360	17,360
Long-term borrowings	763,070	618,969
Long-term payables	33,564	51,154
Less: cash and cash equivalents	2,446,923	1,993,209
Net debt	15,604,350	10,834,586
Shareholder's equity	8,441,592	24,636,953
Total equity	24,045,942	35,471,539
Debt to equity ratio	64.89	30.54

IX. FAIR VALUE

Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement.

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

As at 31 December 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 %
China Petrochemical Corporation	22 Chaoyangmen North Street, Chaoyang District Beijing	Exploring for, extracting and selling crude oil and natural gas; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information.	274.866 billion	65.22	65.22

The Company's ultimate controlling party is China Petrochemical Corporation.

Changes of registered capital of parent company during the reporting period

At 1 January 2016	Increase in the year	Decrease in the year	At 31 December 2016
274.866 billion	—	—	274.866 billion

2. Subsidiaries

Details of principal subsidiaries refer to Note VII.1.

3. Joint ventures and associates of the Group

Details of principal joint ventures and associates refer to Note VII.2

Other joint ventures and associates which have related party transactions for the current period or balances brought forward from the prior period arising with the Group are as follows:

Names of joint ventures or associates	Relationship with the Group
Sinopec Bayshore Ptroleum Service Co., LTD	Joint venture
Qianjiang Hengyun Motor Vehicle Performance Testing Corporation	Joint venture
Huabei Ruida Oil Service Company Limited	Associate
Xinjiang North China Tianxiang Oil Service Company Limited	Associate
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd	Associate
Henan Zhongyuan Oil & Gas Engineering Technology Service Co., Ltd	Associate
Oil & Gas Engineering Technology Service Co., Ltd	Associate

X. RELATED PARTIES AND TRANSACTION (Continued)

4. Other related parties of the Group

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

5. Transactions with related parties

(1) Details of related purchase and sales

① Purchase of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Purchases of materials and equipments	Based on normal commercial terms or relevant agreements	5,215,004	9,327,661

② Sales of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	83,812	252,591

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering services

Sales of endering services:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Total		22,567,053	37,502,329
	Geophysical exploration	Based on normal commercial terms or relevant agreements	1,880,824	3,349,333
	Drilling	Based on normal commercial terms or relevant agreements	8,748,008	17,000,572
	Logging and mud-logging	Based on normal commercial terms or relevant agreements	1,316,014	2,168,197
	Special down-hole service	Based on normal commercial terms or relevant agreements	2,875,760	5,557,226
	Engineering & construction	Based on normal commercial terms or relevant agreements	7,275,199	8,963,471
	Other services	Based on normal commercial terms or relevant agreements	471,248	463,530

Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Joint ventures and associates	Services	Based on normal commercial terms or relevant agreements	686,314	—

(3) Details of related comprehensive services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	1,588,968	1,602,780
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	277,718	244,567

(4) Technology research and development service

Sales of technology research and development service:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	227,264	275,613

(5) Details of related party leases

The Group as a lessee

Name of lessor	Type of leasing assets	Pricing policy and procedure for decision-making	Leasing expense for the current period	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Land and buildings	Based on normal commercial terms or relevant agreements	130,902	152,312

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(6) Related party guarantees

① The Group as a guarantee

Guarantor	Type of guarantee	Amount of guarantee	Beginning date	Maturity date	Status of Guarantee
Sinopec Group	Performance guarantee	USD 210,000,000	June 2013	January 2018	Incomplete

② The Group as a guarantor

Guarantee	Type of guarantee	Amount of guarantee	Beginning date	Maturity date	Status of Guarantee
Sinopec International Oil Engineering Company Limited	Performance guarantee	USD 588,000,000	May 2015	December 2020	Incomplete
Sinopec International Oil Engineering Company Limited	Performance guarantee	USD 61,830,000	February 2016	August 2019	Incomplete

(7) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms or relevant agreements	2,533	1,602
	Loan interest expense	Based on normal commercial terms or relevant agreements	486,755	335,616
	Entrusted loans	Based on normal commercial terms or relevant agreements	—	1,097,000
	Entrusted loans interest income	Based on normal commercial terms or relevant agreements	27,555	2,406
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	52,286,133	56,746,079
	Payment of the loan	Based on normal commercial terms or relevant agreements	47,300,764	56,543,528
CITIC Bank	Deposit interest income	Based on normal commercial terms or relevant agreements	—	—

(8) Security fund

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2016	Amount of the year ended 31 December 2015
Sinopec Group	Security fund expenditure	Relevant agreement	90,143	89,215
	Return on security fund	Relevant agreement	87,340	42,806

(9) Remuneration of key management personnel

The Group has 25 key management personnel for the year ended 31 December 2016 and 31 for the prior period. The remuneration payment is as follows:

Item	For the year ended 31 December 2016	For the year ended 31 December 2015
Remuneration	6,354	7,079
Retirement scheme contribution	533	526
Share options	103	—
Total	6,990	7,605

X. RELATED PARTIES AND TRANSACTION (Continued)

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

		As at 31 December 2016		As at 31 December 2015	
Item	**Related party**	**Balance**	**Provision for bad debt**	Balance	Provision for bad debt
Bank deposit	Sinopec Finance Co., LTD	**178,446**	—	17,745	—
	Sinopec Century Bright Capital Investment Limited	**921,255**	—	940,413	—
	CITIC Bank	**1**	—	1	—
Accounts receivable	Sinopec Group and its subsidiaries	**14,464,757**	—	17,797,091	—
	Joint ventures of the Group	**13**	—	1,078	—
	Joint ventures and associates of Sinopec Group	**214,270**	—	283,281	—
Prepayments	Sinopec Group and its subsidiaries	**19,144**	—	16,460	—
	Joint ventures and associates of the Group	**7,145**	—	—	—
Other receivables	Sinopec Group and its subsidiaries	**366,978**	—	251,127	—
	Joint ventures of the Group	**10,758**	—	308	—
	Joint ventures and associates of Sinopec Group	**15,196**	—	1,570	—

(2) Payables to related parties

Item	**Related party**	**As at 31 December 2016**	As at 31 December 2015
Accounts payable	Sinopec Group and its subsidiaries	**1,979,856**	2,071,793
	Joint ventures of the Group	**85,043**	31,983
	Joint ventures and associates of Sinopec Group	**58,918**	81,400
Prepayments	Sinopec Group and its subsidiaries	**8,584,825**	7,427,431
	Joint ventures and associates of Sinopec Group	**9,909**	69,231
Other payables	Sinopec Group and its subsidiaries	**3,781,374**	3,785,680
Short-term borrowings	Sinopec Finance Co., LTD	**1,180,000**	2,145,000
	Sinopec Century Bright Capital Investment Limited	**9,353,731**	9,925,312
	Sinopec Group	**6,500,000**	—
Interest payable	Sinopec Group and its subsidiaries	**73,627**	14,823
Long-term loan	Sinopec Finance Co., LTD	**80,000**	150,000
	Sinopec Century Bright Capital Investment Limited	**366,343**	51,949

XI. PAYMENT OF SHARE OPTION

1. general information of payment of share options

On 1 November 2016, the Proposal regarding the Adjustment of the List of Participants and the Number of the Share Option under the Proposed Grant of the Share Option Incentive Scheme and the Proposal regarding the Proposed Grant under the Share Option Incentive Scheme were reviewed and adopted at the 14th meeting of the Eighth Session of the board of directors of Sinopec Oilfield Service Corporation.

The Company granted 49,050,000 A share options (0.3469% of the total share capital of the company) to 477 employees on the grant date, 1 November 2016. The Exercise Price of the Proposed Grant shall be RMB5.63 per share. The Company may only grant options under the Scheme to the Participants provided that both the Company and the Participants have fulfilled the following conditions:

I. The Company's compound growth rate for 2017、2018、2019 shall not be less than 6% (on the base of the Company's profit before income tax for 2015)

II. The Company's EOE for 2017、2018、2019 shall not be less than 32%;

The performance conditions of item Ⅰ and Ⅱ are no less than the average performance level of the target enterprise.

III. The Economic Value Added for 2017、2018、2019 reaches the performance objective set by China Petrochemical Corporation, and ΔEVA shall be more than 0.

As at 31 December 2016, the exercise date and exercise price of the share options are as follows, the share options will expire in 12 months after the exercise date:

Exercise date	Exercise price (RMB per share)	Number of share options
1 November 2018	5.63	14,715,000.00
1 November 2019	5.63	14,715,000.00
1 November 2020	5.63	19,620,000.00

2. Changes of share options for 2016

	2016
Number of share options at the beginning of 2016	—
Number of share options granted in 2016	49,050,000
Number of share options exercised in 2016	—
Number of share options lapsed in 2016	—
Number of share options in the end of 2016	49,050,000

3. Calculation of the fair value of the share options on the Grant Date

The Company has elected the Black-Scholes option pricing model to calculate the fair value of the share option. On the Grant Date of the Share Options, the principle figures are as follows:

	Granting date
Exercise price for the Proposed Grant(RMB: yuan)	5.63
Validity period of the share options(year)	3-5
Closing price of A share(RMB: yuan)	3.96
Expected volatility	46.17%
Expected dividend yield ratio	0
Risk-free rate of interest during the validity period	2.3407%-2.4518%

The fair value of share options calculated with the figures above is RMB54.2292 million.

4. The impact on financial condition and operating results under the Share Option Scheme:

	2016
The cost of equity-settled share-based payment within the period	3,016
The accumulated amount of equity-settled share-based payment in capital reserves	3,016

XII. COMMITMENTS AND CONTINGENCES

1. Principle commitments

(1) Capital commitments

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	2016	2015
Land and buildings, plant & machineries	640,414	803,406

(2) Operating lease commitments

As at the date of balance sheet date, the future minimum lease payment under the sighed irrevocable operating leases contracts are summarized as follows:

Minimum lease payment under irrevocable operating lease contracts	2016	2015
Within one year	294,430	280,765
Between one and two years	46,589	31,728
Between three and four years	36,139	19,271
After four years	41,058	80,626
Total	418,216	412,390

(3) Investment commitments

As at 31 December 2016, the outstanding commitments in respect of the Group's investment in associates which is not provided in the financial statements is RMB 129,625,000. (2015: RMB 129,625,000)

(4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2016.

2. Contingency

(1) Contingent liabilities due to pending actions

The Group might involve in disputes, litigations and claims for compensation with customers, sub-contractors and suppliers in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, litigations or other proceedings and believes that any resulting liabilities will not have material adverse effect on the financial position, operating results or cash flow of the Group.

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

As at 31 December 2016, there is no contingent liability from guarantee provided for other entities.

As at 31 December 2016, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD 649,830,000 guarantee to its subsidiaries (2015: USD 649,830,000).

(3) Overseas 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, SOSC Group did not provide the provision of such incident.

(4) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No. 644) issued by the State Administrative of Taxation in June 2007, the Company has been informed the relevant tax authority to settle the corporation income tax ("CIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional CIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 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

XIII. POST BALANCE SHEET DATE EVENTS

As at 28 March 2017, there are no other events after balance sheet date to be disclosed in the Group.

XIV. 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 operation

There is no discontinued operation during the reporting period.

5. Segment information

The Group has identified five reportable segments based on the internal structure, management requirements and internal reporting policy. The reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, engineering construction. 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.

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2016 and as at 31 December 2016	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	3,605,962	19,580,682	1,602,528	3,925,463	12,948,012	2,131,141	-870,288	42,923,500
Including:External revenue	3,605,962	19,405,525	1,538,534	3,879,024	12,878,284	1,616,171	—	42,923,500
Including: Inter-segment revenue	—	175,157	63,994	46,439	69,728	514,970	-870,288	—
Including: Major business revenue	3,605,915	19,543,909	1,601,762	3,914,352	12,896,790	1,592,303	-870,288	42,284,743
Cost of sales	4,208,877	25,051,835	2,119,758	4,826,787	16,158,236	2,021,539	-870,288	53,516,744
Including:Major business cost	4,208,691	25,016,236	2,115,511	4,822,213	16,095,821	1,649,116	-870,288	53,037,300
Operating expenses	463,267	1,984,401	369,923	452,424	1,464,105	713,622	—	5,447,742
Operating profit/(loss)	-1,066,182	-7,455,554	-887,153	-1,353,748	-4,674,330	-604,019	—	-16,040,986
Total assets	5,757,665	36,873,638	3,477,663	9,009,124	18,465,114	18,576,616	-17,666,654	74,493,166
Total liabilities	4,027,462	22,347,804	1,999,770	4,307,503	23,986,109	27,049,580	-17,666,654	66,051,574
Supplementary information:								
Capital expenditure	317,188	798,292	29,671	175,163	75,863	41,450	—	1,437,627
Depreciation and amortization	615,360	3,659,191	269,306	563,558	248,351	176,333	—	5,532,099
Impairment loss on assets	46,767	166,265	33,071	156,949	345,264	6,030	—	754,346

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(2) Other segment information

① External revenue of goods and services

Item	2016	2015
Geophysics	**3,605,962**	5,340,826
Drilling engineering	**19,405,525**	28,743,959
logging and mud logging	**1,538,534**	2,474,434
Special down-hole operations	**3,879,024**	6,928,401
Engineering construction	**12,878,284**	15,614,180
Others	**1,616,171**	1,247,534
Total	**42,923,500**	60,349,334

② Geographical information

For the year ended 31 December 2016 and as at 31 December 2016	**PRC**	**Other countries or regions**	**Total**
External revenue	**30,170,197**	**12,753,303**	**42,923,500**
Non-current assets	**27,927,117**	**5,435,471**	**33,362,588**

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

③ The dependence of principle customers

A single customer contributed over 50% of the total revenue of the Group.

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	At 31 December 2016			At 31 December 2015		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	—	—	—	—
RMB	—	—	—	—	—	—
Cash at banks:	—	—	382,997	—	—	419,118
RMB	—	—	382,997	—	—	419,118
Total	—	—	382,997	—	—	419,118

As at 31 December 2016, there is no deposit in the related party of China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance").

At 31 December 2016, there is no deposits pledged to banks for issuing bankers' acceptances.

2. other receivables

	At 31 December 2016	At 31 December 2015
Other receivables	5,179,627	5,157,515
Less: provision for bad debts	—	—
Net amount	5,179,627	5,157,515

(1) Other receivables disclosed by categories

Category	At 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net amount
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	—	—	—	—	—
Related party grouping	5,179,627	100	—	—	5,179,627
Subtotal	5,179,627	100	—	—	5,179,627
Receivables of individually significant amount and with provision made on an individual basis	—	—	—	—	—
Total	5,179,627	100	—	—	5,179,627

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

2. other receivables (Continued)

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

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

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 investment

Item	At 31 December 2016	At 31 December 2015
Investments in subsidiaries	20,215,327	20,215,327
Less: provision for impairment of long-term equity investment	—	—
Total	20,215,327	20,215,327

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

(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	—	—

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Other payables

Item	At 31 December 2016	At 31 December 2015
Payables due to construction and equipment cost	—	—
The net profit or loss during the material assets reorganization	1,119,802	1,119,802
Others	—	—
Total	1,119,802	1,119,802

As at 31 December 2016, other payables with aging over 1 year with a carrying amount of RMB 1,119,802,000 (2015: 1,119,802,000) are net profit/loss during material assets reorganization due to Sinopec Group which are unsettled。

5. Share capital(Unit: thousand shares)

At 31 December 2016:

Item	At 1 January 2016	Changes in current (+、-)			At 31 December 2016
		Issued shares	Written 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
Total	14,142,661	—	—	—	14,142,661

As at 31December 2015

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

As mentioned in Note I, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those noncirculating shares without trading and transferring within 12 months since they obtains the circulating right. After the maturity of the restriction period, Sinopec Corp. and CITIC Limited can trade those non-circulating shares up to 5% of the Company's total shares within 12 months and 10% within 24 months. On 31 December 2014, 2,415,000,000 A shares held by Sinopec Corp were repurchased and written off. On 22 August 2016, 1,035,000,000 enterprise legal person shares held by CITIC Limited were circulated.

Approved by "Approval to the Material Assets Reorganization of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Coporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No. 1370) issued by China Securities Regulatory Committee, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co, Ltd on 13 February 2015. The net proceeds from the issuing were approximately RMB5,952,517,000 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.

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

6. Capital reserve

At 31 December 2016:

Items	At 1 January 2016	Increase for the period	Decrease for the period	At 31 December 2016
Share premium	11,683,349	—	—	11,683,349
Other capital reserve	67,969	3,016	—	70,985
Total	11,751,318	3,016	—	11,754,334

At 31 December 2015:

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

The net proceeds from the issuing in February 2015 were RMB 5,952,517,000 which increased capital reserves by RMB 4,619,184,000.

7. Surplus reserve

Items	At 31 December 2015	Increase for the period	Decrease for the period	At 31 December 2016
Statutory surplus reserve	200,383	—	—	200,383
Total	200,383	—	—	200,383

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

8. Retained earnings

Items	2016	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	-17,145	22,452	—
Retained earnings at the end of the year	-1,439,418	-1,422,273	

9. Business tax and surcharges

Item	2016	2015
Business tax	30	29
Urban maintenance construction tax	2	2
Education surtax	2	1
Total	34	32

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

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

10. General and administrative expenses

Item	2016	2015
Taxes	—	2,976
Consulting expenses	1,754	—
Audit fee	11,600	—
Conference cost	1,715	—
Payment of unexercised share options	3,016	—
Others	4,095	464
Total	22,180	3,440

11. Finance cost

Item	2016	2015
Interest expenses	—	—
Less: Interest income	5,071	25,949
Exchange losses	—	17
Bank charges and others	2	8
Total	-5,069	-25,924

12. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Item	2016	2015
Transactions with subsidiaries	412,093	—
Total	412,093	—

(2) Cash paid for other operating activities

Item	2016	2015
Transactions with subsidiaries	437,825	5,153,614
Other	15,426	43,887
Total	453,251	5,197,501

(3) Cash received from other financing activities

Item	2016	2015
Interest received from self-raised funds special deposit	5,071	25,932

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

13. Supplement information to cash flow statement

(1) Supplement information to cash flow statement

Supplement information		2016	2015
1.	Reconciliation of net profits to cash flows from operating activities:		
	Net (loss)/profit	-17,145	22,452
	Finance expense (Gain as in "-")	-5,071	—
	Decrease in operating receivables (Increase as in "-")	-22,112	-5,157,515
	Increase in operating payables (Decrease as in "-")	120	-65,446
	Others	3,016	—
	Net cash flows from operating activities	-41,192	-5,200,509
2.	Significant investment or financing activities not involving cash		—
	Transfer of assets to Sinopec Group	—	—
	Revaluation gains	—	—
	Fixed assets acquired under finance leases	—	—
3.	Net changes in cash and cash equivalents:		
	Closing balance of cash	382,997	419,118
	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	-36,121	419,118

(2) Composition of cash and cash equivalents

Item		2016	2015
1.	Cash	382,997	419,118
	Including: Cash in hand	—	—
	Cash at bank	382,997	419,118
2.	Closing balance of cash and cash equivalents	382,997	419,118
3.	Add:restricted deposit	—	—
4.	Closing balance of cash at bank and cash on hand	382,997	419,118

XVI. SUPPLEMENTARY INFORMATION

1. Details of non-recurring gains or losses

Item	2016	Notes
Gain or loss on disposal of non-current assets	-68,312	
Government grants recognized in profit or loss for the year/period	74,863	
Gain from entrusted investment and financing	27,555	
Non-operating income/(expenses) except the above	25,703	
Total non-recurring gains or losses	59,809	
Less: Effects of income tax on non-recurring gains or losses	701	
Net non-recurring gains or losses	59,108	
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	59,108	

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) (Yuan/share)	Diluted earnings/(loss) (Yuan/share)
Net profit attributable to the Company's ordinary equity shareholders	-97.19	-1.139	-1.139
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-97.55	-1.144	-1.144

3. Differences between local and overseas accounting standards

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

	Net profit attributed to parent company		Net assets attributed to parent company	
	2016	2015	2016	2015
Based on CASBE	-16,114,763	24,478	8,442,868	24,638,094
Adjusted items and amounts in accordance with IFRS:	—	—	—	—
Government grants	—	—	—	—
Special reserve	-83,479	-36,021	—	—
Based on IFRS	-16,198,242	-11,543	8,442,868	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

28 March 2017

GrantThornton
致同

Independent Auditor's Report

To the Shareholders of Sinopec Oilfield Service Corporation

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

OPINION

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 161 to 225, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follow:

Key Audit Matter
Revenue recognition

Refer to notes 2.23 (Revenue recognition), notes 3(5) (Critical accounting judgement and estimates), notes 4 (Revenue), and notes 24 (contract work-in-progress) to the consolidated financial statements for related disclosures and accounting polices respectively.

Revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to PRC and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services.

According to the accounting policies, when the outcome of rendering of services and construction contracts can be estimated reliably, revenue and cost of sales associated with the rendering of services and construction contracts shall be recognised by respective percentage of completion method at the end of the reporting period.

Under the percentage of completion methods, stage of completion and estimated total costs mainly rely on management's estimation and judgement. Hence, we have identified the revenue recognition related to rendering of services and construction contracts as a key audit matter.

How our audit addressed the Key Audit Matter
Our procedures in relation to the revenue recognition related to rendering of services and construction contracts included:

– understanding, assessing and testing the design and implementation of internal controls about management's determination on the stage of completion, the actual contract costs incurred and the estimated total costs to evaluate the operating effectiveness of such internal controls;

– reviewing contracts and interviewing with the management to understand and assess the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted costs;

– performing variance analysis by comparing the accumulated costs incurred up to the end of the reporting period with the budgeted costs, checking the significant costs incurred subsequent to the reporting period and assessing the reasonableness of the total budgeted costs;

– testing, on a sample basis, the application of the percentage of completion methods by cross-checking the principal terms set out in the relevant contracts the supporting documents such as acceptance certificates and progress reports being issued by customers;

– evaluating the reasonableness about budgeted revenue, budgeted costs and budgeted gross profit of sub-divisional contracts by analysis and calculation; and

– testing, on a sample basis, the amount and period of the aforesaid revenue recognised having regard to respective stage of completion at the end of the reporting period.

We found that the management's judgment in determining the stage of completion and the estimated total costs is supported by available evidence.

Key Audit Matter

Impairment assessment on property, plant and equipment and other non-current assets

Refer to notes 2.6 (Property, plant and equipment), notes 2.27 (Other non-current assets), notes 2.9 (Impairment of non-financial assets), notes 3(3) (Critical accounting judgement and estimates) and notes 17 (Property, plant and equipment) to the consolidated financial statements for related disclosures and accounting polices respectively.

The carrying values of property, plant and equipment and other non-current assets as at 31 December 2016 were approximately RMB 29,674,103,000 and RMB 4,048,981,000 respectively. The management determines the property, plant and equipment and other non-current assets having impairment indicators in accordance with IAS 36 - "Impairment of Assets". The capital expenditure from major customers declined due to a global low crude prices, leading to substantial decline in the Group's workload and operating loss was generated for the year ended 31 December 2016. Accordingly, management considered that there were impairment indicators in the property, plant and equipment and other non-current assets.

Management performed an impairment assessment on property, plant and equipment and other non-current assets having impairment indicators to test whether the asset's carrying amount exceeds its recoverable amount in accordance with IAS 36 - "Impairment of Assets". In determining the present value of estimated future cash flow, the management's significant judgement is required on estimations about revenue growth rates, service price, growth rates of related operating costs and discount rates of the asset or asset group. After the assessment, management considered no impairment loss on such assets was provided during the year.

We identified the impairment assessment on property, plant and equipment and other non-current assets as a key audit matter because the involvement of numerous estimations and judgements, and significant balance of aforesaid assets.

How our audit addressed the Key Audit Matter

Our procedures in relation to the impairment assessment on property, plant and equipment and other non-current assets included:

– understanding and assessing the Group's internal controls related to identification of impairment indicators and the measurement of recoverable amount, and testing operating effectiveness of such internal controls;

– performing physical inspection of relevant assets to evaluate existence of impairment indicators;

– evaluating the external valuer's competence, professional quality and objectivity;

– assessing the appropriateness of valuation method adopted by the management with reference to the external valuation report; and

– reviewing the management's key assumptions and the parameters used to estimate future cash flow, including comparing the key assumptions and parameters with supporting evidence, to consider the appropriateness of the assumptions and estimations.

We found that the management's judgment in determining the impairment assessment on property, plant and equipment and other non-current assets is supported by available evidence.

Key Audit Matter

Change in useful lives of property, plant and equipment

Refer to notes 2.6 (Property, plant and equipment), and notes 3(4) (Critical accounting judgement and estimates) to the consolidated financial statements for related disclosures and accounting polices respectively.

Being approved by the Board of the Directors, the change in useful lives of certain oil engineering equipments such as oil rigs, marine drilling equipments, logging and testing equipments, has been applied prospectively from 1 January 2016. Such change reduced depreciation charges of the property, plant and equipment and amortisation charges of other non-current assets, amounting to approximately RMB 799,966,000 for the year ended 31 December 2016. Accordingly, loss before income tax for the year ended 31 December 2016 reduced by RMB 799,966,000. Management reviewed the useful lives of property, plant and equipment at the end of each reporting period and concluded that the change in useful lives of such assets was required in accordance with IAS 16 - "Property, Plant and Equipment"

Since the estimated useful lives of property, plant and equipment mainly rely on management's judgment, that is subject to bias and based on management's past experience with the expected technical changes, and the amount is significant, we identified the change in useful lives of property, plant and equipment as a key audit matter.

How our audit addressed the Key Audit Matter

Our procedures in relation to the change in useful lives of property, plant and equipment included:

– understanding and assessing the Group's internal controls related to identification of change in accounting estimates and testing operating effectiveness of such internal controls;

– understanding and evaluating the reasonableness about the change in useful lives of property, plant and equipment by discussing with the management;

– performing physical inspection of relevant assets, on a sample basis, to understand whether the useful lives of relevant assets are required to be extended;

– inspecting, on a sample basis, relevant asset's appraisal results of technical standards and quality standards and evaluating whether the change in estimated useful lives of relevant assets are adopted practically; and

– re-performing a test on the financial impact of the change in the estimated useful lives, and reviewing the appropriateness of relevant accounting treatments.

We found that the management's judgment in determining the change in useful lives of property, plant and equipment is supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information in the annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

28 March 2017

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
Revenue	4	**42,923,500**	60,349,334
Cost of sales and business taxes		**(54,001,774)**	(55,317,074)
Gross (loss)/profit		**(11,078,274)**	5,032,260
Selling expenses		**(58,558)**	(62,315)
General and administrative expenses		**(3,756,029)**	(4,043,145)
Finance (expenses)/income - net	6	**(449,703)**	(654,684)
Impairment losses on assets	7	**(754,346)**	(171,376)
Investment income	8	**500**	642
Share of profit/(loss) from joint ventures	20(a)	**572**	(11,958)
Share of profit from associates	20(b)	**407**	—
Operating (loss)/profit		**(16,095,431)**	89,424
Other income	9	**337,844**	471,912
Other expenses	10	**(129,594)**	(91,617)
(Loss)/Profit before income tax	11	**(15,887,181)**	469,719
Income tax expense	12	**(311,196)**	(481,421)
Loss for the year		**(16,198,377)**	(11,702)
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive expense for the year		**(16,198,377)**	(11,702)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(16,198,242)**	(11,543)
Non-controlling interests		**(135)**	(159)
Total comprehensive expense for the year		**(16,198,377)**	(11,702)
		RMB	RMB
Loss per share for loss attributable to owners of the Company (presented in RMB per share)	13		
Basic and diluted		**(1.145)**	(0.001)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	As at 31 December 2016	As at 31 December 2015
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	17	29,674,103	31,718,367
Other non-current assets		4,048,981	4,775,091
Prepaid land leases	18	108,178	104,954
Intangible assets	19	77,147	77,249
Interests in joint ventures	20(a)	209,444	208,922
Interests in associates	20(b)	11,885	7,478
Available-for-sale financial assets	21	24,389	40,494
Deferred income tax assets	37	183,548	187,430
Total non-current assets		34,337,675	37,119,985
Current assets			
Inventories	25	1,453,729	1,978,726
Notes and trade receivables	22	24,759,158	27,262,259
Prepayments and other receivables	23	3,628,021	4,144,668
Amounts due from customers for contract works	24	7,864,648	12,790,549
Restricted cash	26	3,012	18,381
Cash and cash equivalents	27	2,446,923	1,993,209
Total current assets		40,155,491	48,187,792
Total assets		74,493,166	85,307,777
Equity			
Share capital	28	14,142,661	14,142,661
Reserves		(5,699,793)	10,495,433
Equity attributable to owners of the Company		8,442,868	24,638,094
Non-controlling interests		(1,276)	(1,141)
Total equity		8,441,592	24,636,953
Liabilities			
Non-current liabilities			
Long term borrowings	36	796,634	670,123
Deferred income	32	112,171	59,008
Special payables	33	—	1,051
Deferred income tax liabilities	37	27,280	31,251
Total non-current liabilities		936,085	761,433
Current liabilities			
Notes and trade payables	34	30,310,227	30,193,846
Deposits received and other payables	35	8,473,882	9,508,867
Amounts due to customers for contract works	24	8,983,973	7,804,513
Short term borrowings	36	17,254,639	12,157,672
Current income tax payable		92,768	244,493
Total current liabilities		65,115,489	59,909,391
Total liabilities		66,051,574	60,670,824
Total equity and liabilities		74,493,166	85,307,777
Net current liabilities		(24,959,998)	(11,721,599)
Total assets less current liabilities		9,377,677	25,398,386

Chairman of the Board:
JIAO Fangzheng

Vice Chairman of the Board, General Manager:
SUN Qingde

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 (Note 28)	RMB'000 (Note 30(i))	RMB'000 (Note 30(i))	RMB'000 (Note 30(ii))	RMB'000 (Note 30(iii))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	12,809,328	4,207,063	67,969	200,383	295,568	1,116,809	18,697,120	(982)	18,696,138
Total comprehensive loss	—	—	—	—	—	(11,543)	(11,543)	(159)	(11,702)
Transactions with owners:									
Issued of share capital (Note 28)	1,333,333	4,619,184	—	—	—	—	5,952,517	—	5,952,517
Appropriation of specific reserve	—	—	—	—	951,980	(951,980)	—	—	—
Utilisation of specific reserve	—	—	—	—	(988,001)	988,001	—	—	—
Total transactions with owners	1,333,333	4,619,184	—	—	(36,021)	36,021	5,952,517	—	5,952,517
At 31 December 2015 and 1 January 2016	**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 loss	**—**	**—**	**—**	**—**	**—**	**(16,198,242)**	**(16,198,242)**	**(135)**	**(16,198,377)**
Transactions with owners:									
Equity-settled share-based transaction (Note 31)	**—**	**—**	**3,016**	**—**	**—**	**—**	**3,016**	**—**	**3,016**
Appropriation of specific reserve	**—**	**—**	**—**	**—**	**615,847**	**(615,847)**	**—**	**—**	**—**
Utilisation of specific reserve	**—**	**—**	**—**	**—**	**(699,326)**	**699,326**	**—**	**—**	**—**
Total transactions with owners	**—**	**—**	**3,016**	**—**	**(83,479)**	**83,479**	**3,016**	**—**	**3,016**
At 31 December 2016	**14,142,661**	**8,826,247**	**70,985**	**200,383**	**176,068**	**(14,973,476)**	**8,442,868**	**(1,276)**	**8,441,592**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash flows (used in)/from operations	39	(3,392,359)	3,311,534
Income tax paid		(463,010)	(715,749)
Net cash (used in)/generated from operating activities		(3,855,369)	2,595,785
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,188,871)	(3,745,155)
Proceeds from disposal of property, plant and equipment		17,416	26,518
Payment of prepaid land leases		(6,040)	(55,361)
Purchases of intangible assets		(33,246)	(53,429)
Increase in investments in joint ventures		—	(113,042)
Increase in investments in associates		(4,000)	(7,350)
Dividends received from joint ventures		50	33
Collection of/(lend out of) entrusted loans		951,000	(1,097,000)
Interests received		61,811	40,673
Investments income received from available-for-sale financial assets		500	642
Net cash used in investing activities		(201,380)	(5,003,471)
Cash flows from financing activities			
Proceeds from borrowings		52,017,245	55,567,800
Repayments of borrowings		(47,074,937)	(56,227,818)
Interests paid		(431,845)	(333,053)
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)
Net cash generated from financing activities		4,510,463	3,199,141
Net increase in cash and cash equivalents		453,714	791,455
Cash and cash equivalents at beginning of year		1,993,209	1,201,754
Cash and cash equivalents at end of year	27	2,446,923	1,993,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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") were 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 31 December 2016, the Group had net current liabilities of approximately RMB 24,959,998,000 (2015: RMB 11,721,599,000) and capital commitments of approximately RMB 640 million; and it had a net loss of RMB16,198,377,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. On 21 March 2017, the Company obtained a line of credit of RMB 10.5 billion and USD 1.7 billion (Total: approximately RMB 22 billion) from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity and capital requirements, and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

1.3 Consolidation financial statements

These consolidation financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 28 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidation financial statements are set out below.

2.1 Basis of preparation

The consolidation financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). These consolidation financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The consolidation financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of consolidation financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 below.

The IASB has issued a number of new and revised IFRS. The Group has adopted all these revised IFRS, which are relevant to the Group and effective for the accounting period beginning on or after 1 January 2016:

IAS 1 Amendment	Disclosure Initiative
IAS 16 and IAS 38 Amendments	Clarification of methods of depreciation and amortisation
IAS 27 Amendment	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
IFRS 11 Amendment	Acquisition of an interest in a joint operation
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

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

The new and revised accounting standards issued but not yet effective for the accounting period ended 31 December 2016 which are relevant to the Group but the Group has not early adopted are set out below:

IAS 7 Amendment	Statement of Cash Flows[1]
IAS 12 Amendment	Income Taxes[1]
IFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions[2]
IFRS 9 (2014)	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 15 Amendment	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1] Accounting periods beginning on or after 1 January 2017
[2] Accounting periods beginning on or after 1 January 2018
[3] Accounting periods beginning on or after 1 January 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalized version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principlebased approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 15 Revenue from Contracts with Customers

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

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

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

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

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

In April 2016, the IASB issued Clarifications to IFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is yet to assess IFRS 15's full impact.

IFRS 16 Leases

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases. In contrast, the Standard does not include significant changes to the requirements for accounting by lessors. The Standard supersedes IAS 17 Leases and its associated interpretative guidance. It is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted for entities that have also adopted IFRS 15 Revenue from Contracts with Customers. The Group is yet to assess IFRS 16's full impact.

Other than that, none of the non effective IFRS or interpretation from IFRS interpretation committee is expected to have material impact on the Group's accounting policies and Group's consolidated financial statements.

2.2 Accounting for business combinations under common control and not under common control

(1) Business combination involving entities under common control

Presented in Note 1 for the disclosure of the Reorganisation, for the business combinations involving entities under common control, the assets and liabilities that are obtained in a business combination shall be measured at their original carrying amounts at the date of combination as recorded by the party being combined, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination shall be adjusted to other capital reserve/share premium, if the other capital reserve/share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

(2) Business combination involving entities not under common control

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

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and subsequently measured at costs less any accumulative impairment losses. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control through step acquisition

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

(3) Transaction fees attributed during the business combination

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements

(1) Scope of consolidation

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

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates (which includes any other unsecured receivables that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Joint Arrangements

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

(1) Joint operations

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

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

A. its assets, including its share of any assets held jointly;

B. its liabilities, including its share of any liabilities incurred jointly;

C. its revenue from the sale of its share of the output arising from the joint operation;

D. its share of the revenue from the sale of the output by the joint operation;

E. its expenses, including its share of any expenses incurred jointly.

(2) Joint ventures

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(2) Method of preparation of consolidated financial statements

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

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

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

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

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

(3) Treatment of loss of control of subsidiaries

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

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

2.4 Segment reporting

The Group has identified several reportable segments based on the internal structure, management requirements and internal reporting policy. The segment information is prepared based on the financial information of the Company's daily management requirements, which are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's executive management reviews reportable segments' financial information regularly for the purposes of resources allocation and performance assessment.

2.5 Foreign currency transactions and translation of foreign currency statements

(1) Foreign currency transactions

When foreign currency transactions occur, they are translated into the reporting currency at spot exchange rate at the dates of the transactions.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency transactions and translation of foreign currency statements (Continued)

(2) Translation of foreign currency statements

At the reporting date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the statement of financial position are translated using the spot exchange rate at the reporting date; all items except "retained earnings" of the shareholders' equity are translated at the spot exchange rate.

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

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

Differences arising from the translation of financial statements are separately reflected in the "other comprehensive income" in the shareholders' equity of the statement of financial position.

When there is a loss of control in overseas operations, the exchange reserve related to overseas operations presented in the shareholders' equity in the statement of financial position shall be transferred to profit or loss in current period wholly or based on the percentage of overseas operations.

2.6 Property, plant and equipment

(1) Recognition and initial measurement of property, plant and equipment

The Group's property, plant and equipment are tangible assets that are held for use in production, render of services, rentals, or administrative purposes and have useful lives of more than one accounting year.

Property, plant and equipment shall be recognised only when it is probable that economic benefits associated with the asset will flow into the entity and the cost of the asset can be measured reliably.

Property, plant and equipment of the Group are initially stated at cost less accumulated depreciation and accumulated impairment loss.

(2) Depreciation methods of property, plant and equipment

The Group uses the straight-line method for depreciation. Depreciation of the property, plant and equipment begins when they achieved the condition for their intended use, and stop being depreciated when derecognised or classified as held for sale under non-current assets. For those property, plant and equipment without considering impairment provision, the Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Buildings	12 – 50 years
Oil engineering equipment and others	4 – 30 years

Among these, property, plant and equipment which have been impaired should deduct the cumulative amount of impairment provision to determine the depreciation rate.

The method of impairment test and impairment provision of property, plant and equipment set out in Note 2.9.

(3) Recognition and measurement of assets under finance leases

The leased property, plant and equipment of the Group shall be recognised as assets under finance lease if they meet the following one or more criteria:

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

– The Group has the option to buy the leased assets at a purchase price estimated to be far below the fair value of leased assets when exercising the option. Thus, at the beginning date of lease period, it is reasonably determined that the Group will exercise the option.

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

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

– Leased assets have special characteristics and they can be used by the Group only if they are not reconstructed.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

(4) Estimated useful lives, residual value and depreciation methods

The Group reviews the useful life and estimated net residual value of a property, plant and equipment and the depreciation method applied annually at each of the period end.

The useful lives of property, plant and equipment are adjusted if their expected useful lives are different from the original estimates; the estimated net residual values are adjusted if they are different from the original estimates.

(5) Overhaul costs

The overhaul costs occurred in regular inspection of property, plant and equipment are recognised in the cost of property, plant and equipment if there is undoubted evidence to confirm that they meet the recognition criteria of fixed assets, otherwise, the overhaul costs are recognised in profit or loss for the current period. Property, plant and equipment are depreciated during the intervals of the regular overhaul.

(6) Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditures incurred during the construction period, borrowing costs that shall be capitalised before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to property, plant and equipment when the assets are ready for their intended use.

For provision for impairment of construction in progress, refer to Note 2.9.

2.7 Prepaid land leases

Prepaid land leases represent the prepayment of land use rights. Prepaid land leases are carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated on straight-line basis over the respective periods of the rights.

2.8 Intangible assets

Intangible assets include software, etc.

The Group initially measures the intangible asset at cost, and analyses and judges its useful life when it is acquired. An intangible asset with a finite useful life is amortised using the method which can reflect the expected realisation of economic benefits related to the asset over its expected useful life since the asset is available for use; an intangible asset which expected realisation cannot be reliably measured is amortised using straight-line method; an intangible asset with an indefinite useful life is not amortised.

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

Software	5 years
Others	10 years

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each financial year, if it is different from the previous estimate, adjustment is made at previous estimates and accounted for according to changes in accounting estimates.

The carrying amount of an intangible asset should be transferred to profit or loss in current period when it is estimated that no further economic benefits can be brought to the Group as at the reporting date.

For the impairment method of intangible assets, refer to Note 2.9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment of non-financial assets such as subsidiaries, associates, joint arrangements, property, plant and equipment, construction in progress, intangible assets are determined as follows:

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

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

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

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

When there is an indication of impairment in the asset and asset group, the group should test for impairment for the asset and asset group except goodwill and calculate the recoverable amount and recognise the impairment loss accordingly. The group should test for impairment for asset or the asset group including goodwill and compare its recoverable amount with its carrying amount, provision for impairment of assets shall be recognised when the recoverable amount of assets is lower than its carrying amount.

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

2.10 Financial instruments

Financial instruments refer to contractual arrangement forming entity's financial assets and other entities' financial liabilities or equity instruments.

(1) Recognition and derecognition of financial instruments

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

The financial assets or financial liabilities are derecognised when one of the following conditions is met:

– The contractual right to receive the cash flows of that financial assets expired;

– The financial asset has been transferred, and meet the conditions of derecognition as below.

If the obligations of financial liability have been partly or wholly discharged, derecognise all or part of it. If the Group (debtor) has an agreement with creditors to replace the current financial liability and the new financial liability which contract clauses are substantially different, derecognise the current financial liability and recognise new financial liability.

If the financial assets are traded in regular basis, they are recognised and derecognised at the transaction date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(2) Classification and measurement of financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition as at fair value through profit or loss and subsequently accounted for changes in fair value through profit or loss. For these kind of financial assets subsequently measured at fair value, all gains or losses on fair value changes and relevant dividend and interest income are recognised in profit or loss for the current period.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including trade receivables and other receivables. Receivables are subsequently measured at amortised cost using the effective interest method; gains and losses arising from derecognition, impairment or amortisation is recognised in profit or loss in current period.

Available-for-sale financial assets

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

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

(3) Classification and measurement of financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities in trading nature and financial liabilities designated as fair value through profit or loss at initial recognition. Such financial liabilities are subsequently measured at fair value, all gains or losses arising from changes in fair value are recognised in profit or loss in current period.

Other financial liabilities

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

(4) Fair value of financial instruments

The recognition of financial assets and liabilities at fair value are set out in Note 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(5) Impairment of financial assets

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

The objective evidence of impairment of the financial assets is including but not limited to:

1. significant financial difficulty of the debtor or issuer;
2. a breach of contract by the debtor, such as a default or delay in interest or principal payments;
3. the Group has economic or legal consideration relating to the debtor, granting a concession to the debtor who has financial difficulty;
4. it is probable that the debtor will enter into bankruptcy or other financial restructuring;
5. the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
6. upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot be identified by the individual financial assets in the group. Such observable data includes:
   – Adverse effects in the repayment of debtor in the group of financial assets;
   – Economic conditions of the country or region that the debtor located may lead to a failure of repayment of the financial assets;
7. significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, indicating that the cost of investment in an equity instrument may not be recovered by the investor;
8. a significant decline in the fair value of an investment in an equity instrument below its cost or a prolonged decline (i.e., fair value decline lasting 12 months);

   Prolonged decline represented the monthly average fair value of the equity instruments is lower than the initial investment cost continuously for 12 months;
9. other objective evidence that indicate any impairment of a financial asset.

Financial assets measured at amortised cost

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

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

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

Available-for-sale financial assets

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

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

Financial assets measured at cost

For equity instruments that do not have an active market and their fair values cannot be measured reliably, or derivative financial assets which are linked to equity instrument that is settled by delivering such equity instrument. If there's objective evidence that the financial assets are impaired, the difference between the carrying amount and the present value discounted at the market rate of return on future cash flows of the similar financial assets shall be recognised as impairment loss in profit or loss in current period. The impairment loss recognised shall no longer be reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(6) Transfer of financial assets

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

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

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

(7) Offsetting financial assets and financial liabilities

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

2.11 Fair value measurement

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

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The Group shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, in priority to use relevant observable inputs and only use unobservable inputs when observable inputs cannot be obtained.

The fair value measurement of the assets and liabilities measured at fair value is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

At each reporting date, the Group reassesses the assets and liabilities measured at fair value to ensure any transfer between the levels of the fair value hierarchy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Inventories

(1) Classification

Inventories include raw materials, work in progress, consumables, finished goods and issuing goods, etc.

(2) Determination of cost

Inventories are recognised at its actual cost when acquired. Inventories are calculated by weighted average method when issued.

(3) Recognition of the net realisable value and provision for impairment of inventories

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

At the reporting date, if the cost of inventory of the Group exceeds its net realisable value, provision for impairment of inventories is recognised. The Group normally recognises provision for impairment of inventories individually, if the factors caused the inventory previously written-down have disappeared, provision for impairment of inventories in the amount originally provided is reversed.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortisation methods of consumables

Consumables include low-value consumables that are amortised in full when used.

2.13 Construction contracts

Construction contracts are measured at actual costs incurred, which includes all direct and indirect cost incurred from the date of contract to the date of completion. Costs incurred for construction contracts plus recognised gross profit/gross loss less progress billings are presented in the statement of financial position on a net basis. For contracts whose costs incurred to date plus recognised profits (less recognised losses) exceeds progress billings, the balance is presented as the “amounts due from customers for contract works”. For contracts whose progress billings exceeds costs incurred to date plus recognised profits (less recognised losses), the balance is presented as the “amounts due to customers for contract works”.

Other costs such as travelling and tender fees incurred for the contracts that can be separately disclosed and reasonably measured, and it is highly possible that the relevant contract will be entered are capitalised as cost of contracts upon relevant contract has been entered, otherwise, recognised in the profit or loss when incurred.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary Shares are reclassified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Borrowing costs

(1) Recognition principle of capitalisation of borrowing costs

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

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

2) Borrowing costs are being incurred; and

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

(2) Capitalisation period of borrowing costs

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

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

(3) Calculation of rate and amount of borrowing costs to be capitalised

Interest expenses for specific borrowings incurred in the period, less interest income of unused specific borrowings deposited with bank or investment income arising from temporary investment are capitalised. The capitalisation rate of the general borrowing is determined by reference to the weighted average effective interest rate of general borrowings. The amount of capitalisation of general borrowings is determined by reference to the weighted average of the excess of the amount of cumulative expenditures of the asset over the amount of specific borrowings and the capitalisation rate of general borrowings.

During the capitalisation period, any exchange differences arising from specific foreign currency borrowings are capitalised; exchange differences arising from general foreign currency borrowings are recognised in the profit or loss.

2.17 Deferred tax assets and deferred tax liabilities

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

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

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

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

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

The Group recognised deductible temporary differences, deductible tax losses as deferred tax assets to the extent that they are available for set-off future taxable income unless such timing difference was arised from the following transactions:

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee Benefits

(1) Scope of employee benefits

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

(2) Short term employee benefits

Wages, bonuses, contribution to the social welfares (including medical insurance, injury insurance, birth insurance, etc.) and house funding are recognised as liability and to the profit of loss or cost of related assets in the period of relevant costs being incurred. If related liabilities in which the employees render their services are not expected to be wholly payable within twelve months after the financial period of relevant expenses being incurred and the financial impact is significant, relevant liabilities will be measured at discounted values.

(3) Post employment benefits

Post-employment comprised of defined contribution plan. The Group's obligations under the defined contribution plan are limited to the fixed amount of contribution to the independent trustee.

Defined contribution plans

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity scheme.

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group has no other significant commitments of social security of employees.

The Group recognised the contribution payable under the defined contribution plan as liabilities with corresponding amount recognised in the profit or loss of the financial period of services rendered by employees.

(4) Termination benefits

The Group recognises termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The Group cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or (ii) The Group recognises the payment of the termination benefits costs and expenses.

(5) Other long-term employee benefits

Other long-term employee benefits provided by the Group to its employees who meet with the conditions of defined contribution plan were treated in accordance with the relevant provisions of defined contribution plans as set out above.

2.19 Share-based payment and equity instruments

(1) Category of share-based payment

The term "share-based payment" refers to equity-settled share-based payment and cash-settled share-based payment. The Group's share option incentive plans are equity-settled share-based payments.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Share-based payment and equity instruments (Continued)

(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 other capital reserve accordingly. Within the vesting period, it will recognize the received service-related costs or expense and other capital reserves for each reporting date based on the best estimate of the number of vested equity instruments on the grant date of the equity instruments value. After the vesting period, relevant costs or expenses and total shareholders' equity has been confirmed and will not be adjusted.

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

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

During the vesting period, if the cancelled equity instruments (except for failure to meet the conditions of the non-market vesting conditions, such as length of service performance conditions or market conditions are cancelled) granted by the Group to cancel the equity instruments granted amount treated as accelerated vesting of the remaining period should be recognized immediately in profit or loss, while recognizing the other 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.

2.20 Provision

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

1. The obligation is a present obligation of the Group;
2. It is probable that an outflow of economic benefits will be required to settle the obligation;
3. The amount of the obligation can be measured reliably.

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

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

2.21 Research and development expenditure

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

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

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

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

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

Capitalised expenditure on the development phase is presented as "development costs" in the statement of financial position and shall be transferred to intangible assets when the project is completed to its intended use state.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Government grants

Grants from the government are recognised only when there is a reasonable assurance that the grant will be received and the Group can comply with the attached conditions.

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

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

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

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and then recognised in profit or loss over the periods in which the costs are recognised. Government grants measured at nominal amounts are directly recognised in through profit or loss.

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

2.23 Revenue recognition

(1) Sales of goods

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

(2) Rendering of services

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

The percentage of completion for rendering of services is determined according to proportion of accumulated actual costs incurred to the estimated total cost.

The outcome of rendering of services can be measured reliably and satisfied with:

1. Revenue can be measured reliably;
2. The associated economic benefits are likely to flow to the enterprise;
3. The progress of relevant contract can reliably measured;
4. The cost to be incurred can be measured reliably.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(3) Transfer of rights to use assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition (Continued)

(4) Construction contract

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

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

The stage of completion is determined according to the proportion of accumulated actual contract costs to the estimated total costs and the stage of completion.

The outcome of a construction contract can be measured reliably and satisfied with:

1. The contract revenue can be measured reliably;
2. The associated economic benefits are likely to flow to the enterprise;
3. The actual contract costs incurred can be distinguished clearly and measured reliably;
4. The stage of completion of the contract and the costs need to be incurred to complete the contract can be measured reliably.

2.24 Operating leases and finance leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(1) As lessor

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

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term.

(2) As lessee

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

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

2.25 Shares repurchase

Prior to the cancellation or transfer of repurchased shares, the repurchased shares were classified as treasury shares. Costs of treasury shares comprised of cost incurred for the repurchase of shares. Costs incurred for repurchase of shares were deducted from equity and no profit or loss will be recognise upon repurchase or cancellation of shares.

Upon transfer of treasury shares, the differences between the considerations received and the nominal value of treasury shares were deducted from other capital reserve and share premium, any differences will be deducted from surplus reserves and retained earnings. Upon cancellation of treasury shares, share capital will be deducted by reference to number of shares and its nominal value, any difference between the nominal value of treasury shares will be deducted from the other capital reserve and share premium, any differences will be deducted from surplus reserves and retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

  (i) has control or joint control over of the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

  (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

  (viii) the entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the parent of the Group.

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.27 Other non-current assets

Cost of other non-current assets, such as specific drilling equipment, logging equipment and tools and cables etc., were amortised over their estimated useful life or unit of production. Non-current assets that cannot generate future benefits are recognised in the profit or loss in the period of relevant cost being incurred.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Group continually evaluates the critical accounting estimates and key assumptions based on its historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that are likely to have significant risks of causing material adjustments to the carrying amounts of assets and liabilities in the next financial year are set out as below:

(1) Impairment of receivables

The Group regularly reviews the receivables that are measured at amortisation cost to determine whether there is an evidence of impairment. If any such evidence exists, impairment loss is estimated and provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtors. If there is evidence that the amount of receivables has been recovered and it is objectively related to an event occurred after the impairment was recognised, the previously recognised impairment loss will be reversed. The carrying amount of receivables is set out in Note 22.

(2) Provision for decline in value of inventories

The Group regularly reviews the net realisable value of inventories and the provision for decline in value of inventories is recognised at the excess of the carrying amounts of inventories over their net realisable value. When making estimation of the net realisable value of inventories, the Group considers the purpose of the inventories held on hand and other information available to form the underlying assumptions, including the market prices of inventories and the Group's historical operating costs. The actual selling price, costs of completion, selling expenses and taxes may vary according to the changes in market conditions, manufacturing technology or the actual use of the inventories, resulting in the changes in provision for decline in value of inventories. The profit or loss for the period will be affected by the adjustment of the provision for decline in value of inventories. The carrying amount of inventories is set out in Note 25.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(3) Impairment of non-financial assets

As at the reporting date, the Group assess the impairment of non-financial assets to ensure whether the asset's carrying amount exceeds its recoverable amount. In circumstances indicate that the carrying amount may not be recoverable, relevant assets will be impaired and relatively recognised to impairment loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and estimated future cash flow. The Group cannot estimate the accurate fair value since no reliable open market value of the assets can be obtained. The Group determines critical judgements on the product quantity, selling price, gross profit, related operating cost and the discount rate in assessing the present value of estimated future cash flow. The Group assesses the recoverable value in reference to the relevant information including the estimates according to reasonable assumptions on the production quantity, selling price, gross profit and related operating cost. The Group will increase the provision of impairment on the non-financial assets if there is material adverse effect on the related assumptions and estimates. Carrying amount of non financial assets is set out in Notes 17, 18, 19 and 20.

(4) Depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets

The Group takes into account of residual value before calculating the depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets. The Group regularly review the estimated useful lives of the assets to determine the depreciation and amortisation 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 other non-current assets are determined by the Group in accordance with the expected benefit period of each assets. Depreciation and amortisation charges is revised if there is material adverse effect on the previous estimation. Carrying amount of property, plant and equipment and intangible assets is set out in Notes 17 and 19.

(5) Construction contracts

Contract revenue is recognised by the Group according to individual contracts under the percentage of completion method. The contract revenue and percentage of completion of the construction are estimated by the management according to actual cost incurred in the budget costs. The execution and completion date of the construction are normally included in different accounting period due to the nature of activities carried out in the construction contract. The Group would review and revise the estimated contract revenue and costs during the progress of the contract. (If actual contract revenue does not exceed the estimated or actual contract cost, provision of estimated contract loss will be recognised). Carrying amount of construction contracts is set out in Note 24.

(6) Provision for litigation claims

For the legal proceedings and claims, the Group derives the best estimate of committed losses to the related current obligations based on the legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change according to the progress of the legal proceedings. The related information is set out in Note 40.

(7) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses when the Group is likely to have sufficient taxable profits to offset losses. The management needs significant judgment to estimate the time in relation to the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. If the tax payable in future accounting period is lower than the expected amount or the actual tax rate is higher than the expected tax rate, the deferred tax assets recognised will be reversed and included in the statements of profit or loss. The related information is set out in Note 37.

(8) Taxation

There are various uncertainties on interpretation of the complicated tax jurisdictions (including related tax incentive regulations) and time and extent of the future taxable revenue. Regarding to various international business relationship and complexity of current contract, there may be adjustment to the recognised taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities in the countries where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretations may be resulted from various events. Relevant information is set out in Notes 12 and 40.

Change in accounting estimates of property, plant and equipment and other non-current assets

During the year, management has reviewed the estimated useful lives, estimated years of amortisation, estimated residual value and amortisation policy of the property, plant and equipment and other non-current assets respectively. With due consideration of the technical standards and quality standards of oil engineering equipments from property, plant and equipment and other non-current assets such as specific drilling equipment, logging equipment and tools and the Group's maintenance programme over these assets, management is of the opinion that it is more fair and appropriate to adjust the estimated useful lives, estimated years of amortisation and amortisation policy of aforesaid assets. The change has been applied prospectively from 1 January 2016. Accordingly, the adoption of the change in the accounting estimates has no effect on prior years and has the effect of reducing the depreciation and amortisation charges for the year ended 31 December 2016 by RMB 799,966,000.

4 REVENUE

The Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Geophysics	**3,605,962**	5,340,826
Drilling engineering	**19,405,525**	28,743,959
Logging and mud logging	**1,538,534**	2,474,434
Special downhole operations	**3,879,024**	6,928,400
Engineering construction	**12,878,284**	15,614,180
Others	**1,616,171**	1,247,535
	42,923,500	60,349,334

5 SEGMENT INFORMATION

The Group identifies its operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group has identified 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, interests in associates, gain/(loss) 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 consolidated financial statements.

5 SEGMENT INFORMATION (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 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
Year ended 31 December 2016								
Segment revenue and results								
Revenue from external customers	3,605,962	19,405,525	1,538,534	3,879,024	12,878,284	1,616,171	—	42,923,500
Inter-segment income	—	175,157	63,994	46,439	69,728	514,970	(870,288)	—
Segment revenue	3,605,962	19,580,682	1,602,528	3,925,463	12,948,012	2,131,141	(870,288)	42,923,500
Reportable segment loss	(1,072,412)	(7,534,523)	(887,153)	(1,353,748)	(4,672,109)	(575,486)	—	(16,095,431)
Other income	19,209	153,513	9,627	34,434	44,477	76,584	—	337,844
Other expenses	(42,126)	(50,900)	(5,213)	(12,147)	(20,960)	1,752	—	(129,594)
Loss before income tax	(1,095,329)	(7,431,910)	(882,739)	(1,331,461)	(4,648,592)	(497,150)	—	(15,887,181)
Income tax expense								(311,196)
Loss for the year								(16,198,377)

	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
Year ended 31 December 2016								
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	499,132	1,781,430	197,607	452,362	213,706	159,859	—	3,304,096
– Other non-current assets	115,577	1,849,565	70,326	108,614	28,251	12,955	—	2,185,288
– Prepaid land leases	—	417	417	1,536	446	—	—	2,816
– Intangible assets	651	27,779	956	1,046	5,948	3,519	—	39,899
Capital expenditure								
– Property, plant and equipment	317,188	788,302	29,671	168,246	67,078	23,856	—	1,394,341
– Prepaid land leases	—	—	—	6,040	—	—	—	6,040
– Intangible assets	—	9,990	—	877	8,785	13,594	—	33,246
– Long-term investment	—	—	—	—	—	4,000	—	4,000
Impairment loss on trade receivables	42,967	160,539	33,010	156,705	203,914	3,231	—	600,366
Impairment loss on/(Reversal of) other receivables	3,800	5,726	61	244	129,694	(13,306)	—	126,219
Expected loss on contracts work-in-progress	—	—	—	—	11,656	—	—	11,656
Impairment loss on available-for-sales financial assets	—	—	—	—	—	16,105	—	16,105
As at 31 December 2016								
Assets								
Segment assets	5,757,665	36,873,638	3,477,663	9,009,124	18,465,114	18,576,616	(17,666,654)	74,493,166
Liabilities								
Segment liabilities	4,027,462	22,347,804	1,999,770	4,307,503	23,986,109	27,049,580	(17,666,654)	66,051,574

5 SEGMENT INFORMATION (Continued)

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

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

	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
Year ended 31 December 2015								
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	515,899	2,223,171	275,624	434,714	220,867	252,236	—	3,922,511
– Other non-current assets	95,213	1,938,775	131,290	139,640	23,222	14,067	—	2,342,207
– Prepaid land leases	—	525	417	126	446	—	—	1,514
– Intangible assets	788	3,643	2,422	1,194	4,718	4,658	—	17,423
Capital expenditure								
– Property, plant and equipment	256,947	2,991,540	128,297	1,173,991	63,226	26,108	—	4,640,109
– Prepaid land leases	—	—	—	55,361	—	—	—	55,361
– Intangible assets	692	36,668	21	2,616	11,484	1,948	—	53,429
– Long-term investment	—	—	—	—	—	120,392	—	120,392
Impairment loss on trade receivables	21,823	23,225	14,402	36,989	49,049	2,906	—	148,394
Impairment loss on/(Reversal of) other receivables	1,512	(649)	33	(4,323)	36,179	(9,770)	—	22,982
Reversal of expected loss on contracts work-in-progress	—	—	—	—	(4,128)	—	—	(4,128)
As at 31 December 2015								
Assets								
Segment assets	6,271,544	43,881,210	3,460,699	11,398,121	20,978,881	15,996,289	(16,678,967)	85,307,777
Liabilities								
Segment liabilities	3,466,176	21,716,987	1,041,834	4,934,069	21,549,797	24,640,928	(16,678,967)	60,670,824

5 SEGMENT INFORMATION (Continued)

(b) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	30,170,197	46,441,077	28,943,361	30,848,215
Other countries	12,753,303	13,908,257	5,186,377	6,043,846
	42,923,500	60,349,334	34,129,738	36,892,061

(c) Major customer

For the years ended 31 December 2016 and 2015, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2016	2015
	RMB'000	RMB'000
Customer A	22,878,129	38,030,533

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and accounted for more than 50% of the Group's revenue.

6 FINANCE (EXPENSES)/INCOME- NET

	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income from entrusted loans		
– Sinopec Group's subsidiaries	27,555	2,406
Interest income		
– Sinopec Group's subsidiaries	2,533	1,602
– Third-party banks and other financial institutions	31,723	36,665
	61,811	40,673
Finance expenses		
Interest expenses on bank loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	(486,755)	(335,616)
– Third-party banks and other financial institutions	(9,316)	(5,063)
Capitalisation of interest expenses for qualifying assets (i)	21,006	32,239
Exchange gains/(losses), net	57,250	(334,117)
Bank and other charges	(93,699)	(52,800)
	(511,514)	(695,357)
	(449,703)	(654,684)

Note:
(i) Qualifying assets represent property, plant and equipment, its related interest expenses had been capitalised at rates of 3.92% to 6.83% (2015: 3.12% to 5.86%) per annum.

7 IMPAIRMENT LOSSES ON ASSETS

	2016 RMB'000	2015 RMB'000
Impairment loss on trade and other receivables	726,585	171,376
Expected losses on contracts work-in-progress	11,656	—
Impairment loss on available-for-sale financial assets	16,105	—
	754,346	171,376

8 INVESTMENT INCOME

	2016 RMB'000	2015 RMB'000
Investment income from available-for-sale financial assets	500	642

9 OTHER INCOME

	2016 RMB'000	2015 RMB'000
Gain on disposal of property, plant and equipment	12,158	10,126
Gain on disposal of other non-current assets	6,130	18,625
Government grants	250,859	381,690
Waived payables	8,344	35,404
Penalty income	23,612	4,238
Compensation received	1,991	3,217
Asset inventory surplus	200	1,169
Others	34,550	17,443
	337,844	471,912

10 OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Loss on disposal of property, plant and equipment	85,259	28,480
Loss on disposal of other non-current assets	1,341	—
Loss on scraps of assets	1,017	9,127
Penalty	6,890	20
Donation	301	9,375
Compensation	10,714	11,959
Others	24,072	32,656
	129,594	91,617

11 (LOSS)/PROFIT BEFORE INCOME TAX

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

	2016 RMB'000	2015 RMB'000
Staff costs, including directors and supervisors emoluments (Note 16)	13,939,756	15,915,588
Retirement benefit plan contribution (included in the above mentioned staff costs)		
– Municipal retirement scheme costs	1,274,423	1,273,687
– Supplementary retirement scheme costs	332,770	344,299
Share options granted to directors and employees	3,016	—
Cost of goods sold	12,338,591	13,821,642
Depreciation and amortisation		
– Property, plant and equipment	3,304,096	3,922,511
– Other non-current assets	2,185,288	2,342,207
– Prepaid land leases	2,816	1,514
– Intangible assets	39,899	17,423
Operating lease expenses		
– Property, plant and equipment	1,619,385	1,621,573
Provision for/(Reversal of) impairment losses		
– Trade and other receivables	726,585	171,376
– Available-for-sales financial assets	16,105	—
– Expected loss on contracts work-in-progress	11,656	(4,128)
Rental income from property, plant and equipment less relevant expenses	(7,436)	(12,806)
Research and development expenses	362,586	448,185
Losses on disposal/write-off of property, plant and equipment	73,101	18,354
Gains on disposal/write-off of other non-current assets	(4,789)	(18,625)
Auditors' remuneration	5,307	6,892
Exchange (gains)/losses, net	(57,250)	334,117

12 INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax		
PRC enterprise income tax	356	276,816
Overseas enterprise income tax	310,929	251,000
	311,285	527,816
Deferred income tax		
Origination and reversal of temporary difference (Note 37)	(89)	(46,395)
Income tax expense	311,196	481,421

12 INCOME TAX EXPENSE (Continued)

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2016 and 2015 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the period, for the years ended 31 December 2016 and 2015, the majority of the companies of the Group are subject to 25% income tax rate.

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

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

	2016	2015
	RMB'000	RMB'000
(Loss)/Profit before income tax	(15,887,181)	469,719
Taxation calculated at the statutory tax rate	(3,971,795)	117,430
Income tax effects of:		
Difference in overseas profits tax rates	167,863	(18,015)
Non-deductible expenses	343,237	222,214
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(12,079)	(82,204)
Effect of unrecognised tax losses and deductible temporary differences	3,871,339	236,966
Adjustments of current tax in previous years	(17,943)	72,017
Equity method accounting for the joint venture and associates' profit or loss	(245)	2,990
Effect on opening deferred tax balances arising from change in tax rates during the year	4,776	—
Tax effect on research and development expenses	(73,957)	(69,977)
Income tax expense	311,196	481,421

13 LOSS PER SHARE

(a) Basic

For the years ended 31 December 2016 and 2015, the basic loss per share is calculated by dividing the loss attributable to owners of the Company.

	2016	2015
Loss for the year attributable to owners of the Company (RMB'000)	(16,198,242)	(11,543)
Weighted average number of ordinary shares in issue (Shares)	14,142,660,995	13,981,930,401
Basic loss per share (RMB)	(1.145)	(0.001)

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015, and therefore the diluted loss per share for the years ended 31 December 2016 and 2015 were the same as the basic loss per share.

14 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

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

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

(i) For the year ended 31 December 2016

	Fee	Salary, allowance and bonus	Contributions to pension plans	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
ZHU Ping (i)	—	135	12	—	147
ZHOU Shiliang	—	554	49	13	616
SUN Qingde (ii)	—	415	37	13	465
	—	1,104	98	26	1,228
Non-executive Directors:					
JIAO Fangzheng	—	—	—	—	—
LI Lianwu	—	—	—	—	—
ZHANG Hong	—	—	—	—	—
	—	—	—	—	—
Independent non-executive Directors:					
JIAO Bo	200	—	—	—	200
ZHANG Huaqiao	200	—	—	—	200
PAN Ying	200	—	—	—	200
	600	—	—	—	600
Supervisors:					
ZOU Huiping	—	—	—	—	—
WEN Dongfen (iii)	—	—	—	—	—
ZHANG Qin	—	—	—	—	—
CONG Peixin	—	—	—	—	—
XU Weihua (iv)	—	578	41	—	619
DU Guangyi	—	522	26	—	548
HU Guoqiang	—	461	49	—	510
DU Jiang-bo	—	—	—	—	—
	—	1,561	116	—	1,677
	600	2,665	214	26	3,505

Notes:

(i) Resigned on 11 March 2016 as the general manager and director of the Company, and his emoluments disclosed above included his remuneration of serving as the general manager.

(ii) Appointed on 6 June 2016.

(iii) Resigned on 2 August 2016

(iv) Resigned on 22 February 2017.

For the year ended 31 December 2016, Mr. SUN Qingde is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

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

(ii) For the year ended 31 December 2015

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

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

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

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

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

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

For the year ended 31 December 2015, Mr. ZHU Ping is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Director or supervisor	3	4
Non-director or supervisor	2	1
	5	5

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

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and bonus	1,047	562
Contributions to pensions plans	98	41
Share-based payments	23	—
	1,168	603

The emoluments of the two (2015: one) highest paid individuals who are non-director or supervisor are within the following bands:

	2016	2015
Nil to HK$1,000,000	2	1

16 EMPLOYMENT BENEFITS

	2016	2015
	RMB'000	RMB'000
Salaries, wages and other benefits	12,329,547	14,297,602
Contribution to pension plans (a)		
– Municipal retirement scheme costs	1,274,423	1,273,687
– Supplementary retirement scheme costs	332,770	344,299
Share options granted to directors and employees (note 31)	3,016	—
	13,939,756	15,915,588

Note:
(a) Retirement benefits
As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 31 December 2016, the Group and its employees pay 20% and 8% (2015: 20% and 8%) of salaries respectively to basic defined contribution plan.

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

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

17 PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2016

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2016	1,269,666	57,710,586	2,805,442	61,785,694
Additions	2,524	132,890	1,258,927	1,394,341
Disposals/Write-off	(45,226)	(1,620,938)	—	(1,666,164)
Transferred from construction in progress	104,757	2,997,502	(3,102,259)	—
At 31 December 2016	1,331,721	59,220,040	962,110	61,513,871
Accumulated depreciation				
At 1 January 2016	377,666	29,312,301	—	29,689,967
Depreciation	50,890	3,253,206	—	3,304,096
Disposals/write-off	(37,301)	(1,491,319)	—	(1,528,620)
At 31 December 2016	391,255	31,074,188	—	31,465,443
Accumulated impairment loss				
At 1 January 2016	8,501	273,595	95,264	377,360
Disposals/write-off	(65)	(2,970)	—	(3,035)
At 31 December 2016	8,436	270,625	95,264	374,325
Carrying amounts				
At 31 December 2016	932,030	27,875,227	866,846	29,674,103

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the year ended 31 December 2015

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

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

Recognised depreciation is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Cost of sales	3,274,515	3,890,615
Selling expenses	579	720
General and administrative expenses	29,002	31,176
	3,304,096	3,922,511

As at 31 December 2016, assets under finance leases with carrying amounts of RMB60,045,000 (2015: RMB67,855,000) are included in "Oil engineering equipment and others" of property, plant and equipment.

18 PREPAID LAND LEASES

	2016	2015
	RMB'000	RMB'000
At 1 January	104,954	51,107
Additions	6,040	55,361
Amortisation	(2,816)	(1,514)
At 31 December	108,178	104,954

Prepaid land leases represent prepayments made by the Group for the prepaid land leases located in the PRC which are held on leases term between 20 years to 50 years.

Recognised amortisation is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Cost of sales	103	440
General and administrative expenses	2,713	1,074
	2,816	1,514

19 INTANGIBLE ASSETS

For the year ended 31 December 2016

	Computer softwares	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2016	**118,716**	**57,529**	**176,245**
Additions	**23,256**	**16,541**	**39,797**
At 31 December 2016	**141,972**	**74,070**	**216,042**
Accumulated amortisation			
At 1 January 2016	**84,147**	**14,849**	**98,996**
Amortisation	**10,627**	**29,272**	**39,899**
At 31 December 2016	**94,774**	**44,121**	**138,895**
Carrying amounts			
At 31 December 2016	**47,198**	**29,949**	**77,147**

For the year ended 31 December 2015

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

Recognised amortisation is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Cost of sales	**33,166**	8,884
General and administrative expenses	**6,733**	8,539
	39,899	17,423

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures

	2016	2015
	RMB'000	RMB'000
At 1 January	208,922	107,871
Increase in investment	—	113,042
Share of total comprehensive income/(expense)	572	(11,958)
Dividend paid	(50)	(33)
At 31 December	209,444	208,922

The interests in each joint venture are as follows:

	2016	2015
	RMB'000	RMB'000
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun")	1,114	1,111
Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering")	13,383	13,383
Zhong Wei Energy Service Co. Limited ("Zhong Wei")	17,416	17,273
SinoFTS Petroleum Services Limited ("SinoFTS")	177,531	177,155
	209,444	208,922

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

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	The PRC	2,100 (2015: 2,100)	—	49.10% (2015: 49.10%)	Transportation services/ The PRC
Sinopec Gulf Petroleum Engineering Services, LLC	Kuwait	27,312 (2015: 27,312)	—	49.00% (2015: 49.00%)	Oilfield service/Kuwait
Zhong Wei Energy Service Co. Limited	The PRC	305,000 (2015: 305,000)	—	50.00% (2015: 50.00%)	Oilfield technical service/ The PRC
SinoFTS Petroleum Services Limited	The PRC	—	55,000 (2015: 55,000)	55.00% (2015: 55.00%)	Petroleum technical service/ The PRC

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

Notes:

(i) The decision of financial and operating strategies requires unanimous consent from the Group and other venturers as stated in the contracts signed by the both parties. The equities of joint ventures are measured by the joint ventures.

(ii) Commitments and contingent liabilities of the joint ventures
As at 31 December 2016 and 2015, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(a) Interests in joint ventures (Continued)

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

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	6,367	100,495
Current assets	161,039	164,750
Non-current assets	243,480	253,812
Total assets	404,519	418,562
Current liabilities	(60,805)	(28,754)
Non-current liabilities	(18,448)	(64,620)
Total liabilities	(79,253)	(93,374)
Net assets	325,266	325,188
Share of equity by the Group (55.00%) (2015: 55.00%)	178,896	178,853

	2016 RMB'000	2015 RMB'000
Revenue	82,180	2,104
Depreciation and amortisation	21,071	123
Interest income	81	293
Interest expense	2,187	—
Profit/(loss) for the year and total comprehensive income/(expense) for the year	683	(15,393)
Share of total comprehensive income/(expense) (55.00%) (2015: 55.00%)	376	(8,466)

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

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the year and total comprehensive income/(expense) for the year	339	(6,982)

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(b) Interests in associates

	2016	2015
	RMB'000	RMB'000
At 1 January	7,478	128
Increase in investments	4,000	7,350
Share of total comprehensive income	407	—
At 31 December	11,885	7,478

The details of associate of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Sinopec International Trading (Nigeria) Company Limited ("International Trading")	Nigeria	—	100 (2015:100)	20.00% (2015: 20%)	Oil exploration/Nigeria
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	The PRC	10,000 (2015: 10,000)	—	35.00% (2015: 35.00%)	Oil and natural gas exploration/ The PRC
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	The PRC	10,000 (2015: 10,000)	—	20.00% (2015: 20.00%)	Oil and natural gas exploration/ The PRC
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	The PRC	5,000 (2015: 5,000)	—	37.00% (2015: 37.00%)	Oil and natural gas exploration/ The PRC
Henan Zhongyuan Petroleum Technology Service Company Limited ("Henan Zhongyuan")	The PRC	10,000 (N/A)	—	20.00% (N/A)	Oil and natural gas exploration/ The PRC
Henan Zhongyou Petroleum Technology Service Company Limited ("Henan Zhongyou")	The PRC	10,000 (N/A)	—	20.00% (N/A)	Oil and natural gas exploration/ The PRC

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

Notes:

(i) Commitments and contingent liabilities of the associates
As at 31 December 2016 and 2015, there is no material contingent liability and commitment between the Group with its associates or associates themselves.

(ii) During the year of 31 December 2016, the Group newly invested in Henan Zhongyuan and Henan Zhongyou.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
At 1 January	40,494	40,494
Impairment	(16,105)	—
At 31 December	24,389	40,494

Available-for-sale financial assets include the following:

	2016 RMB'000	2015 RMB'000
Unlisted securities:		
Equity securities – the PRC	24,389	40,494

Unlisted investments represent the Groups' equity interests in the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The unlisted equity securities are carried at cost less impairment. As the investments do not have quoted market price and its range of reasonable fair value estimation is very large so that the directors of the Company are of the opinion that its fair value cannot be measured reliably. All available-for-sale financial assets are denominated in RMB.

22 NOTES AND TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables		
– Sinopec Group and its subsidiaries	14,464,757	17,797,091
– Joint ventures	13	1,078
– Sinopec Group and its associates and joint ventures	214,270	283,281
– Third parties	10,405,667	9,617,468
	25,084,707	27,698,918
Less: Provision for impairment	(1,177,173)	(577,791)
Trade receivables - net	23,907,534	27,121,127
Notes receivables	851,624	141,132
Notes and trade receivables - net	24,759,158	27,262,259

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

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

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

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

22 NOTES AND TRADE RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
Within 1 year	20,558,241	23,814,935
1 to 2 years	3,135,366	2,613,848
2 to 3 years	804,418	600,288
Over 3 years	261,133	233,188
	24,759,158	27,262,259

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

	2016 RMB'000	2015 RMB'000
Not yet due	17,145,465	21,758,477
Over due within 3 months	1,304,452	1,316,086
Over due 3 months but within 6 months	1,286,422	694,806
Over due 6 months but within 1 year	2,821,983	3,066,529
Over due 1 year but within 2 years	1,958,365	361,772
Over due over 2 years	242,471	64,589
	24,759,158	27,262,259

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

	2016 RMB'000	2015 RMB'000
At 1 January	577,791	429,415
Provisions	630,020	187,610
Reversal	(29,654)	(39,216)
Receivables write-off as uncollectible	(984)	(18)
At 31 December	1,177,173	577,791

23 PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments (i)	374,398	474,961
Other receivables (ii)		
Petty cash funds	51,969	66,734
Guarantee deposits	884,389	780,753
Disbursement of funds	1,311,545	1,150,581
Temporary payment	704,098	451,067
Escrow payments	9,710	9,680
Loans	—	10,000
Deposits	46,722	48,525
Export tax refund receivables	6,712	2,823
Value-added tax credit	325,005	72,466
Value-added tax to be certified	18,642	9,596
Prepaid value-added tax	65,073	—
Prepaid income tax	7,956	—
Entrusted loans (iii)	—	1,097,000
Others	346,561	369,022
	4,152,780	4,543,208
Less: Provision for impairment	(524,759)	(398,540)
Prepayments and other receivables - net	3,628,021	4,144,668

Notes:

(i) As at 31 December 2016, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB 19,144,000 (2015: RMB 16,460,000), and the associates and joint ventures of the Group amounting to RMB 7,145,000 (2015: Nil).

(ii) As at 31 December 2016, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB 366,978,000 (2015: RMB 1,348,127,000), the joint ventures of the Group amounting to RMB 10,758,000 (2015: RMB 308,000) and the associates and joint ventures of Sinopec Group amounting to RMB 15,196,000 (2015: RMB 1,570,000).

(iii) During the year ended 31 December 2016, entrusted loans were fully settled by Sinopec Finance Company Limited.
As at 31 December 2015, the Group, which acted as the principal, entered into four entrusted loan arrangements with Sinopec Finance Company Limited, which acted as the agent, to provide funds to a subsidiary of the Sinopec Group. The entrusted loans held by the Group as of the reporting date are unsecured, current and due within one year and borne fixed interest rates of 3% - 4% per annum.

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

(v) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2016 and 2015 approximate their fair values.

23 PREPAYMENTS AND OTHER RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
At 1 January	398,540	376,474
Provisions	170,754	58,775
Reversal	(44,535)	(35,793)
Other receivables write-off as uncollectible	—	(916)
At 31 December	524,759	398,540

24 CONTRACT WORK-IN-PROGRESS

	2016 RMB'000	2015 RMB'000
Contract cost incurred plus recognised profit less recognised losses	60,777,112	66,456,134
Less: Expected loss on contracts	(35,686)	(24,030)
Less: Progress billings	(61,860,751)	(61,446,068)
Contract work-in-progress	(1,119,325)	4,986,036
Representing:		
Amounts due from customers for contract works	7,900,334	12,814,579
Less: Expected loss on contracts	(35,686)	(24,030)
Net amounts due from customers for contract works	7,864,648	12,790,549
Amounts due to customers for contract works	(8,983,973)	(7,804,513)
	(1,119,325)	4,986,036

	2016 RMB'000	2015 RMB'000
Contract revenue recognised as revenue during the year	42,713,052	59,891,732

25 INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	1,240,714	1,732,626
Finished goods	120,924	76,995
Work in progress	78,390	141,177
Turnover materials	20,120	33,895
Others	1,305	1,757
	1,461,453	1,986,450
Less: Provision for impairment	(7,724)	(7,724)
	1,453,729	1,978,726

For the years ended 31 December 2016 and 2015, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB 12,338,591,000 and RMB 13,821,642,000 respectively.

26 RESTRICTED CASH

	2016	2015
	RMB'000	RMB'000
Letter of credit guarantee deposits	2,120	3,048
Guarantee deposits	892	15,333
	3,012	18,381

As at 31 December 2016 and 2015, restricted cash represents the deposits in banks with initial maturity due for six months which are letter of credit guarantee deposits and guarantee deposits.

As at 31 December 2016 and 2015, the annual interest rates on restricted cash range from one to six months and are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash.

27 CASH AND CASH EQUIVALENTS

	2016	2015
	RMB'000	RMB'000
Cash on hand	9,734	9,221
An initial term less than three months:		
– Sinopec Finance Company Limited	178,446	17,745
– Sinopec Century Bright Capital Investment Company Limited	921,255	940,413
– China CITIC Bank	1	1
– Third party banks and other financial institutions	1,337,487	1,025,829
	2,446,923	1,993,209

As at 31 December 2016 and 2015, the annual interest rates on cash at bank are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates the carrying amounts of the Group's cash and cash equivalents.

28 SHARE CAPITAL

	2016		2015	
	Number of shares	Share capital	Number of shares	Share capital
	Share	RMB'000	Share	RMB'000
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1.00 each	**10,259,327,662**	**10,259,328**	10,259,327,662	10,259,328
– Social public A shares of RMB1.00 each	**1,783,333,333**	**1,783,333**	1,783,333,333	1,783,333
– H shares of RMB1.00 each	**2,100,000,000**	**2,100,000**	2,100,000,000	2,100,000
	14,142,660,995	**14,142,661**	14,142,660,995	14,142,661

	Number of shares	Share capital
	Share	RMB'000
At 1 January 2015	12,809,327,662	12,809,328
Issued share capital (i)	1,333,333,333	1,333,333
At 31 December 2015, 1 January 2016 and 31 December 2016	**14,142,660,995**	**14,142,661**

Notes:

(i) Approved by "Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No. 1370) issued by China Securities Regulatory Committee, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd at RMB4.50 per share on 13 February 2015. After deduction of issuance costs of RMB47,483,000, the net proceeds from the issuing were approximately RMB5,952,517,000. 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.

29 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

(i) The statement of financial position of the Company

	2016	2015
	RMB'000	RMB'000
Assets		
Non-current assets		
Interests in subsidiaries	20,215,327	20,215,327
Total non-current assets	20,215,327	20,215,327
Current assets		
Other receivables	5,179,627	5,157,515
Cash and cash equivalents	382,997	419,118
Total current assets	5,562,624	5,576,633
Total assets	25,777,951	25,791,960
Equity		
Share capital	14,142,661	14,142,661
Reserves	10,515,299	10,529,428
Total equity	24,657,960	24,672,089
Liabilities		
Current liabilities		
Other payables	1,119,991	1,119,871
Total current liabilities	1,119,991	1,119,871
Total liabilities	1,119,991	1,119,871
Total equity and liabilities	25,777,951	25,791,960
Net current assets	4,442,633	4,456,762
Total assets less current liabilities	24,657,960	24,672,089

Chairman of the Board:

JIAO Fangzheng

Vice Chairman of the Board,General Manager:

SUN Qingde

29 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

(ii) The statement of changes in equity of the Company

	Share capital	Share premium	Other capital reserve	Surplus reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	12,809,328	6,504,174	28,339	200,383	(845,105)	18,697,119
Total comprehensive loss	—	—	—	—	22,453	22,453
Total transactions with owners:						
– Issued of share capital	1,333,333	4,619,184	—	—	—	5,952,517
At 31 December 2015 and 1 January 2016	**14,142,661**	**11,123,358**	**28,339**	**200,383**	**(822,652)**	**24,672,089**
Total comprehensive income	**—**	**—**	**—**	**—**	**(17,145)**	**(17,145)**
Total transactions with owners:						
– Equity-settled share-based transaction (note 31)	**—**	**—**	**3,016**	**—**	**—**	**3,016**
At 31 December 2016	**14,142,661**	**11,123,358**	**31,355**	**200,383**	**(839,797)**	**24,657,960**

The distributable profits of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Distributable profits	—	—

30 RESERVES

(i) Share premium and other capital reserve

In accordance with the relevant laws and regulations of the PRC, on this restructuring, the surplus of related asset revaluation, transaction with Sinopec Group, issue of share capital and share repurchases are reflected in this reserves.

(ii) Surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The statutory surplus reserve can be used to offset losses, if any, and may be converted into share capital by issuing new shares.

(iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its oil construction business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

31 SHARE-BASED PAYMENTS

Pursuant to the resolution of the fourteen meeting of the eighth session of the Board of Directors of the Company on 1 November 2016, the proposal regarding "the Adjustment of the List of Participants and the Number of the Share Options under the Proposed Grant of the Share Option Incentive Scheme" and the proposal regarding "the Proposed Grant under Share Option Incentive Scheme" were approved.

According to the Company's share option incentive scheme, the grant date of share options was 1 November 2016, and there were a total of 49,050,000 share options granted to 477 participants (0.3469% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB5.63 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

(i) achieving compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;

(ii) ratio of earnings before interest, tax, depreciation and amorisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019;

(iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and

(iv) the performance of the indicator for economic value added has reached the target set by Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 31 December 2016, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price (per share in RMB)	Outstanding shares
1 November 2018	5.63	14,715,000
1 November 2019	5.63	14,715,000
1 November 2020	5.63	19,620,000

The total fair value of share options at the grant date was RMB54,229,200, which has been valued by an external valuation expert using Black-Scholes valuation model.

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB3.96
Exercise price	RMB5.63
Expected volatility	46.17%
Maturity (years)	3-5 years
Risk-free interest rate	2.34% - 2.45%
Expected dividend yield	0%

Share option expenses of RMB3,016,000 have been recognised in the consolidated income statement for the year ended 31 December 2016 (For the year ended 31 December 2015: Nil). As at 31 December 2016, no share option had been exercised yet.

At 31 December 2016, the Company have a total of 49,050,000 outstanding shares under the share option incentive scheme. Under the current capital structure, fully exercise of the outstanding shares will lead to issue of 49,050,000 extra ordinary A share and increase in share capital of RMB49,050,000, before issue expenses.

32 DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At 1 January	59,008	43,951
Government grants received during the year	304,022	396,747
Recognised in the statement of comprehensive income for the year	(250,859)	(381,690)
At 31 December	112,171	59,008

Deferred income mainly related to income from the national special research government grants.

33 SPECIAL PAYABLES

	2016	2015
	RMB'000	RMB'000
At 1 January	1,051	2,647
Increase during the year	—	2,400
Decrease during the year	(1,051)	(3,996)
At 31 December	—	1,051

The Group received the compensation of relocation due to public interest of urban planning, reservoir construction, shantytowns and subsidence governance relocation, and the funding due to construction of welding technology service platform for petroleum equipment.

34 NOTES AND TRADE PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables		
– Sinopec Group and its subsidiaries	1,979,856	2,071,793
– Joint ventures	85,043	31,983
– Sinopec Group and its associates and joint ventures	58,918	81,400
– Third parties	26,172,913	26,723,925
	28,296,730	28,909,101
Notes payables	2,013,497	1,284,745
	30,310,227	30,193,846

As at 31 December 2016 and 2015, the carrying amounts of the Group's notes and trade payables were approximately their fair values.

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

	2016	2015
	RMB'000	RMB'000
Within 1 year	21,027,583	21,307,084
1 to 2 years	5,221,330	5,574,874
2 to 3 years	2,201,443	2,148,850
Over 3 years	1,859,871	1,163,038
	30,310,227	30,193,846

35 DEPOSITS RECEIVED AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Deposits received (i)		
Advances for construction and service	1,690,005	1,459,457
Salaries payables	171,657	187,561
Other tax payables	957,571	2,367,675
Output value-added tax to be certified	15,267	—
Interest payables (ii)	73,627	14,823
Other payables (iii)		
Guarantee deposits	525,496	497,300
Deposits	127,046	156,200
Disbursement of funds	435,177	291,281
Temporary receipts	219,838	370,126
Escrow payments	33,676	30,549
Withheld payments	86,055	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	419,565	329,152
	8,473,882	9,508,867

Notes:

(i) As at 31 December 2016, deposits received included related party balances: Sinopec Group and its subsidiaries amounting to RMB 259,956,000 (2015: RMB 199,376,000) and the associates and joint ventures of Sinopec Group amounting to RMB 9,612,000 (2015: RMB 4,860,000).

(ii) As at 31 December 2016, interest payables above are related party balance with Sinopec Group and its subsidiaries.

(iii) As at 31 December 2016, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB 3,781,374,000 (2015: RMB 3,785,680,000).

(iv) Amounts due to related parties are unsecured, interest free and repayable on demand.

36 BORROWINGS

	2016 RMB'000	2015 RMB'000
Current liabilities		
Loans from Sinopec Finance Company Limited (ii)	1,260,000	2,215,000
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	9,477,279	9,925,312
Loans from Sinopec Group (ii)	6,500,000	—
Finance lease liabilities (iii)	17,360	17,360
	17,254,639	12,157,672
Non-current liabilities		
Bank loans (i)	520,275	487,020
Loans from Sinopec Finance Company Limited (ii)	—	80,000
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	242,795	51,949
Finance lease liabilities (iii)	33,564	51,154
	796,634	670,123
	18,051,273	12,827,795

36 BORROWINGS (Continued)

(i) Bank loans

The bank loans of the Group are repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	—	—
Over 5 years	520,275	487,020
	520,275	487,020

As at 31 December 2016, the annual interest rates of the bank loans are in the range of 6.14% to 6.69% (2015: 5.63% to 5.79%).

(ii) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	17,237,279	12,140,312
1 to 2 years	242,795	131,949
	17,480,074	12,272,261

As at 31 December 2016, loans from related parties are unsecured and their annual interest rates are in the range of 1.85% to 6.96% (2015: 1.48% to 7.6%).

(iii) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	2016 RMB'000	2015 RMB'000
Total minimum lease payments		
– Within 1 year	20,778	21,441
– 1 to 2 years	19,476	20,778
– 2 to 5 years	17,017	37,362
	57,271	79,581
Future finance charges on finance leases	(6,347)	(11,067)
Present value of finance lease liabilities	50,924	68,514

	2016 RMB'000	2015 RMB'000
Present value of minimum lease payments:		
– Within 1 year	17,360	17,360
– 1 to 2 years	17,360	17,360
– 2 to 5 years	16,204	33,794
	50,924	68,514
Less: Portion due within one year included under current liabilities	(17,360)	(17,360)
Portion due after one year included under non-current liabilities	33,564	51,154

37 DEFERRED INCOME TAX

Deferred income tax assets and liabilities recognised:

The analysis of deferred income tax assets and liabilities is as follows:

	2016	2015
	RMB'000	RMB'000
Deferred income tax assets	183,548	187,430
Deferred income tax liabilities	(27,280)	(31,251)
Deferred income tax assets, net	156,268	156,179

The movement of the deferred income tax account is as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	156,179	109,784
Credited to profit or loss (Note 12)	89	46,395
At 31 December	156,268	156,179

The movement of deferred income tax assets/(liabilities) during the years ended 31 December 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Deferred income	Provision for impairment on assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2015	7,990	148,689	156,679
Credited to:			
Profit or loss	3,777	26,974	30,751
At 31 December 2015 and 1 January 2016	11,767	175,663	187,430
Credited to:			
Profit or loss	(11,767)	7,885	(3,882)
At 31 December 2016	—	183,548	183,548

Deferred income tax liabilities

	Accelerated depreciation allowance	Revaluation on assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,193	45,702	46,895
Credited to:			
Profit or loss	(769)	(14,875)	(15,644)
At 31 December 2015 and 1 January 2016	424	30,827	31,251
Credited to:			
Profit or loss	(73)	(3,898)	(3,971)
At 31 December 2016	351	26,929	27,280

37 DEFERRED INCOME TAX (Continued)

Deferred income tax assets represent the recognised tax losses carried forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax los`ses not recognised as deferred income tax assets in the Group is as follow:

	2016	2015
	RMB'000	RMB'000
Tax losses not recognised as deferred income tax assets	19,054,303	4,605,881

The Group did not recognise the above tax losses as deferred income tax assets as the management believes that it is less likely such tax losses would be realised before its expiry date. The said tax losses not recognised as deferred income tax assets would be expired within five years.

38 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2016 and 2015 not provided for in the financial statements are as follows:

	2016	2015
	RMB'000	RMB'000
Contracted but not provided for	640,414	803,406

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2016 and 2015 are as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	294,430	280,765
1 to 2 years	46,589	31,728
2 to 3 years	36,139	19,271
Over 3 years	41,058	80,626
Total	418,216	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 (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 31 December 2016, the Group has outstanding commitments of RMB 129,625,000 in respect of its investment in joint ventures (2015: RMB 129,625,000).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2016.

39 CASH (USED IN)/GENERATED FROM OPERATIONS

	2016	2015
	RMB'000	RMB'000
(Loss) /Profit before income tax	(15,887,181)	469,719
Adjustments for:		
Depreciation of property, plant and equipment	3,304,096	3,922,511
Losses on disposal/write-off of property, plant and equipment	73,101	18,354
Amortisation of prepaid land leases	2,816	1,514
Amortisation of intangible assets	39,899	17,423
Impairment loss on available-for-sale financial assets	16,105	—
Interest income	(61,811)	(40,673)
Interest expense	475,065	308,440
Share of (profit)/loss from joint ventures	(572)	11,958
Share of profit from associates	(407)	—
Provision for impairment on trade receivables	600,366	148,394
Provision for impairment on other receivables	126,219	22,982
Provision for/(Reversal of) expected loss on contracts work-in-progress	11,656	(4,128)
Gain from disposal of available-for-sale financial assets	(500)	(642)
Equity-settled share-based payment	3,016	—
Cash flows (used in)/from operating activities before changes in working capital	(11,298,132)	4,875,852
Changes in working capital:		
– Other non-current assets	726,110	510,113
– Inventories	524,997	(28,136)
– Notes and trade receivables	1,896,184	873,788
– Prepayments and other receivables	(577,988)	4,904
– Restricted cash	15,369	(6,238)
– Contract work-in-progress	6,093,705	(1,564,475)
– Deferred income	53,163	15,057
– Specific payables	(1,051)	(1,596)
– Notes and trade payables	116,381	(719,761)
– Deposits received and other payables	(941,097)	(647,974)
Cash (used in)/generated from operations	(3,392,359)	3,311,534

40 CONTINGENCIES

(a) Contingent liabilities and financial impacts due to pending litigation

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

(b) Contingent liabilities and financial impacts from guarantee provided for other entities

As at 31 December 2016, there is no material contingency from guarantee provided for other entities.

(c) Foreign tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100 (equivalent to USD 33,524,600, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, on 10 March 2014, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the accountant's report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. Since the tax penalties are not predictable, the Group did not provide the provision of such incident.

(d) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular [2007] No.664) issued by the State Administrative of Taxation in June 2007, the Group has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33%. Up to date, the Group has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2016. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, which might exist.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2016 and 2015.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	2016	2015
	RMB'000	RMB'000
Purchases of materials		
– Sinopec Group and its subsidiaries	5,215,004	9,237,661
Sales of products		
– Sinopec Group and its subsidiaries	83,812	252,591
Rendering of engineering services		
– Sinopec Group and its subsidiaries	22,567,053	37,502,329
Receiving of community services		
– Sinopec Group and its subsidiaries	1,588,968	1,602,780
Receiving of integrated services		
– Sinopec Group and its subsidiaries	277,718	244,567
Rendering of technology development services		
– Sinopec Group and its subsidiaries	277,264	275,613
Rental expenses		
– Sinopec Group and its subsidiaries	130,902	152,312
Deposits interest income		
– Sinopec Group's subsidiaries	2,533	1,602
Interest income from entrusted loans		
– Sinopec Group's subsidiaries	27,555	2,046
Loans interest expenses		
– Sinopec Group and its subsidiaries	486,755	335,616
Borrowings obtained		
– Sinopec Group and its subsidiaries	52,286,133	56,746,079
Borrowings repaid		
– Sinopec Group and its subsidiaries	47,300,764	56,543,528
Safety and insurance fund expenses		
– Sinopec Group	90,143	89,215
Safety and insurance fund refund		
– Sinopec Group	87,340	42,806

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	2016	2015
	RMB'000	RMB'000
Receiving of engineering services		
– Associates and joint ventures of the Group	686,314	—

(c) Remuneration of key management personnel

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

	2016	2015
	RMB'000	RMB'000
Fee	600	483
Salaries, allowances and bonus	5,754	6,596
Contributions to pension plans	533	526
Share-based payments	103	—
	6,990	7,605

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2016	2015
	Number of individuals	Number of individuals
RMB0 to RMB500,000	4	11
RMB500,001 to RMB1,000,000	5	3
	9	14

(d) Related party guarantee

Sinopec Group provided performance guarantee to the Group amounting to USD210,000,000. The guarantee period ends in January 2018 (31 December 2015: nil).

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group established certain risk management policies to recognise and analyse the potential risk of the Group. The Group designed an internal control procedure according to proper acceptable risk level in order to monitor the risk position of the Group. Both risk management policies and related internal control system will be reviewed regularly to adapt the market condition or changes in operating activities of the Group. The implementation of internal control system will be reviewed regularly or randomly by the internal audit department in accordance to the risk management policies.

42.1 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.1 Financial risk factors (Continued)

(a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

(i) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalents, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Group's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2016 and 2015, the Group did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not significant because the fixed term deposits are short-term deposits.

Interest-bearing financial instruments held by the Group are as below:

	2016		2015	
	%	RMB'000	%	RMB'000
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	1.1% - 2.75%	461,775	1.1% - 1.54%	419,649
Borrowings (Note 36)	2.5% - 7.5%	7,730,924	3.92% - 7.6%	5,253,838
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	0.3% - 0.35%	1,988,160	0.01% - 0.35%	1,591,941
Borrowings (Note 36)	1.85% - 6.96%	10,320,349	1.48% - 6.15%	7,573,957

As at 31 December 2016, it is estimated that a general increase of 50 basis points in variable interest rates, with all other variables held constant, would increase the Group's net loss and decrease the shareholder's equity for the year by approximately RMB 38,701,000 (2015: increase the Group's net loss and decrease the shareholder's equity by RMB 28,402,000).

As at 31 December 2016 and 2015, a general decrease of 50 basis points in variable interest rates as at 31 December 2016 and 2015 would have had the same magnitude but of opposite effect on the above borrowings, on the basis that all other variables remain constant.

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at the reporting date and arised from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for last year.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's major operational activities are carried out in the PRC and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily denominated in US Dollars, Saudi Riyals, Kuwait Dinars and Brazil Reals.

The foreign currency assets and liabilities include restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings which are denominated in foreign currencies.

The following table details the financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

As at 31 December 2016	USD	SAR	KWD	BRL	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	786,456	126,946	301,019	1,342	446,864
Trade and other receivables	5,618,647	823,846	743,866	79,925	455,819
Trade and other payables	(1,083,694)	(580,760)	(82,817)	(51,017)	(116,667)
Borrowings	(8,745,235)	—	—	—	—
Net exposure in RMB	(3,423,826)	370,032	962,068	30,250	786,016

As at 31 December 2015	USD	SAR	KWD	BRL	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	965,468	77,955	134,432	2,478	213,609
Trade and other receivables	4,794,623	643,972	510,801	133,178	413,629
Trade and other payables	(745,143)	(314,487)	(72,080)	(41,028)	(109,830)
Borrowings	(7,423,957)	—	—	—	—
Net exposure in RMB	(2,409,009)	407,440	573,153	94,628	517,408

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies in order to minimise foreign exchange risk. The Group may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2016 and 2015, the Group did not enter into any forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the effect on the Group's net loss in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2016 and 2015:

	2016	2015
	RMB'000	RMB'000
Decrease in net loss/(Increase in net loss)		
– USD	128,393	90,338
– SAR	(13,876)	(15,279)
– KWD	(36,078)	(21,493)
– BRL	(1,134)	(3,549)

As at 31 December 2016 and 2015, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect, on the basis that all other variables remain constant.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss.

Credit is managed on the grouping basis by the Group. Credit risk mainly arises from cash at bank and trade receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank and notes receivables since they are either deposited or will be accepted by the state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counter parties.

In addition, the Group has policies to limit the credit risk exposure on trade receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group.

In respect of customers with a poor credit history, the Group will use written payment reminders, shorten or cancel credit periods, to ensure the overall credit risk is limited to a controllable extent.

The highest credit risk exposure of the Group is the carrying amount of each financial instrument illustrated in the statement of financial position. The Group did not provide any other guarantee that might cause credit risk to the Group.

(c) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Regarding to the management of liquidity risk, the Group's management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The Group's management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient commitment on reserve fund from major financial institute to meet needs of short-term and long-term liquidity.

The financial assets and liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows:

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016						
Restricted cash and cash and cash equivalents	**2,449,935**	—	—	—	**2,449,935**	**2,449,935**
Trade and other receivables	**27,998,266**	—	—	—	**27,998,266**	**27,998,266**
Trade and other payables	**(37,186,872)**	—	—	—	**(37,186,872)**	**(37,186,872)**
Borrowings	**(17,437,866)**	**(302,393)**	**(117,144)**	**(604,734)**	**(18,462,137)**	**(18,051,273)**
	(24,176,537)	**(302,393)**	**(117,144)**	**(604,734)**	**(25,200,808)**	**(24,789,944)**
As at 31 December 2015						
Restricted cash and cash and cash equivalents	2,011,590	—	—	—	2,011,590	2,011,590
Trade and other receivables	30,909,281	—	—	—	30,909,281	30,874,112
Trade and other payables	(38,487,749)	—	—	—	(38,487,749)	(38,487,749)
Borrowings	(12,289,452)	(182,714)	(121,076)	(584,583)	(13,177,825)	(12,827,795)
	(17,856,330)	(182,714)	(121,076)	(584,583)	(18,744,703)	(18,429,842)

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.2 Capital risk management

The objectives of the Group's capital risk management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital. Net liabilities are calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the sum of total equity and net liabilities as shown in the consolidated statement of financial position. Total equity includes the equity attributable to shareholders of the parent and non-controlling interests.

At the reporting date, the gearing ratio is set out as below:

	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 36)	18,051,273	12,827,795
Less: Cash and cash equivalents (Note 27)	(2,446,923)	(1,993,209)
Net debts	15,604,350	10,834,586
Total equity	8,441,592	24,636,953
Total capital	24,045,942	35,471,539
Gearing ratio	65%	31%

42.3 Fair value estimation

Fair value hierarchies are categorised into three levels as the lowest level input that is significant to the entire fair value measurement:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

As at 31 December 2016 and 2015, financial assets and liabilities of the Group measured at amortised cost mainly represent: cash and cash equivalents, trade and other receivables, borrowings and trade and other payables. The carrying amounts of these financial assets and liabilities are not materially different from those measured at fair values.

43 POST BALANCE SHEET EVENTS

As at 28 March 2017, there are no other material events after reporting date to be disclosed in the Group.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2016, the Group has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/Place of incorporation and type of legal entity	Registered capital	Actual interest held		Principal activities and place of operation
			Direct held	Indirect held	
		RMB'000			
Sinopec Oilfield Service Corporation	The PRC/Limited Company	4,000,000	100%	—	Petroleum engineering and technical services/The PRC
Sinopec Shengli Oil Engineering Company Limited *	The PRC/Limited Company	700,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Zhongyuan Oil Engineering Company Limited *	The PRC/Limited Company	450,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Jianghan Oil Engineering Company Limited *	The PRC/Limited Company	250,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec East China Oil Engineering Company Limited *	The PRC/Limited Company	864,297	—	100%	Petroleum engineering and technical services/The PRC
Sinopec North China Oil Engineering Company Limited *	The PRC/Limited Company	886,300	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Southwest Oil Engineering Company Limited *	The PRC/Limited Company	300,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering Geophysical Company Limited *	The PRC/Limited Company	300,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering and Construction Corporation *	The PRC/Limited Company	500,000	—	100%	Construction/The PRC
Sinopec Shanghai Offshore Oil Engineering Company Limited *	The PRC/Limited Company	2,000,000	—	100%	Petroleum engineering and technical services/The PRC
Sinopec International Oil Engineering Company Limited *	The PRC/Limited Company	700,000	—	100%	Petroleum engineering and technical services/The PRC

* The Company holds shares through Sinopec Oilfield Service Corporation.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Section 12 Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 29 March 2017 (Wednesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;
2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;
3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of Grant Thornton (Special General Partnership); The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by Grant Thornton Hong Kong Limited;
4. Documents and Announcements disclosed in the reporting period;
5. The Article of Associations of the Company;
6. Copies of the Annual Reports and Interim Reports from 1993 to 2016 and the First Quarter Report and the Third Quarter Report from 2002 to 2016 of the Company.

This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, except the financial statements prepared in accordance with IFRSs and its related reports of the auditors, the Chinese version is considered to be more accurate.