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 2017

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 2017 Annual Report has been approved at the second meeting of the ninth session of the Board. A total of 7 directors of the Company attended the board meeting. Mr. Lu Baoping, a director, and Mr. Zhang Huaqiao, an independent director, were absent from the meeting due to other business engagements but had separately authorised Mr. Chen Xikun, a Director of the Company and Ms. Jiang Bo, an independent 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 2017, 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. Li Tian, Chief Financial Officer and Mr. Pei Defang, Manager of the Asset and Accounting Department of the Company warranted the authenticity and completeness of the financial statements contained in the Annual Report.

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

   The net profit to equity shareholders of the Company was RMB -10,582,541,000 in accordance with the PRC ASBE (the net profit to equity shareholders of the Company was RMB-10,556,132,000 in accordance with the IFRS) for the year 2017,which has been audited by Grant Thornton (Special General Partnership). At the end of 2017, the undistributed profit of the Company was RMB -1,496,150,000. Due to the accumulated net profit in Company was negative value at the end of 2017, the Board proposed not to distribute any dividend nor capitalize any reserve for the year 2017. The above proposed profit distribution scheme shall be submitted for approval at the 2017 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

   Due to the company's consecutive net losses in 2016 and 2017, the Company's A shares will be implemented delisting risk warning (*ST) on March 29,2018. If the Company continues to suffer a net loss in 2018, the Company's A shares will be suspended from listing. To this end, the Company will adopt a series of measures such as deepening internal reforms, vigorously exploring markets, and strictly controlling costs to turn losses into profits.

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 listed on the SSE (Stock code: 600871) and 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) 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
Share Option Incentive Scheme	A Share Option Incentive Scheme of the Company
This Grant	The Company granted the total amount of incentive objects not exceeding 5,085 million stock options according to the Share Option Incentive Scheme.
CITIC Limited	China International Trust and Investment Co., Ltd.
SOSC	Sinopec Oilfield Service Co., Ltd, the subsidiary of the Company
Century Bright Company	Sinopec Century Bright Capital Investment, Ltd.
China Structural Reform Fund	China Structural Reform Fund Corporation Limited or its designated related party
Qi Xin Gong Ying Scheme	Qi Xin Gong Ying Scheme for the management of Sinopec Oilfield Service Corporation
Geophysical exploration, geophysical	A method and theory of exploring 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 often being used to discover the oil and gas reservoir and other mineral resources.

Section 1 Definitions

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

2. Contact Information

	Secretary to the board	Securities Affairs Representative
Name	Li Honghai	Shen Zehong
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, Chaoyang 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

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

(1) Principal financial data

Unit: RMB'000

	For the year ended 31 December 2017	For the year ended 31 December 2016	Year-on-year change (%)	For the year ended 31 December 2015
Operating income	**48,485,788**	42,923,500	13.0	60,349,334
Operating profit ("-" for loss)	**-10,196,367**	-16,080,264	Not Applicable	125,445
Profit before income tax ("-" for loss)	**-10,344,082**	-15,803,702	Not Applicable	505,740
Net profit attributable to equity shareholders of the Company ("-" for loss)	**-10,582,541**	-16,114,763	Not Applicable	24,478
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	**-10,399,296**	-16,173,871	Not Applicable	-58,509
Net cash inflow from operating activities ("-" for outflow)	**419,456**	-3,907,318	Not Applicable	2,575,929
	As at 31 December 2017	As at 31 December 2016	Year-on-year change (%)	As at 31 December 2015
Total equity attributable to equity shareholders of the Company	**-2,102,628**	8,442,868	-124.9	24,638,094
Total assets	**61,942,629**	74,493,166	-16.8	85,307,777

(2) Principal financial indicators

	For the year ended 31 December 2017	For the year ended 31 December 2016	Year-on-year change (%)	For the year ended 31 December 2015
Basic earnings per share (RMB) ("-" for losses)	-0.748	-1.139	Not Applicable	0.002
Diluted earnings per share (RMB) ("-" for losses)	-0.748	-1.139	Not Applicable	0.002
Basic earnings per share net of extraordinary gain and loss (RMB) ("-" for losses)	-0.735	-1.144	Not Applicable	-0.004
Weighted average return on net assets (%)	-335.78	-97.19	Decreased by 238.59 percentage points	0.10
Weighted average return on net assets net of extraordinary gain and loss (%)	-329.97	-97.55	Decreased by 232.42 percentage points	-0.24

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 2017	For the year ended 31 December 2016	As at 31 December 2017	As at 31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000
PRC ASBE	-10,582,541	-16,114,763	-2,102,628	8,442,868
Adjustments under IFRS:				
Specific reserve (a)	26,409	-83,479	—	—
IFRSs	-10,556,132	-16,198,242	-2,102,628	8,442,868

Explanations for the related differences

(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.

9. Quarterly Financial Data of 2017 (Prepared in accordance with 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	8,815,250	11,027,068	10,184,646	18,458,824
Net profit attributable to equity shareholders of the Company ("-" for loss)	-1,345,366	-939,958	-1,020,681	-7,276,536
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	-1,357,638	-971,036	-1,011,757	-7,058,865
Net cash inflow from operating activities ("-" for outflow)	-1,312,169	-676,145	-388,644	2,796,414

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

☐ Applicable √ Not Applicable

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

Unit: RMB'000

Extraordinary gain and loss item	**2017**	2016	2015
Disposal of non-current assets	**-172,607**	-68,312	262
Government grants recognised in profit or loss during the year	**150,674**	74,863	111,106
Gain or loss on debt restructuring	**14,481**	—	—
Gain and loss from external entrusted loans	**67**	27,555	2,406
Other non-operating income and expenses excluding the aforesaid items	**-162,195**	25,703	-1,656
Tax effect	**-13,665**	-701	-29,131
Total	**-183,245**	59,108	82,987

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

Unit: RMB'000

	As at 31 December				
	2017	2016	2015	2014	2013
Total assets	**61,942,629**	74,493,166	85,307,777	81,295,708	92,736,669
Total liabilities	**64,046,629**	66,051,574	60,670,824	62,599,570	62,003,460
Equity attributable to owners of the Company	**(2,102,628)**	8,442,868	24,638,094	18,697,120	30,648,271
Net assets per share attributable to owners of the Company[3]	**(0.15)**	0.60	1.74	1.46	2.39
Equity ratio of owners	**(3.39%)**	11.33%	28.88%	23.00%	33.05%
Return on net assets	**(502.04%)**	(191.89%)	(0.05%)	12.93%	4.78%

	For the year ended 31 December				
	2017	2016	2015	2014	2013
Revenue[1]	**48,485,788**	42,923,500	60,349,334	78,993,315	89,729,072
(Loss)/profit before income taxation	**(10,317,673)**	(15,887,181)	469,719	3,320,072	2,179,996
Income tax expense/(credit)	**238,555**	311,196	481,421	900,930	687,350
(Loss)/profit attributable to owners of the Company					
Including: continuing operations[2]	**(10,556,132)**	(16,198,242)	(11,543)	2,416,928	1,464,987
discontinued operations[2]	**—**	—	—	(1,159,620)	(1,450,019)
Basic and diluted (loss)/earnings pershare[1]					
Including: continuing operations[2]	**(0.746)**	(1.145)	(0.001)	0.159	0.096
discontinued operations[2]	**—**	—	—	(0.076)	(0.095)

Note:

1. Information of 2017, 2016, 2015,2014 and 2013 included continuing operation 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 2017, 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 364 projects execute in 38 countries and regions.

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

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

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

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 2017, the Group continued revitalizing existing assets and optimizing incremental assets, through further integration of internal resources, the disposal of inefficient and invalid assets, has improved the asset structure and reduced the occupation of invalid assets. By the end of 2017, the Group has 678 onshore drilling rigs, 14 offshore drilling platforms, 78 sets of seismograph host computers and 127 sets of imaging logging tools, 401 sets of comprehensive logging instruments, 150 sets of Model 2500 and Model 3000 fracturing trucks and 52 sets of 750 HP and above workover rigs.

In 2017, the Group kept deepening structural adjustment and cutting down extra crews with low productivity. By the end of 2017, the Group cut down professional crews by 179, a decrease of 9.0 percent compared with the year end of 2016, which the crew number is 1,978.

On December 31, 2017, under ASBE, total assets of the Group was RMB 61,942,629,000, a year-on-year decrease of 16.8%; total equity attributable to owners of the Company was -2,102,628,000, a year-on-year decrease of 124.9%. The debt-to-assets ratio of the Group was 103.4%, a year-on-year increase of 14.7percentage 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.

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.

2017 is an extremely difficult year for SSC to fight against the industry winter, seek to survive and realize sustainable development. It was also a year when we were in danger and struggling. Over the past year, facing the slow recovery of the oilfield service industry and the fierce market competition, the Company focused on customer needs and continue to provide high-quality and efficient services to customers and maintain a strong market development, forming a favorable environment for all the staff to expand the market at full strength. On the other hand, the Company continued to deepen internal reforms, significantly reduce excessive capacity, promote the professional development of supporting business, and excel in the main business. With the joint efforts of the Board, Supervisory Committee, the management and all the staff, SSC has withstood severe challenges of the industry winter in 2017, and the production and operation have come out of the troughs and achieved recovery growth.

In 2017, the Company's consolidated revenue under ASBE is RMB 48.49 billion, a year-on-year increase of 13.0%, reversing decline of three years in a row; and net profit attributable to the shareholders is RMB -10.58 billion, a significant year-on-year decrease of RMB 5.53 billion; and realize net operating cash flow of RMB 420 million, which ensured the Company's debt was under control. Since the accumulated undistributed profit of Parent Company was negative at the end of 2017, 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 2017. The above proposed profit distribution scheme will be submitted to the AGM for approval.

In 2017, the Company continued to serve the internal market of Sinopec Group efficiently. Newly signed contracts in the year worth RMB 30.3 billion, a year-on-year increase of 27.8%. The Company pushed ahead the exploration and production of the special ultra-deep Shunbei Oilfield, natural gas in Southwest China, and the tight oil and gas fields in Ordos, and make every effort to ensure the construction of key projects such as the Wen 23 gas storage facility and the Qianjiang-to-Shaoguan Gas Pipeline project, and effectively ensure the capacity development of the Fuling Shale Gas project Phase II. The hard-to-recover reserve cooperation pilot project has achieved good results.

Section 4 Chairman's Statement

In 2017, the Company took the initiative to meet customer needs, improved the market development system, actively explored the external market, and achieved additional production in the domestic and foreign markets, while the overseas market improved in downturn. In domestic markets outside of Sinopec, the Company's newly signed contracts in the year was RMB 10.6 billion, an increase of 70.9% year-on-year; it effectively completed the geological exploration of shale gas requested by China Geological Survey in western Hubei, and provided vessel services for CNOOC in the Donghai Oilfield. It won bid for a series of qualified projects, including the Rizhao-Jingbo Pipeline Project worth RMB 2.63 billion, state oil reserve depot project worth RMB 0.9 billion, etc. In the overseas market, newly signed contracts in the year worth USD 1.90 billion and the completed contracts worth USD 2.02 billion. The Company further consolidated and expanded the Saudi Arabia and Kuwait markets where the Company is the largest onshore drilling contractor for Saudi Aramco and KOC for three consecutive years. The Company has made notable progress in Africa and successfully signed two drilling platform day rate projects in Nigeria with contractual value of USD 150 million.

In 2017, the Company fully implemented the innovation-driven strategy and made notable progresses in developing key technologies. It integrated and matched a number of specialized mature technologies, and created a number of high-tech indicators. The highly efficient exploration and production technology of the large-scale marine shale gas field in Fuling was awarded the First Class Award of the National Science and Technology Progress Award. The Company integrated the application of ultra-deep well drilling technology, and continuously broke the records of 8,430 meters of Shunbeiping-1 Well and 8,433 meters of Shunbeiping-2 Well, which is the deepest well in Asia, and have effectively supported the development and construction of the special ultra-deep oil and gas fields in Shunbei. The Company continued to deepen its internal reforms, significantly reduced excessive capacity, restructured and integrated its supporting production operations, promoted the development of supporting business specialization, and made progress in the optimization of its main business. The Company firmly struck to the overall cost control, cut cost and expense of RMB 1.51 billion through tapping potential and effective enhancement measures. The Company optimized and strictly controlled the CAPEX, and the actual CAPEX in 2017 worth RMB 740 million, reduced by RMB 1.69 billion compared with the planned CAPEX at the beginning of 2017.

In 2017, the Company further enhanced its corporate governance. In accordance with the requirement of strengthening the leadership of the Party and improving the unification of corporate governance, the Company successfully integrated the general requirement for party building work into the Company's Articles of Association. The company focused on utilizing the capital market to boost the development of the company. With the support of our investors and the wider community, the Company issued a total of RMB 7.66 billion in equity financing through non-public issuance of A-shares and H-shares. The proceeds were credited into account in January 2018, the capital structure was thus improved and the debt-to-asset ratio was reduced, which provided strong support for the company to turn profitable in 2018. In February 2018, the Company successfully completed the change of Board of Directors. And I would like to take this opportunity, on behalf of the Company, to sincerely thank all members of the eighth Board of Directors for their significant contribution to the development of the Company. In the election of the new Board of Directors, I will continue to serve as the chairman of the Company and I will work diligently to fulfill my duty, together with all directors, I will ensure the sound development of the Company and enhance value of the Company.

Looking ahead to 2018, international oil prices are expected to maintain a stable upward trend. Upstream capital expenditure for oilfield exploration and production of important customers such as Sinopec Group will continue to increase, while the rapid and significant growth of domestic natural gas demand will contribute to the recovery growth of the oilfield service industry, which would continue to improve the operating environment of the Company. The Company's deepening reforms, such as keeping leaner and healthier, capacity reduction, structural adjustment, and strong management have achieved good results. At the same time, the market development system has been continuously improved, and the conversion of featured technologies and integrated technology results has been accelerated, which has enhanced the Company's cost competitiveness in the industry and it has laid the foundation for the Company to achieve profitability in 2018, and strengthened our confidence in overcoming difficulties and realizing the sustainable development.

2018 is the critical year for the Company to deepen reforms, and it was also the year for the Company to achieve a decisive victory to turn profitable. The Company will focus on the following aspects: firstly, to boost profits through expanding the external markets with full steam, with planned new contractual value for the year of RMB 57.8 billion; secondly, to continue to deepen reforms, promote transformation and development, excel in main business, effectively develop technical services and emerging businesses, separately invigorate supporting services, and optimize and upgrade the structure; thirdly, to strengthen internal management, reducing costs and increase efficiency, and improve management efficiency; fourthly, to strengthen exploration and production and the guiding role of market demand for technological innovation, accelerating industrialization and serialization of technology in order to improve service quality and enhance core competitiveness.

The Board of Directors and I believe that through the joint efforts of the Board, Supervisory Committee, 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 2018, effectively promote the healthy development of the Company and create greater value for the shareholders and the public.

Jiao Fangzheng

Chairman

Beijing, China

27 March 2018

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

In 2017, recovery of the global economy accelerated, while oil and gas consumption grew slowly. China's economy maintained a stable and rapid growth, gross domestic product (GDP) increased by 6.9% year-on-year. Mainly due to the agreement to reduce production by major oil-producing countries, the global crude oil market gradually tended to be balanced, the international crude oil prices fluctuated and recovered. The annual average Europe Brent Spot Price was 54.1 dollars per barrel, representing a year-on-year increase of 24.1%. The rebound in international crude oil prices encouraged domestic and foreign oil companies to increase upstream capital expenditure for oilfield exploration and production. The oil field service industry was affected and showed a trend of stabilization and recovery. The oil field service industry was active, and the operating environment of the oilfield service market was gradually improving.

Operation review

In 2017, the Company's consolidated revenue was RMB 48,485,788,000, representing a year-on-year increase of 13.0%, reversing the decline of three consecutive years; and net profit attributable to shareholders of the Company is RMB -10,582,541,000, representing a significant year-on-year decrease of RMB 5,532,222,000. The loss in 2017 is mainly caused by the following reasons: the gross profit of the Company was -6.0% due to high fixed cost; the Company has implemented measures to reduce excessive capacity and cancelled project teams to obtain excessive equipment in the fourth quarter of 2017, and according to the results of the assets impairment test, the Company proposed to record the provision for impairment of fixed assets of RMB 1,149,494,000; in 2017, the Company made best efforts to collect outstanding debt, the balance on the accounts receivable has decreased significantly and the operating cash flow became positive. However, certain debts were still overdue, which results in an increase of the payment risk, the provision of bad debts for accounts receivable is RMB 1,268,868,000.

Under such fiercely competitive business environment, the Company operated according to features of the oil service industry. With solid and expanded basis of internal markets within the Sinopec Group, SSC continued to make efforts to explore the external markets with more incentives. The newly signed contract amounted to RMB 53.2 billion, representing a year-on-year increase of 27.2%; deepened internal reforms, vigorously cutting off excessive capacity, accelerating the professional development of auxiliary businesses, and strengthened the main business; further strengthened cost controls by tapping potentiality and increasing efficiency, and optimized investment to reduce the losses.

1. Geophysical services

In 2017, the Company's operation revenue in geophysical service was RMB 3,980,069,000, representing an increase of 10.4% than the same period of the previous year, for which the figure was RMB 3,605,915,000. The completed 2D seismic accumulated for 22,155 kilometers, an increase of 56.3% than the previous year; while the 3D seismic accumulated for 13,686 square kilometers, an increase of 8.3% 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 market outside of Sinopec and the overseas markets. For example, it won bid for 18 inland seismic projects of the China Geological Survey and Chinese Academy of Geological Sciences with contractual value of RMB 120 million. It also won 4 geophysical projects in Algeria with contractual value of USD 71.81 million and continue to maintain Algeria's position as the largest international geophysical contractor, while geophysical projects in Bangladesh and Myanmar were implemented efficiently. In Bangladesh, the expansion from offshore to onshore has been achieved.

2. Drilling service

In 2017, the Company's operation revenue in drilling service was RMB 24,718,771,000, an increase of 27.6% than the same period of the previous year, for which the figure was RMB 19,368,752,000. Its completed drilling footage reached 7,360 kilometers, an increase of 33.6% than the previous year. SSC fully supported to ensure Sinopec Group to achieve its exploration and production tasks, and pushed ahead the exploration and production of the special ultra-deep oil and gas fields in Shunbei, the natural gas in Southwest China, and the tight oil and gas fields in Ordos, and pushed ahead the construction of key projects such as Fuling shale gas field Phase II and the Wen 23 gas storage facility.SSC efficiently completed the geological exploration of shale gas requested by China Geological Survey in western Hubei. SSC continued to be the largest onshore drilling contractor of the Saudi Aramco, Kuwait Oil Company and Algeria National Oil Company.

3. Logging/Mud logging service

In 2017, the Company's operation revenue in logging/mud logging service was RMB 1,810,868,000, an increase of 17.8% than the same period of the previous year, for which the figure was RMB 1,537,768,000. Its completed logging projects have accumulated for 206,830,000 standard meters, an increase of 30.3% than the previous year. Its completed mud logging projects have accumulated for 6,660 kilometers, an increase of 25.4% than the previous year. In 2017, the Company integrated the development of logging/mud logging service, with service capacity and market competitiveness significantly improved; effectively ensuring the Sinopec Group's Fuling Shale Gas production construction (Phase II), exploration and production of oil field in western Sichuan and Shunbei. Progress was made in the development of domestic and foreign markets such as CNOOC Jidong, Yanchang, local coal bed gas and shale gas, and secured a 5+1 year logging contract in Kuwait with contractual value of RMB 170 million.

4. Downhole operation service

In 2017, the Company's operation revenue in downhole operation was RMB 4,189,002,000, an increase of 8.3% than the same period of the previous year, for which the figure was RMB 3,867,913,000. It completed downhole operation for 5,144 wells, an increase of 17.0% than the previous year. In 2017, the Company continued to realize the advantages of specialization and integration, pushed ahead the localization of technical equipment. horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing, horizontal well workover, and high-pressure work and coiled tubing. The technical service capabilities of continued to enhance, as well as the high-end business service capabilities and it contributed to Sinopec's efficient exploration, effective production, as well as development of natural gas. The hard-to-recover reserve cooperation pilot project jointly developed with Sinopec Group has achieved prominent results and contracted 15 hard-to-recover blocks, with additional crude oil production by approximately 7,000 tons throughout the year.

5. Engineering and construction service

In 2017, the Company's operation revenue in engineering and construction service was RMB 11,740,711,000, a decline of 8.5% than the same period of the previous year, for which the figure was RMB 12,827,062,000. In 2017, the cumulative value of newly signed contracts was RMB 18.72 billion, an increase of 66.9% than the same period of the previous year; its completed contracts valued RMB 11.89 billion, a decline of 1.9% than the same period of the previous year. The Company fully implemented the project for construction of the natural gas pipeline from Qianjiang to Shaoguan promoted by Sinopec Xinjiang Coal-based SNG Transmission Pipeline Co., Ltd. It won bids for six tenders of the project's general contract for construction projects, with amount of approximately RMB 3.16 billion; it has actively expanded the ground EPC projects such as local municipalities, oil and gas pipelines, refined oil depots, etc. It won bid for a series of qualified projects, including the Rizhao-Jingbo Pipeline Project worth RMB 2.63 billion, state oil reserve depot project worth RMB 0.9 billion, Thailand No. 5 long pipeline works phase I project worth RMB 1.3 billion; Ghana Western Corridor Natural Gas Project was awarded the China Construction Engineering Luban Award, and the Tahe Oilfield No. 4 Joint Station and the crude oil export supporting project were awarded the National Excellent Project Prize.

6. International business

In 2017, the Company's operation revenue in international business service was RMB 12,936,519,000, an increase of 1.8% than the same period of the previous year, for which the figure was RMB 12,702,961,000. The revenue contributed by the international business accounted for 26.7% of the whole revenue, with a year-on-year decrease of 2.9 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 2017, the Company signed new contracts in overseas markets worth USD 1.9 billion, and the completed contracts worth USD 2.02 billion. The Company consolidated and expanded in the Middle East, it signed and renewed contracts for 19 drilling rigs in the Saudi market with contractual value of USD 470 million. In Kuwait, the Company renewed contracts for 26 drilling rigs with contractual value of USD 200 million, and achieved breakthrough in its African market. In Nigerian market, it successfully signed two offshore drilling platform daily rate projects with contractual value of USD 150 million. And in Ecuador, it successfully renewed the lump-sum ITT drilling project and increased the service volume of 35 wells with contractual value of USD 150 million, and it successfully signed the geothermal drilling projects in Turkey with contractual of USD 84.61 million.

7. Research and development

In 2017, the Company implemented in-depth innovation-driven strategies, continuously strengthened its technological research, and improved its exploration and production capabilities. It has applied for 494 patents at home and abroad and was granted 322 patents. The highly efficient exploration and production technology of the large-scale marine shale gas field in Fuling was awarded the First Class Award of the National Science and Technology Progress Award. The Company integrated the application of ultra-deep well drilling technology, and continuously broke the records of 8,430 meters of Shunbeiping-1 Well and 8,433 meters of Shunbeiping-2 Well, which is the deepest well in Asia, and have supported the development and construction of the oil and gas fields in Shunbei. The single-point high-density 3D seismic technology implemented industrial production in the old eastern region and the new broadband accelerometer secured the preliminary industrialization conditions; R&D, production, and service integration with key technologies such as measurement and control while drilling, and near-bit geosteering system are ready for industrialization; and major breakthrough in natural gas hydrate drilling and coring technology and completed the world's first 24” riser windowing construction in the South China Sea, and offshore engineering design achieved a leapfrog development from 40 meters to 100 meters.

8. Internal reform and management

In 2017, the Company deepened its internal reform, reform measures were executed with speed and stableness. Remarkable results were achieved, both the organization and its staff became capable and efficient, and the major business was more highlighted. The operation vitality, development momentum, and effectiveness and efficiency of the Company has been continuously raised. It reinforced its effort in becoming leaner and healthier through streamlining the management levels and the organization; continued to deepen structure adjustments by orderly cut down extra capacity of low productivity, in which 179 professional crews were cut down, a 9% year-on-year decrease; restructured and integrated its supplementary businesses to promote such business to develop towards specialization, and explore the possibility to establish a sub-contracting operation system in order to invigorate the supplementary businesses; put great effort into tapping potentialities and increase profits, achieving a RMB 1.51 billion cut in cost during the year; rapidly pushed forward its emerging businesses in underground pipe network detection and inspection, land right confirmation, offshore surveying and mapping, etc., in which the value of new contracts reached RMB 0.11 billion, a year-on-year increase of 31%; actively expanded its business of energy conservation and environment protection in solid waste disposal, soil remediation, etc., in which the value of new contracts reached RMB 0.17 billion, a year-on-year increase of 133.0%

9. Capital Expenditures

In 2017, the Company planned to allocate investment of RMB 2.43 billion, actually allocated investment of RMB 0.74 billion, in which RMB 0.5 billion was spent on non-installed equipment, RMB 0.07 billion on construction projects, RMB 0.04 billion on computer information projects, and RMB 0.04 billion on safety hazard treatment projects. The company insisted on optimizing investment, making good use of incremental assets, and revitalizing inventory assets. It spent funds on strictly selected investment targets and reduced the annual investment by RMB 1.69 billion.

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

	2017 RMB'000	2016 RMB'000	The rate of change (%)
Operating revenue	48,485,788	42,923,500	13.0
Operating cost	50,976,270	53,516,744	-4.7
Selling and distribution expenses	59,615	58,558	1.8
General and administrative expenses	4,134,373	3,756,029	10.1
Financial expenses	580,079	477,258	21.5
Net cash inflow from operating activities	419,456	-3,907,318	Not applicable
Net cash inflow from investing activities	-1,011,597	-235,956	Not applicable
Net cash inflow from financing activities	748,034	4,461,521	-83.2
Research and development expenditures	517,599	362,586	42.8

B. Income and cost analysis

a. Statement of operation by industry and products

Industry	Operating income for 2017 RMB'000	Operating cost for 2017 RMB'000	Gross profit margin (%)	Increase or decrease in operating income as compared with last year (%)	Increase or decrease in Operating cost as compared with last year (%)	Gross profit margin compared with l ast year
Geophysical	3,980,069	3,755,549	5.6	10.4	-10.8	Increased by 22.3 Percentage points
Drilling	24,718,771	26,506,528	-7.2	27.6	6.7	Increased by 21.1Percentage points
Logging/Mud logging	1,810,868	2,064,068	-14.0	17.8	0.6	Increased by 19.4 Percentage points
Downhole Operation	4,189,002	4,521,604	-7.9	8.3	-5.3	Increased by 15.6 Percentage points
Engineering and construction	11,740,711	12,392,692	-5.6	-8.5	-22.7	Increased by 19.3 Percentage points
Other	1,145,703	1,190,582	-3.9	6.3	5.0	Increased by 1.4 Percentage points
Total	47,585,124	50,431,023	-6.0	12.5	-4.9	Increased by 19.4Percentage points

b. Operating income by regions

Region	Operating income for 2017 RMB'000	Operating cost for 2017 RMB'000	Gross profit margin (%)	Increase or decrease in operating income as compared with last year (%)	Increase or decrease in Operating cost as compared with last year (%)	Gross profit margin compared with last year
Mainland China	34,648,605	38,358,394	-10.7	17.1	-1.2	Increased by 20.5 Percentage points
Hong Kong, Macau, Taiwan, and overseas	12,936,519	12,072,629	6.7	1.8	-15.1	Increased by 18.6 Percentage points

c. Cost analysis

Unit: RMB'000

Product	Item of costs structure	Amount in 2017 RMB'000	Percentage of amount in 2017 in total cost (%)	Amount in 2016 RMB'000	Percentage of amount in 2016 in total costs (%)	Year-on-year change (%)
Geophysical Service	Raw materials	337,687	9.0	377,725	9.0	-10.6
	Fuel and power	146,894	3.9	158,708	3.8	-7.4
	Employees costs	1,314,818	35.0	1,424,607	33.8	-7.7
	Depreciation and amortization	527,920	14.1	611,287	14.5	-13.6
	Subcontracting costs and outsourcing services expenditures	222,568	5.9	187,718	4.5	18.6
	Others	1,205,662	32.1	1,448,646	34.4	-16.8
	Sub-total	3,755,549	100.0	4,208,691	100.0	-10.8
Drilling Service	Raw materials	5,068,908	19.1	4,305,929	17.3	17.7
	Fuel and power	1,220,724	4.6	986,175	4.0	23.8
	Employees costs	7,344,133	27.7	6,836,890	27.5	7.4
	Depreciation and amortization	3,656,427	13.8	3,332,374	13.4	9.7
	Subcontracting costs and outsourcing services expenditures	1,919,371	7.2	2,172,957	8.8	-11.7
	Others	7,296,965	27.6	7,206,754	29.0	1.3
	Sub-total	26,506,528	100.0	24,841,079	100.0	6.7
Logging/Mud logging Service	Raw materials	513,291	24.9	464,005	22.6	10.6
	Fuel and power	23,999	1.2	24,037	1.2	-0.2
	Employees costs	1,156,215	56.0	1,162,798	56.7	-0.6
	Depreciation and amortization	242,115	11.7	267,933	13.1	-9.6
	Subcontracting costs and outsourcing services expenditures	84,396	4.1	85,090	4.1	-0.8
	Others	44,052	2.1	47,654	2.3	-7.6
	Sub-total	2,064,068	100.0	2,051,517	100.0	0.6
Downhole operation Service	Raw materials	1,270,507	28.1	1,531,158	32.1	-17.0
	Fuel and power	203,958	4.5	207,663	4.3	-1.8
	Employees costs	1,120,241	24.8	1,111,552	23.3	0.8
	Depreciation and amortization	556,018	12.3	532,258	11.1	4.5
	Subcontracting costs and outsourcing services expenditures	732,327	16.2	759,765	15.9	-3.6
	Others	638,553	14.1	633,378	13.3	0.8
	Sub-total	4,521,604	100.0	4,775,774	100.0	-5.3
Engineering and Construction Service	Raw materials	2,125,633	17.2	2,915,731	18.2	-27.1
	Fuel and power	131,536	1.1	119,742	0.7	9.8
	Employees costs	2,159,598	17.4	2,331,204	14.5	-7.4
	Depreciation and amortization	229,116	1.8	239,804	1.5	-4.5
	Subcontracting costs and outsourcing services expenditures	1,253,098	10.1	2,666,647	16.6	-53.0
	Others	6,493,711	52.4	7,752,965	48.5	-16.2
	Sub-total	12,392,692	100.0	16,026,093	100.0	-22.7

d. Information about major customer and major suppliers

During the reporting period, the aggregate operating revenue from the top five largest customers was RMB 36,372,118,000, accounting for 75.0% of the Company's total operating revenue in 2017. Among the operating revenue form the top five largest customers, sales amount of related parties was RMB28,369,837,000, accounting for 58.5% of the Company's total operating revenue in 2017.

The operating revenue of the top 5 customers in 2017:

Name of customer	Amount (RMB'000)	Percentage to operating income (%)
CPC and its subsidiaries	28,369,837	58.5
SAUDI ARABIAN OIL COMPANY	3,277,843	6.8
KUWAIT OIL COMPANY	2,502,450	5.2
CNPC	1,379,543	2.8
Halliburton Energy Services inc. saudi branch	842,445	1.7
Total	36,372,118	75.0

During the reporting period, the aggregate purchase amount from the top five largest suppliers was RMB7,615,774,000, accounting for 36.0% of the Company's total purchase amounts. Among the purchase amount form the top five largest suppliers, purchase amount of related parties was RMB 5,797,473,000, accounting for 27.4 % of the Company's total purchase amount in 2017. Purchase amount from the largest supplier accounted for 27.4% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

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

C. Expense

Item	2017 RMB'000	2016 RMB'000	Year-on-year change (%)	Reason for change
General and administrative expenses	4,134,373	3,756,029	10.1	Mainly caused by the increase of Technology development and ERP expenses
Selling and distribution expenses	59,615	58,558	1.8	Mainly caused by the increase of market development
Financial cost	580,079	477,258	21.5	Mainly caused by the increase in interest expenses due to the increase of loan expenses and comprehensive financing costs.
Impairment losses	2,735,857	754,346	262.7	Mainly caused by reduction of overcapacity and team, and the surplus equipment of provision for impairment of assets in 2017.
Income tax expenses	238,555	311,196	-23.3	Mainly caused by profit change of subsidiary and confirmation of deferred income tax.

D. Statement of research and development expenditure

Unit: RMB'000

Expenditure research and development expenditure for 2017	517,599
Capitalized research and development expenditure for 2017	—
Total research and development expenditure for 2017	517,599
Percentage of total research and development expenditure in operating income (%)	1.1
Number of research and development Personnel	3,058
Percentage of R&D personnel number in the total personnel number of the Company (%)	3.9
The proportion of R&D investment of capital (%)	—

In 2017, the Company's research and development expenditure was RMB 517,599,000, representing an increase of 42.8 percent as compared with RMB 362,586,000 in last year. It was mainly caused by the year-on-year increase of technology expenditure.

E. Changes in cash flow statement items

Item	2017 RMB'000	2016 RMB'000	Increased/ decreased by RMB'000	Change (%)	Reason for change
Net cash inflow from operating activities ("-" for outflow)	419,456	-3,907,318	Inflow increased by RMB4,326,774	Inflow increased by 110.7%	Sharp decrease of pretax loss in this year
Net cash inflow from investing activities ("-" for outflow)	-1,011,597	-235,956	Outflow increased by RMB 775,641	Outflow increased by 328.7%	No cash received form investments in this year after collecting entrusted loans last year
Net cash inflow from financing activities	748,034	4,461,521	Inflow decreased by RMB3,713,487	Inflow decreased by 83.2%	Decrease of cash received from the loan 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, 2017 RMB'000	Percentage of amount at 31 December, 2017 in total assets (%)	Amount at 31 December,2016 RMB'000	Percentage of amount at 31 December, 2016 in total assets (%)	Changes from the end of the preceding year to the end of this year (%)
Cash at bank and on hand	2,537,894	4.1	2,449,935	3.3	3.6
Notes receivables	1,209,147	2.0	851,624	1.1	42.0
Accounts receivable	16,961,936	27.4	23,907,534	32.1	-29.1
Inventories	7,803,074	12.6	9,318,377	12.5	-16.3
Other current assets	885,473	1.4	416,676	0.6	112.5
Long-term equity investments	207,046	0.3	221,329	0.3	-6.5
Fixed assets	25,582,509	41.3	28,807,257	38.7	-11.2
Construction in progress	237,638	0.4	866,846	1.2	-72.6
Intangible assets	281,534	0.5	185,325	0.2	51.9
Short-term borrowings	17,510,830	28.3	17,033,731	22.9	2.8
Notes Payable	3,045,393	4.9	2,013,497	2.7	51.2
Other payables	6,359,459	10.3	5,541,678	7.4	14.8
Non-current liabilities due within one year	28,844	0.0	220,908	0.3	-86.9
long-term borrowings	455,826	0.7	763,070	1.0	-40.3
Deferred income	136,312	0.2	112,171	0.2	21.5

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

√Applicable ☐Not Applicable

On 31 December 2017, the Company's funds with restricted use such as margin deposit, etc. was RMB 14,538,000 (On 31 December 2016: RMB3,012, 000).

C. Note:

1. Notes receivables increased by RMB 357,523,000 compared with that of the previous year, which was mainly caused by the increase in some customers using bill settlement.
2. Accounts receivable decreased by RMB 6,945,598,000 compared with that of the previous year, which was mainly caused by increase of the recovery of accounts receivable and year-on-year provision for bad debts of accounts receivable.
3. Other current assets increased by RMB 468,797,000 compared with that of the previous year, which was mainly caused by the increase of the VAT tax credit at the end of 2017.
4. The project under construction decreased by RMB 629,208,000 compared with that of the previous year, which was mainly caused by the decrease of conversion of some projects under construction into fixed assets.
5. Intangible asset increased by RMB 96,209,000 compared with that of the previous year, which was mainly caused by the future income right for the input of overseas oilfield comprehensive service projects in 2017.
6. Notes payable increased by RMB 1,031,896,000 from the previous year, which was mainly caused by increasing use of notes.
7. The non-current liabilities due within one year decreased by RMB 192,064,000 compared with that of the previous year, which was mainly caused by the repayment of long-term borrowings due within one year.
8. The Long term loans decreased by RMB 307,244,000 compared with that of the previous year, which was mainly caused by the repayment of the repayment of some long-term loans.

(4). Analysis of the industry operation information

A. Market of crude oil and natural gas

In 2017, the international crude oil price shock exceeds 50 USD/bbl. The annual average prices of Brent crude oil was 54.1 USD/bbl, increased by 24.1% compared with 43.6 USD/bbl in 2016, and increased by 3.2% compared with 52.4 USD/bbl in 2015.

In 2017, China's oil consumption growth picks up, China's crude oil output decreased for two consecutive years. According to the data provide by National Bureau of Statistics, China's crude oil output in 2017 was about 190 million ton, a year-on-year decrease of 4.0%. China's petroleum consumption continued to maintain low growth, and its apparent consumption was estimated to be 610 million tons, a year-on-year increase of 5.5%.

In 2017, with the implementation of the policy of reduction substitution for coal and the advancement of the "coal-to-gas" project, domestic natural gas consumption demand continued to increase. According to the data provide by National Development and Reform Commission, China's natural gas production was 1,487 billion cubic metres, a year-on-year increase of 8.5%,and the growth rate was 6.3 percentage points higher than the same period last year. The annual apparent consumption of natural gas was approximately 237.3 billion cubic meters, a year-on-year increase of 15.3%, and the growth rate was 6.0 percentage points higher than the same period last year. The gap of the domestic natural gas demand increased, with natural gas imports reaching 92 billion cubic meters, a year-on-year increase of 27.6%.

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

Affected by the stabilization and recovery of international crude oil prices, domestic and foreign oil companies increased its capital expenditures for upstream exploration and development in 2017. The exploration and development capital expenditures of the international oil companies, including Exxon Mobil, Shell increased by 38.7%,and 4.2%, respectively compared to 2016. Affected by the increase in capital expenditures of oil companies at home and abroad, the Company's workload in 2017 increased to varying degrees, with drilling business workload increasing by 33.6% year-on-year.

C. Business information in oilfield service industry

Affected by domestic and foreign oil companies increasing upstream capital expenditures for exploration and development, the operating environment of the global oilfield service industry has been improved in 2017, and the operating results of the oil service companies have all experienced a significant reduction in losses. For example, China Oilfield Services Limited, net loss after deducting non-recurring profit is estimated to be RMB 480 million in 2017, decreased by RMB 11.19 billion comparing with 2016.

(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	61,705,884	68,206,422	-6,500,538	-10,525,907	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited *	RMB 700,000,000	100	11,203,766	12,854,740	-1,650,974	-2,704,370	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited *	RMB 450,000,000	100	9,639,025	10,704,681	-1,065,656	-2,391,248	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited *	RMB 250,000,000	100	5,299,299	4,334,777	964,522	-561,001	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited *	RMB 860,000,000	100	2,712,001	3,298,393	-586,392	-941,825	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited *	RMB 890,000,000	100	4,314,802	2,337,607	1,977,195	-357,508	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited *	RMB 300,000,000	100	5,784,213	2,627,911	3,156,302	-238,560	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited *	RMB 300,000,000	100	3,660,992	3,551,946	109,046	-452,418	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation *	RMB 500,000,000	100	14,934,484	22,826,558	-7,892,074	-2,399,845	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited *	RMB 2,000,000,000	100	5,393,937	1,627,941	3,765,996	-312,087	Offshore Oil Engineering
Technology Service Sinopec International Petroleum Service Corporation *	RMB 700,000,000	100	3,439,136	2,497,937	941,199	-89,707	Petroleum engineering technical service

Name of company	Revenue	Operating profit
	RMB'000	RMB'000
SOSC	48,485,788	-10,139,367
Sinopec Shengli Oil Engineering Company Limited *	10,268,961	-2,701,931
Sinopec Zhongyuan Oil Engineering Company Limited *	7,523,832	-2,219,635
Sinopec Jianghan Oil Engineering Company Limited *	3,446,486	-595,709
Sinopec East China Oil Engineering Company Limited *	2,084,932	-944,212
Sinopec North China Oil Engineering Company Limited*	3,751,855	-319,108
Sinopec Southwest Oil Engineering Company Limited *	3,688,139	-275,027
Sinopec Oil Engineering Geophysical Company Limited *	3,886,339	-395,513
Sinopec Oil Engineering and Construction Corporation *	12,116,577	-2,296,949
Sinopec Shanghai Offshore Oil Engineering Company Limited *	886,378	-318,007
Sinopec International Petroleum Service Corporation *	1,232,360	4,073

* Note: The Company holds shares though SOSC.

Explanation about the operating situation of Sinopec Shengli Oil Engineering Company Limited

In 2017, the net loss of Sinopec Shengli Oil Engineering Company Limited was RMB 2.70 billion, reducing losses by RMB 1.16 billion compared with the previous year. The main reasons were: 1) Affected by the rebound in international crude oil prices and the increase in workload, revenue in 2017 increased by 26.6% from RMB 8.11 billion in the previous year, achieving a year-on-year reduction in losses, but the gap was still large compared to the best level of history, fixed-cost dilutive effect was limited, resulted in current operating losses. 2) The structural reforms of the supply side were increased, excess production capacity and the size of the team was reduced, the assets impairment of RMB 130 million was deducted for surplus equipment.

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

In 2017, the net loss of Sinopec Oil Engineering and Construction Corporation was RMB 2.40 billion, reducing losses by RMB 2.55 billion compared with the previous year. The main reasons were: 1) Some engineering construction projects in the previous year caused losses of approximately RMB 3 billion due to the extension of construction period, increase in cost, and the change of claims did not reach expectations. 2) The gap was still large compared to the best level of history. The total amount of income is insufficient, resulting in operating losses for the current period.

Explanation about the operating situation of Sinopec Zhongyuan Oil Engineering Company Limited

In 2017, the net loss of Sinopec Zhong Yuan Oil Engineering Company Limited was RMB 2.39 billion, reducing losses by RMB 0.98 billion compared with the previous year. The main reasons were: 1) Affected by the rebound in international crude oil prices and the increase in workload, revenue in 2017 increased by 10.4% from RMB 6.81 billion in the previous year, achieving a year-on-year reduction in losses, but the gap was still large compared to the best level of history, fixed-cost dilutive effect was limited, resulted in current operating losses. 2) The structural reforms of the supply side were increased, excess production capacity and the size of the team was reduced, the assets impairment of RMB 350 million was deducted for surplus equipment.

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

(1) Competitive Industry Structure and Development Trend

The world's economy will continue to recover steadily in 2018, and China's economy will continue its momentum to stably improve. With the balancing trend in the international demand and supply in oil, it is expected that international oil price will rebound in a steady rate, thus increasing the oil companies' capital expenditure for upstream exploration and development. As the plan on the prevention and control of atmospheric pollution is progressing in China, the demand for clean energy such as natural gas will continue to rise, and domestic oil companies including Sinopec Group will raise their investment in natural gas exploration and development. Because of this, the oil field service sector will begin to show a recovery growth, and the operating environment will continue to improve for the sector.

(2) Business Strategy in 2018

The Company will actively take opportunities of the recovery growth in oil field service sector, 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 plans to sign new contract to reach a yearly value of RMB 57.8 billion, in which RMB 33.2 billion will be from Sinopec's internal market, RMB 10.0 billion from domestic external market, and RMB 14.6 billion from overseas market. It will continue to deepen reforms, become leaner 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 turn-around in its business. The Company puts emphasis on the following aspects:

A. Geophysical service

The Company will continue to serve Sinopec Group in exploration by expanding its usage of high-efficient vibroseis acquisition technology and with the most efficient teams, particularly in the exploration of Tarim Basin, Sichuan Basin and Junggar Basin and eastern key exploration areas; to foster integrated capabilities of acquisition, processing and interpretation; to deepen cooperation with key clients including China Geological Survey and Shaanxi Yanchang Petroleum Group; to continue to better manage some significant projects under construction in Algeria, Bangladesh, Bolivia and Myanmar; to expand the scale of the tradition overseas markets in Algeria, Bolivia and Nigeria; and to promote emerging markets of geophysical mapping information as well as drone petrol and geology drilling core extraction business. It completed annual acquisition of 2D seismic data reaching 16,200 kilometers, which is a 26.9% decrease from 2017, and 3D of 14,520 sq. kilometer, which is a 6.1% increase from 2017.

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 super deep oil and gas field in Shunbei, Southwest natural gas, Fuling Shale Gas (Phase II), shale gas development in Pingqiao,Yongchuan and Weirong,Ordos tight oil and gas field, and Wen-23 gas storage. It will continue to play out its advantage in proprietary technologies and services, to actively expand Sinopec's share in the well-drilling market of CNPC in Tarim, East Hebei and Changqing, to speed up the expansion of CNOOC and Yanchang oil field's share in the market, and to further expand its share in local shale gas market. It will also 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 plans to complete drilling footage accumulated for 8,500 kilometers in 2018, which is a 15.5% increase from the actual footage completed in 2017.

C. Logging/Mud logging service

In 2018, the Company will continue to focus on exploration and development. It will enhance and expand share in Sinopec Group's internal market while actively increasing income from external market. For Sinopec Group's internal market, the Company will ensure the implementation of key district projects including Shunbei, western Sichuan and southeastern Sichuan. For external market, emphasis will be on market expansion in Ordos, Shaanxi Yanchang and Middle East. It will continue to optimize the allocation of internal resources such as crews, equipment and staff. It will perfect and strengthen its business in logging/mud logging service. The Company plans to complete logging footage accumulated for 235,000 kilometers in 2018, which is a 13.6% increase from the actual footage completed in 2017, while the mud logging footage accumulated for 7,500 kilometers, which is a 12.6% increase from the actually completed footage in 2017.

D. Downhole operation service

In 2018, the Company will polish the construction technology system of special downhole operation; put effort into raising its support capability in exploration service, with a focus to ensure the exploration and development and the increase in reserves and production of Sichuan Basin constant pressure and deep shale gas and marine facies oil and gas, Ordos dense gas, Tarim super deep oil and gas reserves, and offshore oil and gas fields; make efforts to push forward the stabilization and increase in production of eastern old oil fields and acidic gas field; to perfect and strengthen its high-end businesses in high pressure operation and intelligent coiled tubing; and to develop new businesses such as non-hydraulic fracturing and intelligent well completion. It will also expand and strengthen the workover market in Middle East and Central Asia such as Kuwait, continue to expand external and overseas markets, improve its service capability in high-end business, decrease costs and enhance efficiency, and expand its share in the market. In 2018, the Company plans to complete downhole operation service for 5,500 wells, which is a 6.9% increase from the actual completed number in 2017.

E. Engineering and construction service

In 2018, the Company will focus on enhancing project management, control project risks and promote capabilities of making profits. It will make good preparation for the construction of some key projects, such as Wen-23 natural gas storage, Qianjiang to Shaoguan gas transmission pipeline construction project, Wei-Rong shale gas project, EPC project of Chambroad in Rizhao, Phase I of No. 5 pipeline project in Thailand, and the state oil reserve depot project. The Company will make use of its advantage in technology to make good preparation of the construction work of significant projects such as Rizhao-Puyang-Luoyang crude oil pipeline and Erdos-Anping-Cangzhou natural gas pipeline. In the overseas markets, it will continue to closely follow the national strategy of the Belt and Road. It will carefully select its target markets, enhance project risk evaluation, 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 2018, the company plans to sign new contracts valued RMB 14.6 billion and complete contracts valued RMB 14.0 billion.

F. International business

In 2018, the Company will stay committed to the globalization development operation strategy with great effort. It will maintain its share in traditional business market with all strength, adopt effective measures to develop new business scope, and closely follow the national strategy of the Belt and Road to speed up the development in the market of relative countries. The Company will focus its drilling business in the workover drilling project that it has bid in Kuwait, and the new workload from the lump-sum contract of drilling and completion for wells of ITT in Ecuador. In order to make a breakthrough, the integrated oil field service shall elaborate on its advantage as an integrated business, make greater effort to develop market, and focus on the integrated serve project in Kuwait. The geophysical service business shall implement the strategy of a layered market development and a deep plowing in key markets, and rely on key market such as Algeria, Bolivia, Saudi Arabia, and Myanmar to actively develop market in the surrounding countries. The construction business shall rely on the projects under construction to effectively integrate the Company's development power, to continue its progressive development, and to expand its share in the market. In 2018, the company plans to sign new contracts valued USD 2.2 billion and complete contracts valued USD 2.1 billion.

G. Technology development

In 2018, the Company will continue to push forward in building its R&D system, to improve its implementation plan of R&D centres and technology centres construction, and to speed up the construction of technology centres. Each one of them will be listed as soon as they mature. It will insist on its problem- and need-oriented approach and try to make progress in the breakthrough of service assurance and key technology of significant projects. Strive to make new breakthroughs in forward-looking, systematic, originality. With respect to project support assurance, the Company will focus on the high efficiently exploration and profitable development of Shunbei super deep oil and gas field, Sichuan Basin natural gas, Erdos dens gas field. In order to improve its service assurance capability, the company will continue to develop the research in adaptability technology such as safe and efficient drilling in super deep wells, high temperature and dense drilling fluid, improves speed in difficult-to-drill formation, well cementation in small wellbore and narrow space, and data acquisition for super deep targeted layers. In terms of key technologies, the Company will focus on the development to make breakthroughs in drilling rotary guide technology, high temperature MWD tools, high temperature and high pressure storing well testing equipment, Dry CO2 fracturing, and node seismometer. It will also speed up the improvement of software and hardware products which the Company has proprietary intellectual property rights, such as internet imaging instruments for well testing, well testing data interpretation system, monitor system of seismic data acquisition, so as to build powerful technology equipment. It will focus on promoting industrial application of technologies including the automation remake of drilling machines, broadband acceleration detection, construction of large-diameter high-grade steel long pipeline, and mid-deep marine construction design.

H. Internal reform and management

In 2018, the Company will comprehensively deepen its reform, and move forward in structure optimization in all aspects. Under the general idea of perfecting and strengthening the main business, advancing in transition, effectively develop technology service business and emerging businesses, and isolating and vitalizing supplementary business, the Company will speed up the progress of significant measures including cutting down extra capacity of low productivity, optimization and integration of technology service business, and the specialization of supplementary business, so as to improve the capability to survive and compete of each business sector. The Company will speed up the three items of system reform centered on the remuneration allocation system. It will make full use of its asset equipment rental platform, human resources optimization platform, and R&D resources optimization sharing platform in order to direct its assets, talents and technology to innovation and improving the effectiveness of resource allocation. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2018, the reduced cost and fees are expected to be RMB 3.1 billion.

I. Capital Expenditures

The Company's budget for capital expenditure in 2018 is RMB 1.50 billion. It will be spent on efficiently exploring markets, developing in emerging markets, upgrading equipment, treatment of safety risks, and developing ERP systems, etc. To meet demands of markets, it will place the focus on efficiency, strengthen resource allocation, and make great effort in developing new markets. It will strictly check possibilities during the approval and demonstration, control investment and make further movement in allocating resources, transferring development models, adjusting structures, cultivating its core competitiveness, and strongly improve investment efficiency.

(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

Since the fourth quarter of 2017, international oil prices have risen steadily due to the factors such as the global economic recovery and the agreement to cut production reached by major oil-producing countries. The rebound in oil prices will help oil companies increase upstream capital expenditures for exploration and development, thus stimulating the recovery of oilfield service industries. However, due to the factors such as the strong desire of non-OPEC resource countries to increase production, the large pressure of destocking, and the Fed policy and geopolitical changes, will aggravate oil price fluctuations, there are uncertain factors in the follow-up trend of oil prices.

B. Market competition risk

In recent years, faced with low international oil prices, domestic and foreign oil service companies have increased reduction of surplus production, and the oil service industry has gradually come out of the trough. However, the oversupply of oilfield service industries has not yet been fundamentally improved, and the international and domestic oilfield services market has been fiercely competitive. Main competitors of the Company include domestic and multi-national companies with strong R&D capacity, big client base, good brand and fame. 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

Petroleum 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. There may also be risks of political volatility, religious issues, public security, unstable tax policies, import and export restrictions, and regulatory uncertainties, etc, due to complex international political, economic factors and so on.

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 financial statements prepared in accordance with IFRS)

Funds of the Group comes mainly from operation and borrowings of short or long term. Expenditure spends mainly on operation, CAPEX and repayment of loan of short or long term.

(1). Assets, liabilities and equity analysis

	As at 31 December 2017	As at 31 December 2016	The rate of change
	RMB'000	RMB'000	%
Total assets	61,942,629	74,493,166	-16.8
Current assets	31,838,497	40,155,491	-20.7
Non-current assets	30,104,132	34,337,675	-12.3
Total liabilities	64,046,629	66,051,574	-3.0
Current liabilities	63,377,575	65,115,489	-2.7
Non-current liabilities	669,054	936,085	-28.5
Total equity attributable to owners of the Company	(2,102,628)	8,442,868	-124.9

Total assets were RMB 61,942,629,000, representing a decrease of RMB 12,550,537,000 from that at the end of 2016, of which: Current assets were RMB 31,838,497,000, representing a decrease of RMB 8,316,994,000 from that at the end of 2016. The decrease was mainly due to a decrease of RMB 1,254,613,000 in amount due from customer for contract works, a decrease of RMB 6,588,075,000 in notes receivable and trade receivable. Non-current assets were RMB 30,104,132,000, representing a decrease of RMB 4,233,543,000 from that at the end of 2016, which was mainly due to a decrease of RMB3,853,956,000 in property, plant and equipment and a decrease of RMB 983,110,000 in other non-current assets.

Total liabilities were RMB 64,046,629,000, representing a decrease of RMB 2,004,945,000 from that at the end of 2016, of which: Current liabilities were RMB 63,377,575,000, a decrease of RMB 1,737,914,000 as compared with the end of 2016, which was mainly due to a decrease of RMB 2,218,598,000 in paying customer contract works. Non-current liabilities were RMB 669,054,000, a decrease of RMB 267,031,000 compared with the end of 2016, which was mainly due to a decrease of RMB 287,771,000 in long-term borrowings.

Total equity attributable to owners of the Company was RMB -2,102,628,000, a decrease of RMB 10,545,496,000 as compared with the end of 2016, mainly due to the net loss attributable to equity shareholders of the Company which was RMB 10,556,132,000 in 2017.

As at 31 December 2017, the ratio of total liabilities to total assets was 103.4%, and 88.7% as at 31 December 2016.

(2). Cash flow analysis

The main items of cash flow of the Group in 2017 and 2016 showed in the following table.

Main items of cash flow	2017	2016
	RMB'000	RMB'000
Net cash(inflow)/outflow from operating activities	419,456	(3,907,318)
Net cash outflow from investing activities	(1,011,597)	(235,956)
Net cash inflow from financing activities	748,034	4,461,521
Increase in cash and cash equivalents	155,893	318,247
Effect of exchange rate changes on cash and cash equivalents	(79,460)	135,467
Cash and cash equivalents at the beginning of the year	2,446,923	1,993,209
Cash and cash equivalents at the end of the year	2,523,356	2,446,923

In 2017, the Group's net cash inflow from operating activities was RMB 419,456,000, representing an increase of cash inflow by RMB 4,326,774,000 as compared with last year. This was mainly due to a decrease of the Group's pre-tax loss in 2017 by RMB5,569,508,000 as compared with last year.

In 2017, the Group's net cash outflow from investing activities was RMB 1,011,597,000, an increase of cash outflow by RMB 775,641,000 as compared with last year. It was mainly due to the increase in cash inflows of RMB 951,000 in the entrustment loan recovery in 2016, there was no such occurrence in 2017.

In 2017, the Group's net cash inflow from financing activities was RMB 748,034,000, representing a decrease of cash inflow by RMB 3,713,487,000 compared with last year. It was mainly due to the year-on-year decrease in cash received by the Group from borrowings of RMB 14,235,378,000 in 2017, while the cash paid for repayment of borrowings the year-on-year decreased by RMB 10,789,511,000.

(3). Bank and affiliated company borrowings

As at 31 December 2017, the Company's bank and affiliated company borrowings were RMB 17,966,656,000 (31 December 2016: RMB 18,000,349,000). These borrowings include the short-term borrowings in RMB 17,510,830,000, and the long-term borrowings due more than one year of RMB 455,826,000; the fixed-rate loans were RMB 9,495,000,000 and the floating rate loans were RMB 8,471,656,000. As at 31 December 2017, the balance of RMB borrowings accounted for approximately 52.8%, and the balance of US dollar borrowings accounted for 47.2%.

(4). Gearing ratio

As at 31 December 2017, the gearing ratio of the Company was 115.6% (31 December 2016: 64.9%). 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 of HKSE

(1). Assets pledge

For the year ended 31 December 2017, there was no pledge on the Company's assets.

(2). Foreign Exchange Risk Management

It is set forth in note 41 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(3). Financial Summary

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

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

(4). Reserves

Changes in reserves of the Group and the Company during the reporting period are set forth in note 29&30 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(5). Fixed assets

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

(6). Bank loans and other borrowings

Details of bank loans and other borrowings of the Company as at 31 December 2017 are set out in note 36 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(7). Retirement plan

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

(8). Income tax

As of the twelve months ended 31 December 2017, the Company's incoming tax was RMB 238,555,000 (2016: RMB 311,196,000). The main reason for the change of the tax amount is as following: 1) the existence of losses of the Company and its certain subsidiaries, 2) the expansion of the Company's overseas business, and the different calculation method of tax rate in different countries of the Company's overseas subsidiaries, and 3) the fluctuations of the revenue contributions of the Company's certain subsidiaries which enjoy preferential income tax rate. In addition, the Company has paid tax in the countries and regions where it has businesses.

(9). Capitalized Interest

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

(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 2017, the Company was not in the list of heavily polluting enterprises released by relevant Chinese environmental department. There were no 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 2017, 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 2017, the Company strictly abide by the laws and regulations which have significant influence on the Company and has not been sued, 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

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

(14). Pre-emptive rights

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

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

For the year ended 31 December 2017, 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.

(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 2017, 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

27 March 2018

1. Profit Distribution Plan for Ordinary Shares or Plan to Convert Surplus Reserves into Share Capital

(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's profit gaining, 2) the Company's positive accumulated undistributed profit and 3) the Company's cash flow meets the requirement of its normal operation and sustainable development, then the Company shall have the dividends and the annual dividends shall not be 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 executing of the Company's dividend policy, the independent directors fulfilled their responsibilities following the corresponding obligations, which fully reflected the opinions and demands of minority shareholders and protected their legitimate rights and interests.

Due to the negative of the Company's undistributed profits at the end of 2017, there were no cash dividends. But the Company would strictly implements its Articles of Association, 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 or plan or pre-arranged plan to convert surplus reserves into share capital in the previous three years (inclusive of the reporting period) (in accordance with "ASBE")

Years of distribution	Amount of dividend for every 10 shares	Amount of cash dividends	Numbers of shares converted for every 10 shares	Net profit attributable to equity shareholders of the listed company in the consolidated financial statement during the year of distribution	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)	(%)
2017	—	—	—	-10,582,541	—
2016	—	—	—	-16,114,763	—
2015	—	—	—	24,478	—

(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

2. Performance of undertaking

(1). The undertakings made by the actual controllers, shareholders, affiliates, bidders, company and other associated parties during or until the reporting period.

Background	Type	Party	Undertaking	Date and Duration	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
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 "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.
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 and its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September, 2014 Duration: Long Term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

Background	Type	Party	Undertaking	Date and Duration	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
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 non-operating funds supplied by the Company to the controlling shareholders and its connected partners.

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

☐ Applicable √ Not applicable

5. Analysis and explanation of the Company 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 Company on the reasons and impact of the changes in accounting policy and accounting estimation

According to the "Accounting Standards for Enterprises No. 16—Government Grants" (2017), the accounting treatment for government grants was changed from the Gross method to the Net method, changed the amortization of deferred income related to government grants of assets from the equal division over the useful life of the relevant assets the reasonable and systematic allocation, and revised the presentation of government subsidies. The government subsidies that have not been amortized on January 1, 2017 and the government subsidies obtained in 2017 apply the revised guidelines.

The above changes in accounting policies have no impact on the net assets and retained earnings at the beginning and end of the period. The income statement increased other income by RMB 372,433,000 thousand and reduced non-operating income by RMB 372,433,000.

According to the "Announcement of the revision of general enterprises financial statement format (Cai Kuai [2017] No. 30, the column of "Gain or loss on Assets Disposal" was added to the income statement, representing gain or loss in disposal of non-current assets(except financial instruments, long-term equity investment and investing real estate) classified as held for sale or disposition, and gain or loss in disposal of fixed assets, construction in progress, capitalized biological assets and intangible assets not classified as to be held for sale, and gain or loss in disposal of non-current assets during debt restructure, and gain or loss in exchange of non-currency assets. Delete the column of "gain in disposal of non-current assets" and "loss in disposal of non-current assets" under "non-business income" and "non-business expenditure" respectively, representing gain and loss not attributed to business operation, mainly including gain or loss in debt restructure, gain or loss irrelevant with common business operation such as government subsidy, public welfare donation, abnormal losses, inventory profit or loss, donation gains, non-current assets damage or write-off etc.

The above changes in accounting policies have no impact on the net assets and retained earnings at the beginning and end of the period. The income statement decreased gain on asset disposal by RMB 172,607,000, non- business income by RMB 109,106,000 and non-business expenditure by RMB 281,713,000.

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

□ Applicable √ Not applicable

6. The 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	3
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	3
The accounting firm for Internal Control Audit	Grant Thornton (Special General Partnership)
The remuneration of the accounting firm for Internal Control Audit	RMB 2,000,000

Note: Grant Thornton Hong Kong Limited provided the Company tax services on Hong Kong profit tax declaration in 2017, 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 2017. The Proposal has been approved by the Shareholders at the annual general meeting of 2016 on 29 June 2017.

On 27 March 2018, 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 2018. The proposal shall be subject to the approval by the shareholders at the Company's 2017 annual general meeting.

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 ultimate controllers

During the reporting period, neither the Company nor its Directors, Supervisors, senior management, controlling shareholders or ultimate 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 unsuitable 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, ultimate controllers during the reporting period

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

13. Company's share option incentive plan and its respective effect

(1). The grant date and quantity

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

(2). Information on share options granted to directors, chief executives or major shareholders

The Company granted 1.85 million A-share stock options to ten people such as Mr. Sun Qingde, vice chairman and general manager of the Company, Mr. Lu Baoping, director, Mr. Zhou Shiliang, former director and deputy general manager, Mr. Huang Songwei, supervisor, Mr. Zhang Yongjie, deputy general manager, Mr. Liu Rushan, deputy secretary of the Party Committee, and Mr. Zuo Yaojiu, deputy general manager, Mr. Zhang Jinhong, deputy General Manager, Mr. Li Honghai, Secretary of board, and Mr. Wang Hongchen, former Chief Accountant, accounting for 3.8% of the total amount of share options in the Proposed Grant, and accounting for 0.0131% of the total shares of the Company.

(3). Information on share options granted to key business personnel holding core positions

The Proposed Grant covers 467 key business personnel holding core positions, and the total amount of share options granted to them was 47.20 million shares, accounting for 96.2% of the total amount of the share options in the Proposed Grant, and accounting for 0.3337% 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.

(4). 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).

(5). Validity Period and Exercise Arrangement under the Proposed Grant

Under the Scheme, Options under the Proposed Grant have a validity period of five years commencing from 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 exercise of Share Options.

Stage	Timing Arrangement	Exercise Ratio Cap
Grant Date	To be determined by the Board upon fulfillment 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%

14. Information on connected transactions

(1). The significant 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	5,797,473	28.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	28,018,646	58.2
Comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	1,583,799	100
Other comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	293,071	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	265,207	92.9
Rental expenses	China Petrochemical Corporation and its subsidiaries	117,136	25.0
Loan interest expenses	China Petrochemical Corporation and its subsidiaries	639,109	98.9
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	37,416,244	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	36,929,663	100
Safety and insurance fund expenses	China Petrochemical Corporation	79,326	100
Safety and insurance fund refund	China Petrochemical Corporation	87,111	100

The Company considers that it is important to carry out 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 favor 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 Hong Kong 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 material 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 of the company occurred.

(4). 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	14,850,879	-5,400,936	9,449,943	20,846,055	-7,183,894	13,662,161
Sinopec Finance Company Limited	—	—	—	1,260,000	5,735,000	6,995,000
Sinopec Century Bright Capital Investment Limited	—	—	—	9,720,074	-1,248,418	8,471,656
Total	14,850,879	-5,400,936	9,449,943	31,826,129	-2,697,312	29,128,817
Causes of connected claims and debts						Normal production and operation
Influence of connected claims and debts on the Company						No material adverse effect

15. Significant contracts and performance

(1). Trusteeship, sub-contracting and leasing

During the reporting period, there were no trusteeship, sub-contracting and leasing of properties of other companies by the Company which would contribute profit to the Company of 10 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, no entrusted financing, entrusted loans, other investments and financing and derivatives investment items of the Company occurred.

(4). Other significant contract

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

16. Other major issues

By the resolutions of the Company's first extraordinary general meeting of shareholders held in 2017 on November 16, 2017, the first A-share class shareholder meeting in 2017 and the first H share class shareholder meeting in 2017, and the approval of the China Securities Regulatory Commission China Securities Regulatory License [2018] No. 142, the Company had issued 1,503,568,702 shares and 23,148,854 new A shares to the China Petrochemical Corporation and the QiXinGongYing Scheme. The non-public issuance of RMB ordinary shares (A shares) was issued at RMB 2.62 per share. As of January 19, 2018, the Company had received RMB 3,987,867,324.96 in subscription payments (after deducting various issuance expenses of RMB 12,132,671.76). The Grant Thornton (Special General Partnership) conducted a capital verification of the above-mentioned raised funds, and on January 19, 2018, it issued the Capital Verification Report No.110ZC0018 of the "Comparative Verification" (2018).On January 25, 2018, the Company completed the registration and custody of the non-public issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

By the resolutions of the company's first extraordinary general meeting of shareholders held in 2017 on November 16, 2017, the first A-share class shareholder meeting in 2017 and the first H share class shareholder meeting in 2017, and the approval of the China Securities Regulatory Commission China Securities Regulatory License [2018] No. 130, the Company had issued 2,595,786,987 shares and 719,174,495 new H shares to Century Bright Company and China Structural Reform Fund respectively. The non-public issuance of overseas-listed foreign shares (H shares) was HK$1.35 per share. As of January 24, 2018, the company had received HKD4,464,700,300.49 in subscribed shares from the issuer (net of issuance fees. RMB 8,650,000), equivalent to RMB 3,649,847,848.64. The Grant Thornton (Special General Partnership) conducted a capital verification of the above-mentioned raised funds, and on January 30, 2018, it issued the Capital Verification Report No. 110ZC0039 of the "Comparative Verification" (2018).

17. Information on social responsibility

(1). Poverty alleviation of listed companies

☐ Applicable √ Not applicable

(2). Information on social responsibility

For information on social responsibility, please refer to "Report on Social Responsibility for 2017" of the Company.

(3). Environmental protection description of listed companies and their subsidiaries that belong to heavily polluting industries stipulated by the national environmental protection department

The Company is not categorized as an "enterprises with serious pollutions" as announced by the relevant environmental protections authorities and it had no material environmental or other social security issues in 2017.

Dear shareholders,

In 2017, 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 compliance, 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 2017 work report of supervisory committee is as follows:

1. Meetings of the supervisory committee

The supervisory committee convened six meetings in 2017 and approved 27 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 eleventh meeting of the eighth session of the supervisory committee was held on March 28, 2017. This meeting deliberated and approved 2016 Supervisory Committee Work Report; 2016 Financial Report; 2016 Annual Report; Resolution of 2016 connected transactions; 2016 Profit Distribution Plan; 2016 Internal Control Evaluation Report; Special report of raised funds on deposit and its actual use in 2016 and Resolution regarding the changes in accounting estimate.

The Company's twelfth meeting of the eighth session of the supervisory committee was held by written resolution on April 27, 2017. This meeting deliberated and approved the 2017 First Quarterly Report; Resolutions on the Use of Partially Idle Raised Funds to Temporarily Add Working Capital; Resolution on Amending 2015 Product Mutual Framework Agreement about Provide product continuing connected transactions to Sinopec Group Company for the Period Ended December 31, 2018.

The Company's thirteenth meeting of the eighth session of the supervisory committee was held by written resolution on June 27, 2017. This meeting deliberated and approved Resolution on Election of the Chairman of the Eighth Supervisory Board of the Company.

The Company's fourteenth meeting of the eighth session of the supervisory committee was held on August 28, 2017. This meeting deliberated and approved 2017 interim report; 2017 interim financial report; Resolution to undistributed 2017 Interim dividend; Special report of raised funds on deposit and its actual use in 2017 Semi-Annual.

The Company's fifteenth meeting of the eighth session of the supervisory committee was held on September 20, 2017. This meeting deliberated and approved Proposal on Companies Meeting Conditions for Non-Public Issuance of A Shares; Proposal on Non-public Issuance of A Shares and Non-public Issuance of H Shares; Proposal on the signing of a conditional non-public offering of shares subscription agreement with a specific target; Proposal on the Company's Non-Public Issuance Concerning Related-party Transactions; Proposal on the Company's Non-Public Issuance of A-Shares Proposal; Proposal on the Feasibility Analysis Report on the Non-public Offering of A Shares to Raise Funds; Resolution regarding the report on the use of proceeds from previous fund raising activities of the company; Resolution regarding the shareholder' return plan for the next three years (2017-2019); Resolution regarding the Qi Xin Gong Ying Scheme (Draft) and its summary; Resolution regarding the signing of the trustee agreement in relation to the management of Changjiang Golden Symphony collective plan for the old-age security management products and its supplement agreements Between the Company and Changjiang Pension.

Besides, the supervisory committee of the Company issued Verification Opinion of 2016 third-quarter report of the Company by written resolution on October 30, 2017.

2. Fulfillment of duties

In 2017, the Company convened nine 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 2017, 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.

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, regulations 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.

Check the company's financial situation

The financial report the Company prepared in 2017 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 fair. We didn't find any violation of secret protection requirements in report preparation and review personnel.

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 strict followed the Company's Raising Fund Management Method, and conformed to relevant regulations of domestic and foreign securities regulatory authorities and the Company's Corporate Governance System, which was beneficial to the Company's continuing development. There was no situation of changing the investment of raised fund or of damaging the shareholders' equity.

Information of connected transactions

The transactions between the Company and Sinopec Group and its subsidiaries met the relevant provisions of The Stock Exchange of Hong Kong 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.

Establishments of the internal control system

The company has established and implemented effectively the internal control system. 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 2018, 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

Li Wei

Beijing, China

27 March 2018

Section 8 Changes in Share Capital of Ordinary Shares and Information on Shareholders

1. Changes in Share Capital of Ordinary Shares

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

A. Details of the ordinary share structure are as follows:

During the reporting period, the total number of shares of the company's common stock and the structure of its share capital did not change.

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

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

D. Other content that the company deems necessary or required by the securities regulator

On January 2, 2018, the restricted period for the sale of 9,224,327,662 restricted-sale A-shares held by Sinopec Group Company was completed, and was listed and circulated.

On January 24, 2018, the Company non-publicly issued 2,595,786,987 shares and 719,174,495 new H shares to Century Bright Company and China Structural Reform Fund respectively; on January 25, 2018, the Company non-publicly issued 1,503,568,702 shares and 23,148,854 new A shares in private to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively, and completed the registration and custody of the non-public issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. After accomplishment of the above non-public offering, the total number of shares issued by the company increased from 14,142,660,995 shares to 18,984,340,033 shares.

(2). Changes in Shares with Selling Restrictions

☐ Applicable √ Not applicable

2. Share issue and listings

(1). Issuance of securities during the reporting period

(2). Changes in total 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.

3. Information on Shareholders and the de facto Controller

(1). Number of shareholders

As at 31 December 2017, the number of shareholders of the Company was 163,677, including 163,338 holders of A shares and 339 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 2018, the number of shareholders of the Company was 166,406, including 166,062 holders of A shares and 344 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
HKSCC (Nominees) Limited	Overseas legal person	385,000	2,086,835,496	14.76	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	-52,597,750	71,409,910	0.50	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
China Galaxy Securities Co., Ltd.	Others	3,321,200	8,200,113	0.06	0	Unknown

Shareholdings of top ten shareholders of shares without selling restrictions Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
HKSCC (Nominees) Limited*	2,086,835,496	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)	71,409,910	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
China Galaxy Securities Co., Ltd.	8,200,113	A Share
Hu Xucang	6,200,189	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, the Company is not aware of any connected relationship or activities in concert among the above-mentioned shareholders.	

Note:

1. Compared to 31 December 2016.

2. Acting different customers hold.

(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	2 January 2018	9,224,327,662	3 years

4. Information on Controlling Shareholders and de facto Controller

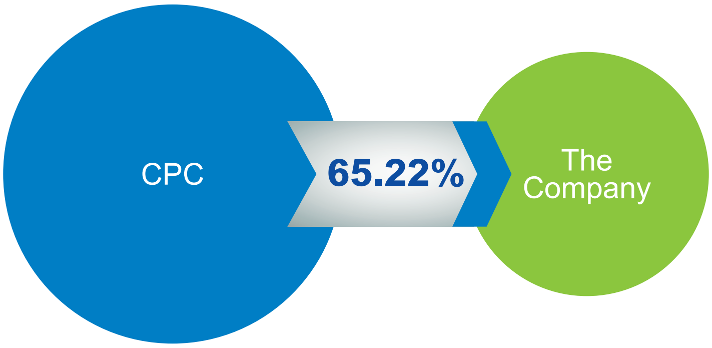
(1). Information on controlling shareholder

A. Legal Representative

Name of the holding shareholder	China Petrochemical Corporation
Legal representative	Wang Yupu
Date of establishment	14 September 1983
Organization number	10169286-X
Registered capital	RMB 274.867 billion
Principal activities	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in–well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

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

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



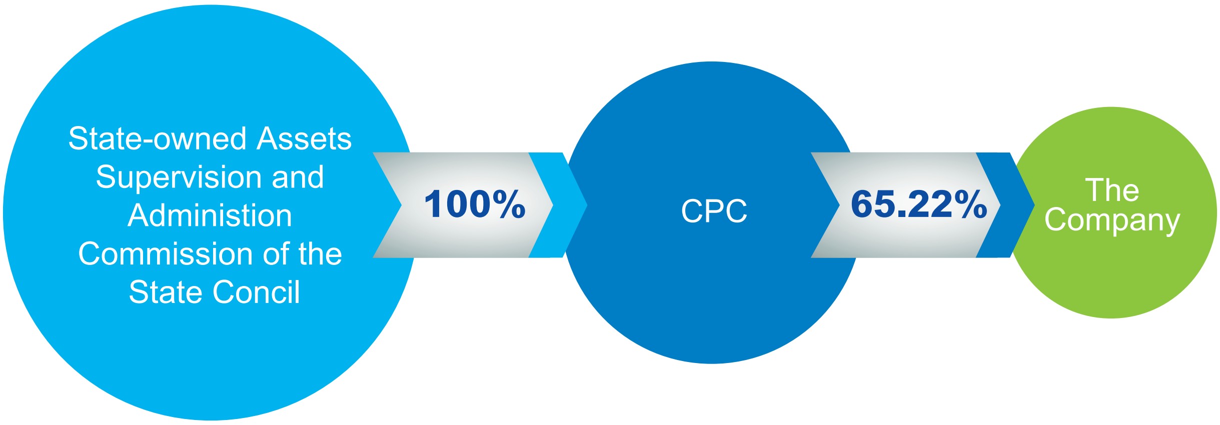
Note: After the non-public issuance of A-shares and H-shares by the Company, on January 25, 2018, apart from directly holding 10,727,896,364 A-shares of the Company, Sinopec Group Company also held 2,595,786,987 H-shares through Century Bright Company. Therefore, Sinopec Group Company directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.

(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 block diagram of the property and control relationship between the Company and the ultimate controller



5. Other Legal person shareholders 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 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 2017, 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 2017, 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.

7. Management contract

During the reporting period, the Company has not signed or has any contracts for the management and administration of the whole or any important business.

8. Pre-emptive rights

There are no provisions for preemptive rights in the company's Articles of Association or Chinese laws.

9. Share repurchase, sale and redemption

The Company has not repurchased, sold or redeemed any of the Company's listed shares during the twelve months ended December 31, 2017.

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 get payment from related party of the Company
Jiao Fangzheng	Chairman	Male	55	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Sun Qingde	Vice Chairman General Manager	Male	56	6 June2016 11 March 2016	7 February 2021	0	0	No Change	570,900	No
Chen Xikun	Director, Deputy General Manager Former standing vice General manager	Male	53	8 February 2018 27 June 2017	7 February 2021 8 February 2018	0	0	No Change	243,150	No
Ye Guohua	Director	Male	49	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Lu Baoping	Director Former Deputy General Manager	Male	56	8 February 2018 30 August 2016	7 February 2021 20 December 2017	0	0	No Change	—	Yes
Fan Zhonghai	Director	Male	52	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Jiang Bo	Independent Non-Executive Director	Female	62	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Zhang Huaqiao	Independent Non-Executive Director	Male	54	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Pan Ying	Independent Non-Executive Director	Male	48	16 December 2015	7 February 2021	0	0	No Change	200,000	No
Li Wei	Chairman of the Supervisory Board	Male	40	27 June 2017	7 February 2021	0	0	No Change	243,150	No
Zou Huiping	Supervisor	Male	57	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	53	16 June 2015	7 February 2021	0	0	No Change	—	Yes
Zhang Qin	Supervisor	Female	55	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Zhang Jianbo	Supervisor	Male	55	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Zhang Hongshan	Supervisor	Male	57	23 February 2017	7 February 2021	0	0	No Change	522,670	No
Huang Songwei	Supervisor Former Deputy General Manager	Male	53	27 June 2017 28 April 2015	7 February 2021 27 June 2017	0	0	No Change	503,300	No
Zhang Yongjie	Deputy General Manager	Male	54	9 February 2015	27 June 2017	0	0	No Change	603,000	No
Zuo Yaojiu	Deputy General Manager	Male	55	27 June 2017	7 February 2021	0	0	No Change	264,300	No
Zhang Jinhong	Deputy General Manager	Male	55	28 April 2015	7 February 2021	0	0	No Change	486,300	No
Li Tian	Chief Financial Manager	Male	43	29 August 2017	7 February 2021	0	0	No Change	162,100	No
Li Honghai	Secretary to the board	Male	54	9 February 2015	7 February 2021	0	0	No Change	387,100	No
Zhang Hong	Former Director	Male	59	16 June 2015	15 June 2017	0	0	No Change	—	Yes
Zhou Shiliang	Former Director, Former Deputy General Manager	Male	60	9 February 2015	8 February 2018	0	0	No Change	570,900	No
Li Lianwu	Former Director	Male	60	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Hu Guoqiang	Former Chairman of Supervisory Committee	Male	53	28 April 2015	27 June 2017	0	0	No Change	243,150	No
Cong Peixin	Former Supervisor	Male	55	9 February 2015	27 June 2017	0	0	No Change	—	Yes
Du Guangyi	Former Supervisor	Male	52	9 February 2015	27 June 2017	0	0	No Change	274,950	No
Xu Weihua	Former Supervisory	Male	54	9 February 2015	22 February 2017	0	0	No Change	104,500	No
Liu Rushan	Former Deputy General Manager	Male	56	9 February 2015	27 June 2017	0	0	No Change	264,300	No
Wang Hongchen	Former Chief Financial Manager	Male	54	9 February 2015	29 August 2017	0	0	No Change	324,200	No

Note:

a. Mr. Sun Qingde, Mr. Zhou Shiliang, Mr. Zhang Yongjie, Mr. Zhang Jinhong and Mr. Li Honghai all received 12 months of salary in 2017.

b. Mr. Chen Xikun, Mr. Li Wei and Mr. Zuo Yaojiu started their positions on June 27, 2017 and received six months' salary in 2017.

c. Mr. Li Tian started the position on August 29, 2017 and received four months' salary in 2017.

d. Mr. Huang Songwei left the position of deputy general manager on June 27, 2017, and served as a supervisor of the Company on June 27, 2017. In 2017, he received a total of 12 months of salary.

e. Mr. Zhang Hongshan started the position on February 23, 2017 and received 10 months of salary in 2017.

f. Mr. Liu Rushan, Mr. Hu Guoqiang and Mr. Du Guangyi respectively left the positions of deputy general manager, chairman of the board of supervisors, and supervisors on June 27, 2017. In 2017, they all received six months of remuneration.

g. Mr. Wang Hongchen has resigned as the Chief Financial Manager since August 29, 2017 and received 8 months' salary in 2017.

h. Mr. Xu Weihua left the position of supervisor on February 22, 2017 and received 2 months' salary in 2017.

Information about current directors, supervisors and senior management

Director

Mr. JIAO Fangzheng*, aged 55, 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 56, 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 Executive 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.CHEN Xikun#, aged 53, Director and Deputy General Manager. Mr Chen is a Professor-level Senior Accountant with a Master degree. In January 2003, he was appointed as the chief accountant of Sinopec Jiangsu Oilfield Branch Company; in April 2006, he was appointed as deputy manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2008, he was appointed as deputy general manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2011, he was appointed as chief accountant of Sinopec Exploration & Production Department; since March 2015, he acted as deputy general director of Sinopec Exploration & Production Department; since June 2015, he acted as director of Sinopec Oilfield Equipment Corporation; from June 2017 to February 2018, he was appointed as executive deputy general manager of the Company; Since January 2018, he was appointed as the Secretary of CPC Committee of the Company. Since February 2018, he was appointed as the Director and Deputy General Manager of the company.

Mr. YE Guohua*, aged 49, Director. Mr. Ye is a professor-level Senior Accountant with a bachelor degree. He joined Shanghai Gaoqiao Petrochemical Company in 1991. In October 2001, he was appointed as the Deputy Chief Accounting Officer and Director of Accounting Department of Sinopec ShanghaiGaoqiao Branch. In October 2009, he was appointed as Chief Financial Officer of Sinopec Shanghai Petrochemical Company Limited (the "Shanghai Petrochemical"). In August 2016, he was appointed as Deputy General Manager of Shanghai Petrochemical and was as Director of Shanghai Petrochemical from June 2011 to January 2017. Since January 2017, he was Director of the Accounting Department of China Petrochemical Corporation. He was appointed as the Chairman of Century Bright Company in January 2017. In November 2017, Mr. Ye was appointed as Chairman of Sinopec Insurance Limited. Since February 2018, he was appointed as the Director of the company.

Mr. LU Baoping*, aged 56, Director.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. Since April 2009, he has been served as the President of Sinopec Petroleum Engineering Technology Research Institute. From December 2012 to September 2014, he was appointed as Deputy Manager of SOSC. From August 2016 to December 2017, he was served as Deputy Manager of the Company. Since February 2018, he was appointed as the Director of the company.

Mr. FAN Zhonghai*, aged 52, Director. Mr. Fan is a professor-level senior engineer with a master degree. Mr. Fan joined the Henan Petroleum Exploration Bureau in 1989 and was appointed as Deputy Chief Geologist, Chief Geologist and Vice Dean of Research Institute of Petroleum Exploration and Development of Henan Petroleum Exploration Bureau consecutively. In September 2000, he was appointed as Deputy Chief Geologist of Henan Petroleum Exploration Bureau of China Petrochemical Corporation. In November 2001, he was appointed as General Manager of Henan Oilfield Branch Company of Sinopec Corp. In June 2016, he was appointed as Deputy Director of Petroleum Exploration & Development Research Department of Sinopec Corp. Since February 2018, he was appointed as the Director of the company.

Ms. JIANG Bo+, aged 62, 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 June 2017, she has been an independent non-executive director of China Shenhua Energy Co., Ltd. Since February 2015, she was appointed as independent non-executive Director of the company.

Mr. ZHANG Huaqiao+, aged 54, independent non-executive Director. Mr. Zhang obtained a master degree in Economics from the Financial Research Institute of the People's Bank of China and a master degree in Economics from the Australian National University. He worked in the Planning Division of the People's Bank of China. After this, he worked with foreign investment banks for 15 years (including 11 years of experience in UBS) in Hong Kong. He currently serves as the Chairman of China Smartpay Group Holdings Limited (HK8325), an Independent Non-executive Director of China Rapid Finance (NYSE: XRF), an Independent Non-executive Director of Fosun International Limited (HK656), Luye Pharma Group Ltd. (HK2186), Zhong An Real Estate Limited (HK0672), China Huirong Financial Holdings Limited (HK1290), Logan Property Holdings Company Limited (HK3380), Wanda Commercial Properties (Group) Co., Limited, and Boer Power Holdings Limited (HK1685), all of which are Hong Kong Stock Exchange listed companies. Since February 2015, he was appointed as independent non-executive Director of the company.

Mr. PAN Ying+, aged 48, 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.LI Wei, aged 40, chairman of the Supervisory Committee. Mr. Li is a Senior Economist with a MBA degree. In July 2003, he was appointed as deputy director of Business Department of China Petrochemical Corporation Beijing Oil Products Company; in July 2004, he was appointed as deputy director of Operation & Management Department of China Petrochemical Corporation Beijing Oil Products Company; in February 2007, he was appointed as director of Operation & Management Department of China Petrochemical Corporation Beijing Oil Products Company; in December 2009 he was appointed as deputy general manager of China Petrochemical Corporation Shaanxi Oil Products Company; in May 2014, he was appointed as secretary of CPC Committee, secretary of Discipline Inspection Committee and chairman of Worker's Union of China Petrochemical Corporation Qinghai Oil Products Company. Since June 2017, he was appointed as deputy secretary of CPC Committee, secretary of Discipline Inspection Committee and chairman of Worker's Union of the Company. Since June 2017, he was appointed employee representative supervisor of the Company and was elected as chairman of the Supervisory Committee.

Mr. ZOU Huiping, aged 57, Supervisor of the Company. Mr. Zou is a professor-level Senior Accountant with a university degree. 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. In May 2006, he was appointed as the 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 53, Supervisor of the Company. 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 55, Supervisor of the Company. Ms. Zhang is a professor-level senior administration engineer with a M.A. degree. In December 1998, she was appointed as Head of the political Work Department, Propaganda Office of China Petrochemical Corporation; In December 2008, she served as Deputy Director of the Department of Ideological and Political Work of Sinopec Group 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. ZHANG Jianbo, aged 55, Supervisor of the Company. Mr. Zhang is a professor-level senior engineer with a bachelor degree. He joined Shengli Petroleum Administrative Bureau in 1985. Since 1999,Mr. Zhang has served as Deputy Director and Director of the Human Resources Department of China Petrochemical Corporation. Mr.Zhang was appointed Deputy Secretary of the Communist Party Committee of Shanghai Petrochemical since August 2013 and concurrently, he successively held several positions such as the Secretary of the Communist Party Discipline Supervisory Committee, Chairman of the Labor Union and Chairman of the Supervisory Committee of Shanghai Petrochemical. In June 2017, Mr. Zhang was appointed as Deputy Director of Supervision Bureau of China Petrochemical Corporation. Since February 2018, he was appointed as the Supervisor of the company.

Mr. ZHANG Hongshan, aged 57, Employee Representative Supervisor. Mr Zhang is a professor-level senior engineer with a master 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. HUANG Songwei, aged 53, Employee Representative Supervisor. Mr. Huang is a Professor-level Senior Engineer with a Master Degree. In June 2000, he was appointed as the Chief Engineer of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in May 2002, he was appointed as the vice manager of the first drilling company of Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; 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 secretary to CPC of southwest drilling company; in January 2013, he was appointed as the deputy general manager of Sinopec Zhongyuan Oilfield Service Corporation; from April 2015 to June 2017, he was appointed as deputy general manager of the Company. Since June 2017, he was appointed as executive director, general manager and deputy secretary to CPC of Sinopec Zhongyuan Oil Engineering Company Limited. Since June 2017, he was appointed as employee representative supervisor of the Company.

(3) Senior management

Mr. ZHANG Yongjie, aged 54, Deputy General Manager. Mr. Zhang is a senior engineer with a M.A. 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.ZUO Yaojiu, aged 55, Deputy General Manager.Mr Zuo is a Professor-level Senior Engineer with a Bachelor degree. In December 2003, he was appointed as deputy general manager of Sinopec International Petroleum Service Corporation; since November 2010, he also acted as General Manager of Sinopec (Brazil) Co., Ltd. and chief representative of China Petrochemical Corporation's South America Representative Office; in August 2012, he was appointed as secretary of CPC Committee and deputy general manager of Sinopec Engineering & Construction Co., Ltd.; in September 2014, he was appointed as executive director and general manager of Sinopec Engineering & Construction Co., Ltd. From September 2014 to March 2015, he acted as deputy general manager of the Company. Since June 2017, he was appointed as Deputy General Manager of the Company.

Mr. ZHANG Jinhong, aged 55, 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. LI Tian, aged 43, Chief Financial Manager.Mr Li is a Senior Accountant with a MBA degree. Mr. Li has been responsible for financial management related work in the headquarter of China Petrochemical Corporation (the "CPC") since he started his career. In June 2010, he served as the head of accounting management division under CPC's Finance Department. In July 2013, he served as the head of financial management division under CPC's Finance Department. In June 2016, he became the deputy director of CPC's Finance Department. Since August 2017, he was appointed as Chief Financial Manager of the company.

Mr. LI Honghai, aged 54, 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 April 2002, he was appointed as Deputy Chief Economist of Sinopec Zhongyuan Oilfield Company; in December 2004, he was appointed as Manager of Zhongyuan Petroleum Company Limited; 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 2017	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (yuan/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	210,000	0	0	0	5.63	210,000	2.67
Lu Baoping	Director (Former Deputy General Manager)	190,000	0	0	0	5.63	190,000	2.67
Huang Songwei	Supervisor	180,000	0	0	0	5.63	180,000	2.67
Zhang Yongjie	Deputy Manager	190,000	0	0	0	5.63	190,000	2.67
Liu Rushan	Deputy Party Secretary	190,000	0	0	0	5.63	190,000	2.67
Zuo Yaojiu	Deputy Manager	180,000	0	0	0	5.63	180,000	2.67
Zhang Jinhong	Deputy Manager	180,000	0	0	0	5.63	180,000	2.67
Li Honghai	Secretary to the Board	140,000	0	0	0	5.63	140,000	2.67
Zhou Shiliang	Former Director, Former Deputy Manager	210,000	0	0	0	5.63	210,000	2.67
Wang Hongchen	Former Chief Financial Manager	180,000	0	0	0	5.63	180,000	2.67
Total		1,850,000	0	0	0	/	1,850,000	/

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 date of term in office
Jiao Fangzheng	China Petrochemical Corporation	Party members, Vice President of Sinopec Corp	July 2014	—
Ye Guohua	China Petrochemical Corporation	Financial Director of Audit Department	January 2017	—
Zou Huiping	China Petrochemical Corporation	Director of the Auditing Department	March 2006	—
Du Jiangbo	China Petrochemical Corporation	Director of the Legal Affairs Department	March 2015	—
Zhang Qing	China Petrochemical Corporation	Deputy Director of the Political Work Department	March 2015	—
Zhang Jianbo	China Petrochemical Corporation	Deputy Director of the Supervisory Administration	June 2017	—
Zhang Hong	CITIC Limited	Deputy Director of Audit Department	December 2011	—
Cong Peixin	China Petrochemical Corporation	Deputy Director of the Supervisory Administration	April 2013	June 2017

(2). Information on holding positions in other enterprises

Name	Name of other enterprises	Position held in other enterprises	Beginning date of term	End date of term
Jiao Fangzheng	Sinopec	Director; Senior Vice President	May 2015	—
Chen Xikun	Sinopec Petroleum Machinery Co., Ltd.	Director	June 2015	—
Lu Baoping	Sinopec Petroleum Engineering Technology Research Institute	President	April 2009	—
Fan Zhonghai	Sinopec	Deputy Director of Petroleum Exploration & Development Research Department	June 2016	—
Zou Huiping	Sinopec	Supervisor	May 2006	—
Li Lianwu	Sinopec	Party Secretary of Sinopec Oil and Gas Exploration and Development Company/ Deputy Director of Exploration & Production Department of Sinopec	September 2014	August 2017

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 6,367,970
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB 6,367,970

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

Name	Position	Change	Reason for change
Zhang Hong	Director	Resigned	Personal reason
Hu Guoqiang	supervisory board chairman	Resigned	Change of work
Xu Weihua	Employee Representative Supervisor	Resigned	Change of work
Cong Peixin	Supervisor	Resigned	Change of work
Du Guangyi	Employee Representative Supervisor	Resigned	Change of work
Liu Rushan	Deputy General Manager	Resigned	Change of work
Huang Songwei	Deputy General Manager	Resigned	Change of work
Wang Hongchen	Chief Financial Manager	Resigned	Change of work
Zhang Hongshan	Employee Representative Supervisor	Elected as employee representative supervisor	Elected at the workers' congress
Li Wei	Employee Representative Supervisor, supervisory board chairman	Elected as employee representative supervisor and chairman of supervisory	Elected at the workers' congress and supervisory board
Huang Songwei	Employee Representative Supervisor	Elected as employee representative supervisor	Elected at the workers' congress
Chen Xikun	Standing vice General manager	Appointed as Executive Deputy General Manager	Appointed by the Board of Directors
Zuo Yaojiu	Deputy General Manager	Appointed as Deputy General Manager	Appointed by the Board of Directors
Li Tian	Chief Financial Manager	Appointed as Chief Accountant	Appointed by the Board of Directors

Section 9 Directors, Supervisors, Senior Management and Employees

Mr. Zhang Hong, the Director of the Company, tendered his resignation as the Non-executive Director of the Company due to the heavy workload on his full time job and other community and family commitments, with effect from 15 June 2017.

Mr. Hu Guoqiang, Chairman of the Supervisory Committee, Mr. Xu Weihua and Mr. Du Guangyi, the Employee Representative Supervisor of the Company, and Mr. Cong Peixin, the Supervisor of the Company, tendered their resignations as Supervisors due to change in their work positions. The resignation of Mr. Xu Weihua took effect from 22 February 2017. The resignations of Mr. Hu Guoqiang, Mr. Cong Peixin and Mr. Du Guangyi took effect from 27 June 2017.

Mr. Liu Rushan and Mr. Huang Songwei resigned from their positions as deputy general managers due to changes in their work positions with effect from 27 June 2017.

Mr. Wang Hongchen had tendered his resignation as Chief Financial Officer due to change in their work positions with effect from 29 August 2017.

The Company expresses its sincere gratitude to Mr. Zhang Hong, Mr. Hu Guoqiang, Mr. Xu Weihua, Mr. Cong Peixin, Mr. Du Guangyi, Mr. Liu Rushan,Mr. Wang Hongchen and Mr. Huang Songwei for their hard work and contributions to the Company during their 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.

Mr. Li Wei and Mr. Huang Songwei were elected as the Employee Representative Supervisor of the eighth session of the Supervisory Committee at the workers representatives meeting. The term of Mr. Li Wei and Mr. Huang Songwei were effective from 27 June 2017 until the end of the eighth session of the Supervisory Committee.

Following the nomination by General Manager, Mr. Chen Xikun and Mr. ZuoYaojiu were appointed as the Executive Deputy General Manager and Deputy General Manager of the Company respectively by the Board for a term commencing from 27 June 2017 to the date when the term of the eighth session of the Board of Directors expires.

Following the nomination by General Manager, Mr. Li Tian was appointed as Chief Financial Manager of the Company by the Board for a term commencing from 29 August 2017 to the date when the term of the eighth session of the Board of Directors expires.

After the election of the Company's first extraordinary general meeting of shareholders in 2018 on February 8, 2018, Mr. Jiao Fangzheng, Mr. Sun Qingde, Mr. Chen Xikun, Mr. Ye Guohua, Mr. Lu Baoping, Mr. Fan Zhonghai, Ms. Jiang Bo, Mr. Pan Ying and Mr. Mr. Zhang Huaqiao were appointed as the director of the 9th session of the Board of Directors. Mr. Zou Huiping, Mr. Du Jiangbo, Ms. Zhang Qin, and Mr. Zhang Jianbo were appointed as the supervisors of the 9th Supervisory Committee; the election of the company's employees' congress was held on February 1, 2018. Mr. Li Wei, Mr. Zhang Hongshan and Mr. Huang Songwei were appointed as employee representative supervisors of the 9th Supervisory Committee.

The directors of the Company, Mr. Zhou Shiliang and Mr. Li Lianwu, ceased to serve as directors of the Company since February 8, 2018 due to the expiration of their term of office and reaching the statutory retirement age. The company expresses its sincere gratitude to Mr. Zhou Shiliang and Mr. Li Lianwu for their hard work and their important contributions.

The first meeting of the ninth Board of Directors held on February 8, 2018 was resolved: (1) Mr. Jiao Fangzheng was elected as the Chairman of the Company, Mr. Sun Qingde was the Vice Chairman of the Company, and (2) Mr. Sun Qingde was appointed as the general manager of the Company, Mr. Chen Xikun, Mr. Zhang Yongjie, Mr. Zuo Yaojiu, and Mr. Zhang Jinhong as the deputy general managers of the Company, Mr. Li Tian as the Chief Financial Manager of the Company, and Mr. Li Honghai as the secretary of the board of directors of the Company. The term of office of the aforementioned personnel is three years, starting from February 8, 2018.

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

☐Applicable √Not Applicable

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

(1). Personnel information

The number of the Company' serving staff	125
The number of the Company's subsidiaries' serving staff	79,250
The total number of the serving staff	79,375
The number of retired staff whose expense should be borne by the company and its subsidiaries	8,008
Professional composition	
Type of Professional	Number of the staff
Production Staff	41,658
Technical Staff	24,603
Researcher	3,058
Financial Staff	2,108
Marketing and Administrative Staff	6,456
Others	1,492
Total	79,375
Education	
Type	Number of the staff
Master or above	2,186
Bachelor	24,630
Junior college	15,590
Others	36,969
Total	79,375

(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 employees and the Company.

7. Equity Interests of Directors and Supervisors

As at 31 December 2017, save as disclosed above, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors.

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 ninth session of the Board and the Supervisors in ninth 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 Ninth 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.

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. In order to further improve corporate governance, combining strengthening the Party's leadership with improving corporate governance, after approved by the 2016 Annual Shareholder's meeting, the Company incorporated Chinese Communist Party's Leadership into the Article of Association. The Company regulated and organized shareholder's meeting, board of directors meeting and supervisory committee efficiently. Satisfying investors' requirement and enhancing interactive communication, the Company disclose information timely, accurately, precisely and completely to ensure all the shareholders have equal access to the company information and improving transparency in corporate governance.

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 2017, 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 2017 on 29 June 2017 in Beijing, and the 2017 first extraordinary general meeting on 16 November 2017 in Beijing, the 2017 first A shareholders class meeting and the 2017 first H shareholders class meeting on 16 November 2017. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Disclosure date of resolutions
The annual general meeting for the year 2016	29 June 2017	www.sse.com.cn www.hkexnews.hk	30 June 2017
The 2017 first extraordinary general meeting	16 November 2017	www.sse.com.cn www.hkexnews.hk	17 November 2017
The 2017 first A shareholders class meeting	16 November 2017	www.sse.com.cn www.hkexnews.hk	17 November 2017
The 2017 first H shareholders class meeting	16 November 2017	www.sse.com.cn www.hkexnews.hk	17 November 2017

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	9	1	7	1	0	No	4
Sun Qingde	No	9	2	7	0	0	No	4
Zhou Shiliang	No	9	2	7	0	0	No	4
Li Lianwu	No	9	1	7	1	0	No	0
Zhang Hong	No	2	1	1	0	0	No	0
Jiang Bo	Yes	9	2	7	0	0	No	4
Zhang Huaqiao	Yes	9	1	7	1	0	No	0
Pan Ying	Yes	9	1	7	1	0	No	3

The Board meetings held during the year (No. of times)	9
Including: meetings held on site (No. of times)	2
Meetings held by correspondence (No. of times)	7
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 detail information related to the performance of the independent directors is published in the report of the Company's independent directors 2017 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

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) Pay high attention to the liquidity risk of the company, further increase the intensity of the recovery of accounts receivable and inventory, fully implement the mechanism for supervision, and intensify the evaluation of rewards and punishments to ensure that the recovery of accounts receivable and inventory are cleared up to obtain substantial results;

(2) Further strengthen project management, improve the quality of development, establish a lifecycle tracking and evaluation mechanism for major projects, make a due diligence investigation and risk assessment of the project before bidding, strengthen the management and control of the project implementation process, and effectively prevent project operation loss risks;

(3) Continue to pay attention to foreign exchange risks and rationally use financial derivatives to effectively prevent exchange rate fluctuations;

(4) Further pay attention to corporate tax optimization issues, while reduce tax risks.

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, Organization and Finance between the Company and the Controlling Shareholders and can not be guaranteed the independent operation ability between the Company and the Controlling Shareholders

There is no existence of non independence between the Company and the Controlling Shareholders with respect to Business, Personnel, Assets, Organization and Finance. The Company has independent and complete business and independent operating capabilities.

The situation with the controlling shareholder in the same industry competition.

☐Applicable √Not Applicable

For details, please refer to the implementation of the commitments of China Petrochemical Corporation in the Major Matters section.

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 company's share incentive plan and its supporting regulations reviewed which passed at the 2016 First Extraordinary General Meeting, the 2016 First A Share Class Meeting, and the 2016 First Extraordinary General Meeting of the Company, the company granted a total of 477 people with qualified incentive objects (including directors and senior management personnel) to A-share stock options of 49.05 million on November 1, 2016. Please refer to the Major Events section "Description of the company's equity incentives" for details of the relevant stock options.

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

Whether disclose the internal control self-evaluation report: yes

In 2017, 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 of directors 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 2017, 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 December 31, 2017. The internal control system of the Company's financial report is sound and effective.

The board of directors approved the Company's 2017 annual self-assessment of internal control on 27 March 2018. Please visit the website of the Hong Kong 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 2017 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2017 annual internal control audit report disclosed on March 28, 2018.

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 nine meetings in 2017, 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 necessary for decision making. If necessary, Independent Directors can consult independent professionals and the Company should pay the relevant expenses.

A.3 The Board composition

(1) The Board of Directors of the Company consists of 9 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 9 members, there are 2 executive directors, 4 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 term 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 Hong Kong 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 not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.

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

A.5 Nomination Committee

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

A.6 Responsibilities of Directors

(1) All the non-executive directors have the same authorities as the executive directors. In addition, the non-executive directors, especially the independent non-executive directors are entitled to certain specific authorities. The Articles of Association and the Rules and Procedures of 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" 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.

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.

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 2017 and of the Company's profit and cash flows for the year. As at 31 December 2017, 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 2017 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.

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 6 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 recommendation of the first audit meeting of the ninth term of the Board, the Second meeting of the ninth 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 2018, appoint Grant Thornton (Special General Partnership) as the Company's auditor regarding internal control for 2018, 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 2017 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	6	—	—
Li Lianwu	6	—	—
Pan Ying	6	—	—

The Remuneration Committee

Name	attended in Person	attended by Proxies	Time of Absence
Pan Ying	1	—	—
Jiang Bo	1	—	—
Li Lianwu	1	—	—

E. Communication with shareholders

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

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

(3) Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The auditors of the Company also attend the 2016 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.

Grant Thornton
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Auditor's Report

GTCSZ (2018)NO.110ZA3833

To the Shareholders of Sinopec Oilfield Service Corporation:

I. 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 2017, 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 2017.

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 2017, and the results of its operations and cash flows for the year ended 31 December 2017 are fairly presented in all material respects.

II. 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.

III. 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.

(I) Revenue and cost recognition of petroleum engineering and technical services

Descriptions of the matter

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 recognized 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 revenue and costs mainly rely on management's estimation and judgment including total budgeted revenue, total budgeted costs, remaining construct costs, estimated progress and contract execution risk. Hence, we have identified the revenue recognition as a key audit matter.

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

How our audit addressed the Key Audit Matter

Our audit procedures for the recognition of revenue and cost of sales related to petroleum engineering and technical services mainly include:

According to the specific conditions of company business and contract terms and the relevant application of accounting standards, we have evaluated whether the accounting policies for revenue recognition and cost accounting are appropriate.

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

We have reviewed contracts and discussed 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 also checked the consistency of the preparation methods and assumptions of various types of projects 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 management's estimation on workload forecast and remaining contract costs.

We have tested the application of the percentage of completion on a sample basis, cross checked the principal terms set out in the relevant contracts to the supporting documents, such as acceptance certificates and the progress reports being issued by customers; We have also analyzed and calculated the expected income, estimated costs and gross profit of sub-contract, to ensure its reasonableness. Meanwhile we have tested the amount and period of the revenue recognized on a sample basis, analyzed its accuracy at the end of the reporting period, according to the stage of completion. On the basis of sampling, we compared the budget cost with the actual total cost as of the end of reporting period to check whether there is any cost overrun.

Based on the audit procedures we have performed, we believe that the audit evidence we have obtained is sufficient to support the management's judgment in determining the stage of completion and the estimated total costs.

(II) Impairment assessment on property, plant and equipment, and special tools of petroleum engineering

Descriptions of the matter

The carrying values of property, plant and equipment and other non-current operating assets as at December 31, 2017 were approximately RMB25.58 billion and RMB3.065 billion.respectively. 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 declined due to the low levels of crude oil prices, which lead to sustained decline in the workload of the Group and operating loss was generated for the financial year of 2017 and 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 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 estimated future cash flow, the management's significant judgment is required on estimations about revenue growth rates, service price, growth rates of relevant operating costs, and discount rates of asset (or asset group). After the assessment, management considered the recognition of an impairment loss on property, plant and equipment of RMB1.149 billion 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 estimation and judgment, and significant balance of aforesaid assets.

Refer to notes III. 21 (Impairment of Assets), notes III. 32(3) (Critical accounting judgment and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about Impairment of Assets. Other detailed information is set out in notes V. 12 and notes V. 15.

How our audit addressed the Key Audit Matter

Our audit procedures for the impairment of property, plant and equipment and petroleum engineering special tools mainly include:

We have understood and evaluated the internal controls related to identification of asset impairment indications and the measurement of recoverable amount by Sinopec Oilfield Service Corporation. In addition, we have tested the effectiveness of such internal control.

We have performed physical inspection of relevant assets to evaluate existence of impairment indicators.

We have evaluated the competency, professional quality and objectivity of the external appraisers; we have assessed the appropriateness of valuation method adopted by the management with reference to the external valuation report; we have reviewed the key assumptions and parameters adopted by the management for estimate future cash flow, including comparing the key assumptions and parameters with supporting evidence and public information of other companies in the same industry to consider the appropriateness of the assumptions contained, and also have taken into account of rationality of the budget.

We have obtained management's sensitivity analysis of the discount rate and terminal revenue growth rate used in discounted estimated future cash flow, and evaluated the impact of changes in key assumptions on the conclusion reached in management's impairment assessment and considered whether there were any indicators of management bias.

Based on the audit procedures we have performed, the management's judgment of the impairment of property, plant and equipment, and other non-current assets is acceptable.

(III) Impairment assessment on receivables which are individually significant

Descriptions of the matter

At 31 December 2017, the balance of account receivables of the Group for a certain customer was RMB 974 million. According to the individual recognition method, accumulative provision for bad debts of accounts receivable was RMB 974 million, of which RMB 804 million was recognised this year. We identified this matter as a key audit matter because the determination of the recoverability of accounts receivable relies on management's estimation and judgment, and significant balance of aforesaid provision.

Refer to notes III. 12 (Receivables), notes III. 32(1) (Critical accounting judgment and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about Impairment of Assets. Other detailed information is set out in notes V. 3.

How our audit addressed the Key Audit Matter

Our audit procedures for the impairment of individually significant accounts receivable mainly include:

We have understood and evaluated the internal controls related to the measurement of recoverable amount of individually significant accounts receivable by the management. In addition, we have tested the effectiveness of such internal control.

We have checked the basis of assessment of the possibility of the formation of bad debt risk of these significant receivables by the Group and assessed its sufficiency and appropriateness.

We have checked customers' data and payment history, reviewed the management's credit risk assessment of the customer; reviewed public information related to the customers to assess of the bad debt provision assessment of the Group.

We have evaluated the reasonableness of the management's calculation of the recoverability of accounts receivable by considering the events subsequent to the reporting date and the characteristics of credit risk.

Based on the audit procedures we have performed, the management's judgment of the impairment of receivables which are individually significant is acceptable.

Other Information

The directors of the Company 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 either intend to liquidate the Group or to cease to operations, or have no other realistic choices.

The directors are responsible for overseeing the financial reporting process of the Group.

Auditor's Responsibility 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 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 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.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the 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 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 27, 2018

CONSOLIDATED BALANCE SHEETS

Expressed in RMB thousand

Items	Notes	At 31 December 2017	At 31 December 2016
Current assets:			
Cash at bank and on hand	V.1	2,537,894	2,449,935
Financial assets at fair value through profit or loss		—	—
Notes receivable	V.2	1,209,147	851,624
Accounts receivable	V.3	16,961,936	23,907,534
Prepayments	V.4	424,731	352,972
Interest receivables		—	—
Dividend receivables		188	23
Other receivables	V.5	1,999,912	2,822,409
Inventories	V.6	7,803,074	9,318,377
Non-current assets due within one year		—	—
Other current assets	V.7	885,473	416,676
Total current assets		31,822,355	40,119,550
Non-current assets:			
Available-for-sale financial assets	V.8	24,389	24,389
Held-to-maturity investments		—	—
Long-term receivables	V.9	233,061	—
Long-term equity investments	V.10	207,046	221,329
Investment property		—	—
Fixed assets	V.11	25,582,509	28,807,257
Construction in progress	V.12	237,638	866,846
Construction materials		—	—
Disposal of fixed assets		1,644	2,066
Biological assets		—	—
Oil and gas assets		—	—
Intangible assets	V.13	281,534	185,325
Research and development expenditure		—	—
Goodwill		—	—
Long-term deferred expenses	V.14	3,080,269	4,082,856
Deferred income tax assets	V.15	472,184	183,548
Other non-current assets		—	—
Total non-current assets		30,120,274	34,373,616
Total assets		61,942,629	74,493,166

CONSOLIDATED BALANCE SHEETS (Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2017	At 31 December 2016
Current liabilities:			
Short-term loans	V.16	17,510,830	17,033,731
Financial liabilities at fair value through profit or loss		—	—
Bills payable	V.17	3,045,393	2,013,497
Accounts payable	V.18	26,442,482	28,296,730
Advances from customers	V.19	8,538,959	10,673,978
Employee benefits payable	V.20	381,240	171,657
Taxes payable	V.21	1,033,201	1,050,339
Interest payables	V.22	10,927	73,627
Dividend payables		—	—
Other payables	V.23	6,359,459	5,541,678
Non-current liabilities due within one year	V.24	28,844	220,908
Other current liabilities	V.25	11,744	15,267
Total current liabilities		63,363,079	65,091,412
Non-current liabilities:			
Long-term loans	V.26	455,826	763,070
Bonds payables		—	—
Long-term payables	V.27	67,533	57,641
Long-term employee benefits payable		—	—
Special payables		—	—
Provisions		—	—
Deferred income	V.28	136,312	112,171
Deferred income tax liabilities	V.15	23,879	27,280
Other non-current liabilities		—	—
Total non-current liabilities		683,550	960,162
Total liabilities		64,046,629	66,051,574
Share capital	V.29	14,142,661	14,142,661
Capital reserve	V.30	8,907,868	8,897,232
Less: treasury stock		—	—
Other comprehensive income		—	—
Special reserve	V.31	202,477	176,068
Surplus reserve	V.32	200,383	200,383
Retained earnings	V.33	-25,556,017	-14,973,476
Equity attributable to the parent company		-2,102,628	8,442,868
Minority interests		-1,372	-1,276
Total equity		-2,104,000	8,441,592
Total liabilities and equity		61,942,629	74,493,166

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

Chairman:	*General Manager:*	*Chief Financial Officer:*	*Manager of accounting department:*
Jiao Fangzheng	*Sun Qingde*	*Li Tian*	*Pei Defang*

BALANCE SHEETS

Expressed in RMB thousand

Items	Notes	At 31 December 2017	At 31 December 2016
Current assets:			
Cash at bank and on hand	XV.1	236,745	382,997
Financial assets at fair value through profit or loss		—	—
Notes receivable		—	—
Accounts receivable		—	—
Prepayments		—	—
Interest receivables		—	—
Dividend receivables		—	—
Other receivables	XV.2	5,313,186	5,179,627
Inventories		—	—
Non-current assets due within one year		—	—
Other current assets		—	—
Total current assets		5,549,931	5,562,624
Non-current assets:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	XV.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		25,765,258	25,777,951

BALANCE SHEETS (Continued)

Expressed in RMB thousand

Items	Notes	At 31 December 2017	At 31 December 2016
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		26,231	189
Interest payables		—	—
Dividend payables		—	—
Other payables	XV.4	1,127,163	1,119,802
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		1,153,394	1,119,991
Non-current liabilities:			
Long-term loans		—	—
Bonds payables		—	—
Long-term payables		—	—
Long-term employee benefits payable		—	—
Special payables		—	—
Provisions		—	—
Deferred income		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		—	—
Total non-current liabilities		—	—
Total liabilities		1,153,394	1,119,991
Share capital	XV.5	14,142,661	14,142,661
Capital reserve	XV.6	11,764,970	11,754,334
Less:treasury stock		—	—
Other comprehensive income		—	—
Special reserve		—	—
Surplus reserve	XV.7	200,383	200,383
Retained earnings	XV.8	-1,496,150	-1,439,418
Equity attributable to the parent company		24,611,864	24,657,960
Minority interests		—	—
Total equity		24,611,864	24,657,960
Total liabilities and equity		25,765,258	25,777,951

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

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

CONSOLIDATED INCOME STATEMENTS

Expressed in RMB thousand

Items	Notes	2017	2016
1. Revenue	V.34	48,485,788	42,923,500
Less: Cost of sales	V.34	50,976,270	53,516,744
Business taxes and surcharges	V.35	382,876	401,551
Selling expenses	V.36	59,615	58,558
General and administrative expenses	V.37	4,134,373	3,756,029
Finance costs	V.38	580,079	477,258
Impairment losses on assets	V.39	2,735,857	754,346
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")	V.40	-12,911	29,034
Including: Investment income from investments in associates and joint ventures	V.41	-13,578	979
Gains from disposal of non-current asset (loss in "-")		-172,607	-68,312
Other income	V.42	372,433	—
2. Operating profits (loss in "-")		-10,196,367	-16,080,264
Add: Non-operating income	V.43	126,167	319,556
Less: Non-operating expenses	V.44	273,882	42,994
3. Profit before income tax (loss in "-")		-10,344,082	-15,803,702
Less: Income tax expense	V.45	238,555	311,196
4. Profit for the year/period (loss in "-")		-10,582,637	-16,114,898
(i) Classified by business sustainability			
– net profit from continuing operation		-10,582,637	-16,114,898
– net profit from discontinued operation		—	—
(ii) Classified by ownership			
Profit for the year/period attributable to:			
– The owners' of SSC		-10,582,541	-16,114,763
– Minority interests		-96	-135
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		-10,582,637	-16,114,898
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-10,582,541	-16,114,763
– Minority shareholders		-96	-135
7. Earnings per share			
– Basic		-0.748	-1.139
– Diluted		-0.748	-1.139

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

Chairman: *Jiao Fangzheng*
General Manager: *Sun Qingde*
Chief Financial Officer: *Li Tian*
Manager of accounting department: *Pei Defang*

INCOME STATEMENTS

Expressed in RMB thousand

Items	Notes	2017	2016
1. Revenue		—	—
Less: Cost of sales		—	—
Business taxes and surcharges	XV.9	25,922	34
Selling expenses		—	—
General and administrative expenses	XV.10	35,450	22,180
Finance costs	XV.11	-4,640	-5,069
Impairment losses on assets		—	—
Add: Gains/(losses) from changes in fair value (loss in "-")		—	—
Add: Investment income (loss in "-")		—	—
Including: Investment income from investments in associates and joint ventures		—	—
Gains from disposal of non-current asset (loss in "-")		—	—
Other income		—	—
2. Operating profits (loss in "-")		-56,732	-17,145
Add: Non-operating income		—	—
Less: Non-operating expenses		—	—
3. Profit before income tax (loss in "-")		-56,732	-17,145
Less: Income tax expense		—	—
4. Profit for the year/period (loss in "-")		-56,732	-17,145
(iii) Classified by business sustainability		—	—
– net profit from continuing operation		-56,732	—
– net profit from discontinued operation		—	—
(iv) Classified by ownership		—	—
Profit for the year/period attributable to:			
– The owners' of SSC		-56,732	-17,145
– 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		-56,732	-17,145
Total comprehensive income for the year/period attributable to:			
– The owners' of parent company		-56,732	-17,145
– Minority shareholders		—	—
7. Earnings per share		—	—
– Basic		—	—
– Diluted		—	—

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

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

CONSOLIDATED CASH FLOW STATEMENTS

Expressed in RMB thousand

Items	Notes	2017	2016
1. Cash flows from operating activities:			
Cash received from the sales of goods and provision of services		47,929,847	47,690,251
Tax refund received		322,777	224,461
Cash received from other operating activities	V.46	3,265,506	3,307,468
Subtotal of cash inflow from operating activities		51,518,130	51,222,180
Cash paid for the purchases of goods and receiving of services		30,861,433	33,405,999
Cash paid for employees and on behalf of employees		13,336,997	13,858,573
Taxes paid		1,910,900	3,274,857
Cash paid for other operating activities	V.46	4,989,344	4,590,069
Subtotal of cash outflow from operating activities		51,098,674	55,129,498
Net cash flow from operating activities	V.47	419,456	-3,907,318
2. Cash flows from investing activities:			
Cash received from the investments		—	951,000
Cash received from the investment income		1,178	28,055
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		162,626	17,146
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received from other investing activities		—	—
Subtotal of cash inflow from investing activities		163,804	996,201
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		1,175,401	1,228,157
Cash paid for the investments		—	4,000
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		—	—
Subtotal of cash outflow from investing activities		1,175,401	1,232,157
Net cash flow from investing activities		-1,011,597	-235,956

CONSOLIDATED CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

Items	Notes	2017	2016
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		—	—
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		37,253,867	52,017,245
Cash received from issuance of bonds		—	—
Cash received for other financing activities	V.46	532,641	5,071
Subtotal of cash inflow from financing activities		37,786,508	52,022,316
Cash paid for repayments of borrowings		36,256,236	47,074,937
Cash paid for distribution of dividend, profit or payments of interests		709,622	431,845
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—
Cash paid for other financing activities	V.46	72,616	54,013
Including: Cash paid to minority shareholders by capital reduction of subsidiaries			—
Subtotal of cash outflow from financing activities		37,038,474	47,560,795
Net cash flow from financing activities		748,034	4,461,521
4. Effect of exchange rate changes on cash and cash equivalents		-79,460	135,467
5. Net changes in cash and cash equivalents		76,433	453,714
Add: Cash and cash equivalents at beginning of year/period	V.47	2,446,923	1,993,209
6. Cash and cash equivalents at end of year/period	V.47	2,523,356	2,446,923

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

Chairman: *Jiao Fangzheng*

General Manager: *Sun Qingde*

Chief Financial Officer: *Li Tian*

Manager of accounting department: *Pei Defang*

CASH FLOW STATEMENTS

Expressed in RMB thousand

Items	Notes	2017	2016
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		13,245	412,093
Subtotal of cash inflow from operating activities		13,245	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
Cash paid for other operating activities	XV.12	164,138	453,251
Subtotal of cash outflow from operating activities		164,138	453,285
Net cash flow from operating activities	XV.13	-150,893	-41,192
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		—	—
Subtotal of cash inflow from investing activities		—	—
Cash paid for purchases of fixed assets, intangible assets and other long-term assets		—	—
Cash paid for the investments		—	—
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid for other investing activities		—	—
Subtotal of cash outflow from investing activities		—	—
Net cash flow from investing activities		—	—

CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

Items	Notes	2017	2016
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		—	—
Including: Cash received from the acquisition of minority interests of subsidiaries		—	—
Cash received from borrowings		—	—
Cash received from issuance of bonds		—	—
Cash received for other financing activities	XV.12	4,641	5,071
Subtotal of cash inflow from financing activities		4,641	5,071
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	XV.12	—	—
Including:Cash paid to minority shareholders by capital reduction of subsidiaries		—	—
Subtotal of cash outflow from financing activities		—	—
Net cash flow from financing activities		4,641	5,071
4. Effect of exchange rate changes on cash and cash equivalents		—	—
5. Net changes in cash and cash equivalents		-146,252	-36,121
Add: Cash and cash equivalents at beginning of year/period	XV.13	382,997	419,118
6. Cash and cash equivalents at end of year/period	XV.13	236,745	382,997

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

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

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 reserve	Retained earnings	Minority interests	Total equity
Balance at 31 December 2016	14,142,661	8,897,232	—	—	176,068	200,383	—	-14,973,476	-1,276	8,441,592
Add:Changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—
Balance at 1 January 2017	14,142,661	8,897,232	—	—	176,068	200,383	—	-14,973,476	-1,276	8,441,592
Changes during the period (decrease in "-")	—	10,636	—	—	26,409	—	—	-10,582,541	-96	-10,545,592
I. Total comprehensive income	—	—	—	—	—	—	—	-10,582,541	-96	-10,582,637
II. Increase or decrease of capital	—	10,636	—	—	—	—	—	—	—	10,636
1. Contribution of capital	—	—	—	—	—	—	—	—	—	—
2. Share payments recognised in equity	—	10,636	—	—	—	—	—	—	—	10,636
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	—	—	—	—	26,409	—	—	—	—	26,409
1. Provided during the period	—	—	—	—	702,477	—	—	—	—	702,477
2. Used during the period (expressed in "-")	—	—	—	—	-676,068	—	—	—	—	-676,068
VI. Others	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2017	14,142,661	8,907,868	—	—	202,477	200,383	—	-25,556,017	-1,372	-2,104,000

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

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

Items	Amount of previous period									
	Equity attributable to the the parent company									
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings	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	—	—	—	—	615,847
2. Used during the period (expressed in "-")	—	—	—	—	-699,326	—	—	—	—	-699,326
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.

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

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 2016	14,142,661	11,754,334	—	—	—	200,383	-1,439,418	24,657,960
Add:Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of errors	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—
Balance at 1 January 2017	14,142,661	11,754,334	—	—	—	200,383	-1,439,418	24,657,960
Changes during the period (decrease in “-”)	—	10,636	—	—	—	—	-56,732	-46,096
I. Total comprehensive income	—	—	—	—	—	—	-56,732	-56,732
II. Increase or decrease of capital	—	10,636	—	—	—	—	—	10,636
1. Contribution of capital	—	—	—	—	—	—	—	—
2. Share payments recognised in equity	—	10,636	—	—	—	—	—	10,636
3. Others	—	—	—	—	—	—	—	—
III. Distribution of profits	—	—	—	—	—	—	—	—
1. Provision of surplus reserve	—	—	—	—	—	—	—	—
2. Distribution to (from) shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
IV. Transfer of equity	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to paid up capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to paid up capital	—	—	—	—	—	—	—	—
3. Offset of surplus reserve with losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
V. Special reserve	—	—	—	—	—	—	—	—
1. Provided during the period	—	—	—	—	—	—	—	—
2. Used during the period (expressed in “-”)	—	—	—	—	—	—	—	—
VI. Others	—	—	—	—	—	—	—	—
Balance at 31 December 2017	14,142,661	11,764,970	—	—	—	200,383	-1,496,150	24,611,864

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

Chairman:
Jiao Fangzheng

General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

Items	Amount of previous period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
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
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	—	—	—	—	—	—	—	—
1. Provided during the period	—	—	—	—	—	—	—	—
2. 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.

Chairman:
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General Manager:
Sun Qingde

Chief Financial Officer:
Li Tian

Manager of accounting department:
Pei Defang

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

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

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

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

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

Pursuant to "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (SASAC Property Right [2013] No.442) issued by the State-owned Assets Supervision and Administration Commission and "the Approval for A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" (Cai Jin Han [2013] No.61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013 under which the non-circulating shareholders of the Company paid 5 shares for each 10 circulating A shares that were registered on 16 August 2013 (the date of registration as agreed in the reform plan). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. And CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From 22 August 2013, all non-circulating shares obtained circulating rights in the Shanghai Stock Exchange. However, in accordance with the agreed terms of restriction on tradability, as at 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 Sinopec Yizheng Chemical Fibre Company Limited and Subsequent A Share Placement" (SASAC Property Right [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and "the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No.1370) issued by China Securities Regulatory Committee,the Company implemented the material asset reorganization in 2014. The Company sold all of its assets and liabilities (hereinafter referred to as the ''Outgoing Business'') to Sinopec Corp., in exchange, would repurchase A shares of the Company held by Sinopec Corp. for cancellation, and issue shares to Sinopec Group in order to acquire 100% equity interest of Sinopec Oilfield Service Corporation (hereinafter referred to as "SOSC") held by Sinopec Group (hereinafter referred to as the ''Incoming Equities'' or "SOSC", hereinafter collectively referred to as the "Reorganisation''). The Company executed the Confirmation on Completion of Outgoing Business with Sinopec Corp., executed the Confirmation on Completion of Incoming Equities with Sinopec Group on 22 December 2014. According to the Confirmations,the Company 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 second meeting of the ninth term Board of Directors of the Company on 27 March 2018.

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 RMB 25,556,017 thousand, current liabilities exceed current assets of approximately RMB 31,540,724 thousand as at 31 December 2017 (Current liabilities exceed current assets of RMB 24,971,862 thousand in 2016), committed capital expenditures are approximately RMB 0.13 billion. Equity attributable to the the parent company is RMB -2,102,628 thousand (8,442,868 thousand in 2016).

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 institutions. In November 2017 and March 2018, the Group obtained a line of credit of RMB 12.3 billion and USD1.45 billion, and line of credit promissory note of RMB 4 billion. 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. In January 2018, the Group issued 1,526,717,556 A-shares and 3,314,961,482 H-shares by private placement respectively, raised funds at RMB 7,637,715,000 in total, which enforces the liquidity. Please refer to Note XIII for details.

In January 2018, the Group The unaudited asset-liability ratio has dropped to 90.9% (December 31, 2017: 103.4%). 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. In 2018, the company will actively take opportunities of the recovery growth in oilfield service sector, take reducing losses as the primary task, and leverage the advantages of complicated services and special technologies to support exploration of markets. The Group 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 turn-around in its business.

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.

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE, which gives a true view of the entire company's and consolidated financial position at 31 December 2017 and the Company's and the consolidated operating results at 31 December 2017.

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.

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.

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

5. Business combinations (Continued)

(2) Business combination involving entities not under common control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate 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. If the equity investment held by the entity prior to the acquisition date is measured at fair value according to<Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments>, 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.

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.

A subsidiary acquired through a business combination involving entities not under common control in the reporting period, 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.

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

6. Method of preparing consolidated financial statements (Continued)

(3) Purchase of the minority stake in the subsidiary

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

(4) Treatment of loss of control of subsidiaries

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

Other comprehensive income 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:

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

These transactions can only achieve one complete business results;

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

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 recognized in the profit or loss in the current period.

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

Related to a package transaction: Recognized as other comprehensive income. It is recognized in the profit or loss in the current period when the entity loses the control.

Not related to a package transaction: Recognized in capital reserve as equity. It shouldn't be recognized in the profit or loss in the current period when the entity loses the control.

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

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

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

(1) Joint operation

A joint operation is a joint arrangement whereby the group that 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. Standard of determining cash and cash equivalents

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

9. Foreign currency transactions and translation of foreign currency statement

(1) Foreign currency transactions

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

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

(2) Translation of foreign currency information

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

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

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

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

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

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

10. Financial instruments

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

(1) Recognition and Derecognition of financial instruments

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

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

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

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.

Receviables

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

Available-for-sale financial assets

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

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

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

10. Financial instruments (Continued)

(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:

Contractual obligation to deliver cash or other financial instruments to another entity;

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

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;

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.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Available-for-sale financial assets

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

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

Financial assets measured at cost

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

(7) Transfer of financial assets

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

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

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

(8) Offsetting financial assets and financial liabilities

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

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 hierarchies.

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

12. Receivables

Receivables include accounts receivables and other receivables

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

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

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

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

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

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

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

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

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

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

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

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.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortization methods of turnover materials

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

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

14. Assets Held for sale and discontinued operations

(1) Category and measurement of non-current assets or the disposal group

Non-current assets and disposal groups are classified as held for sale if the Group recovers its book value by selling (including the exchange of non-monetary assets) rather than continuing to use it.

The aforesaid non-current assets do not include investment property measured with the basis of fair value; the biological assets measured with the basis of fair value less selling costs; the assets formed by employee benefits; financial assets and the right arising from deferred income tax assets and rights from insurance contracts.

Disposal groups refer to a set of assets disposed as a whole through selling and liabilities which are transferred by the transaction that directly related to those assets. In certain circumstance, disposal groups include the goodwill obtained through business combination.

Non-current assets and disposal groups that meet the following conditions are classified as held for sale: (1) The non-current assets or disposal groups are sold immediately under the current conditions. (2) The sale is likely to occur, that is, a decision has been made on a sale plan and a determined purchase commitment is made, and the sale is expected to be completed within one year. The loss of control over the subsidiaries due to the sales of investment in subsidiaries, no matter whether the Group retains part of the equity investment after selling investment in subsidiaries and losing control over the subsidiaries or not, the investment in subsidiaries shall be classified as held for sale in the separate financial statements when it satisfies the conditions for category of held for sale; assets and liabilities shall be classified as held for sale in the consolidated financial statements.

The difference between carrying amount of non-current assets classified as held for sale or disposal groups and the net amount of fair value less selling costs shall be recognized as impairment loss on assets at the date of balance sheet. For the amount of impairment loss on assets, the book value of disposal groups' goodwill shall be offset against first, and then offset against the book value of non-current assets according to the proportion of book value of non-current assets.

The amount of write-down shall be recovered when the net amount of fair value less selling costs get increased and the recovered amount shall not exceed the amount of impairment loss and shall be recognized in profit or loss for current period. The book value of the goodwill that has been offset can not be recovered.

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); interest and other expenses of liabilities of disposal groups classified as held for sale are continued to be recognized. All or part of investment in joint ventures and associates which were classified as held for sale can not be accounted under equity method, the retained part (which is not classified as held for sale) still accounted under equity method. When the Group loses joint control or has no significant influence over investees due to the elimination of parts of the investment, equity method is prohibited to use.

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 Group 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.

(2) Discontinued operation

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.

(3) Disclosure

In the balance sheet, the non-current assets classified as held for sale and the part of disposal group classified as held for sale should be presented as "held for sale assets", liabilities in disposal group classified as held for sale shall be presented as "held for sale liabilities"

Profit and loss from continuing operations and profit and loss from discontinued operations are separately presented in the income statement. For non-current assets or disposal groups held for sale that do not meet the definition of discontinued operations, the impairment loss, reversal amount, and disposal profit or loss are presented as continuing profits and losses. The operating profit or loss and disposal profit and loss such as impairment loss and reversal of discontinued operations are reported as operating profit and loss

Disposal group that intends to end the use but not for sale and meet the conditions relating to discontinued operations, should be presented as discontinued operations from the date of its cessation of use.

For the discontinued operations in the current financial statements, the information originally presented as a profit or loss from continuing operations was re-stated as the profit or loss from discontinued operations. If discontinued operations do not meet the requirement of classifying the held-for-sale category any longer, the information previously presented as a profit and loss on discontinued operations should be reclassified as the profit or loss from continuing operations for the comparable accounting period.

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

15. Long-term equity investment

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

(1) Recognition of investment cost

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

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

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

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

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

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

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

If an entity has significant influences or can implement joint control over investees due to additional investment, the initial investment cost is recognized as the sum of the fair value of the original portion of equity investment and the additional investment cost under equity method. For the original portion of equity investment classified as available for sale, the difference between the fair value and carrying amount and cumulative changes in fair value recognized as other comprehensive income shall be recognized as current profit 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, 2017, 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.

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

15. Long-term equity investment (Continued)

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

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

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

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

(4) Held-for-sale equity investment

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

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

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

(5) Impairment test and Impairment provision

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

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

16. Fixed asset

(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 years, net residual value and depreciation method for fixed assets are reviewed and adjusted at the end of each year.

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

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

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

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

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

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

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

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

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

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

(5) The Group reviews the useful life and estimated net residual value of a property, plant and equipment and the depreciation method applied annually at each of the period end.

The useful lives of property, plant and equipment are adjusted if their expected useful lives are different from the original estimates; the estimated net residual values are adjusted if they are different from the original estimates.

(6) Overhaul costs

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

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

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.

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 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 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.

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

21. Impairment of assets

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

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

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

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

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

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

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

22. Long-term deferred expenses

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

23. Employee benefits

(1) The scope of employee benefits

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

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

(2) Short-term employee benefits

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

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

23. Employee benefits (Continued)

(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. 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.

(4) Termination benefits

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

(5) Other long-term employee benefits

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

24. Provisions

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

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

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

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

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

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

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

25. Share-based payment and equity instruments

(1) Category of share-based payment

Share-based payment is classified into cash-settled share-based payment and equity-based share-based payment. The group's share option scheme is paid by equity-based share-based.

(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 received or receivables for the sale of goods and services in the operating activities. The income of sales of goods is the net amount calculated as sales of products less sales allowance and sales return.

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

(1) Sale of goods

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

(2) Providing of services

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

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

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

The outcome of a transaction involving the providing of services can be estimated reliably only when all of the following conditions can be satisfied at the same time: A. The amount of revenue can be measured reliably; B. The associated economic benefits are likely to flow into the enterprise; C. The stage of completion of the transaction can be measured reliably; D. 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 recognized.

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: A. The amount of contract revenue can be measured reliably; B. The associated economic benefits are likely to flow to the enterprise;C. The actual contract costs incurred can be distinguished clearly and measured reliably; D. 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. 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.

The government grant related to assets is recognized 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 recognized 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 recognized as deferred income, and then recognized in profit or loss over the periods in which the costs are recognized. Government grants measured at nominal amounts are directly recognized in through profit or loss.

The government grants related to daily activities are recognized as other income or offset against relevant costs in accordance with the substance of economic business. Government grants that are not related to daily activities are recognized as non-operating income and expenses.

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

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 (or asset group) is determined by the higher amount of the net amount of fair value deducting disposal costs and the present value of future cash flows expected from the assets. Since the Group cannot reliably obtain the market price of an asset (or asset group), it cannot accurately estimate the fair value of the asset. When estimating the present value of future cash flows, major judgments are required on the future cash flow of the asset (or asset group), including the related income growth rate, operating costs, and the discount rate used when calculating the present value. The Group uses all available relevant information when estimating the recoverable amount, including forecasts based on reasonable assumptions about future revenue growth rates and related operating costs and expenses. In 2017, the management referred to the assessment of the fair value of long-term assets by a third-party independent appraisal agency. After a thorough assessment of the operating environment, group strategy, and the profitability of past project operations, the Company made a provision for impairment of fixed assets of approximately RMB 1,149,494 thousand. The management believes that any reasonable change in the assumptions in the impairment model will not affect management's assessment of impairment at the end of 2017.

(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.

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

33. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

Reasons and content of changes in accounting estimates	Affected items in report	Affected amount
According to provisions of the "Accounting Standard for Business Enterprises No. 16 - Government Grants (2017)", the treatment of government grants is changed from solely total-value based to the total-value based and net-value based. Meanwhile, the amortization method of deferred income arising from assets related government grants should be changed from straight line method to reasonable and systematic manner. The amendment is also applied to the disclosure of government grant. The revised standard is applied to government grants that haven't been totally amortized at 1 January 2017 and obtained in 2017. No comparative information is required for new disclosures, and no adjustment is made to the presentation of other income in the comparative report.	① Other income	372,433
According to provisions of the "Notice on Amendments to the Format for Issuing Financial Statements for General Enterprises" (Cai Kuai [2017] No. 30), "Gains or losses from disposal of non-current assets" was added to the presentation of income statement to reflect the gains or losses from sale of non-current assets (except for financial instruments; long-term equity investment and investment property)classified as held for sale by enterprises or disposal of asset group, gains or losses arising from the disposal of non-held for sale assets(including fixed assets, construction in progress, productive biological assets and intangible assets), as well as gains or losses arising from the disposal of non-current assets in debt restructuring and gains or losses arising from the exchange of non-monetary assets. Correspondingly, the items "wherein: Gains from disposal of non-current assets" under "non-operating income" and "wherein: losses on disposal of non-current assets" items under "non-operating expenses" are deleted. After deleting the two items, "non-operating income and expenses" reflecting the income other than the operating profits incurred by the enterprise, mainly including Debt restructuring gains or losses, government grants unrelated to the company's daily activities, public welfare donation expenditures, extraordinary loss, inventory profits or losses, profits from donations and losses on damage and retirement of non-current assets. Correspondingly, the presentation of the comparative report was adjusted.	① Gains or losses from disposal of non-current assets ② non-operating income ③ non-operating expenses	-172,607 -109,106 281,713

In addition, the "Accounting Standards for Business Enterprises No. 42 - Non-current Assets held for Sale, Disposal Groups, and Discontinued Operations" regulates the classification, measurement and presentation of non-current assets or disposal groups held for sale after May 28 2017, and the presentation of the discontinued operations, and apply to prospective application. The standard requires separately present profit or loss arising from continued operations or discontinued operations in the consolidated income statement and profit statement. Correspondingly, the presentation of the comparative report has been adjusted: For the discontinued operations presented in the current period, the information originally presented as a profit or loss from continuing operations was re-stated as a discontinued operating profit or loss in the comparative statements. The change of accounting policy has no impact on the company's financial statements.

The above changes in accounting policies have no impact on beginning and ending balance net assets and retained earnings.

(2) Significant changes in accounting estimates

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

IV. TYPES OF TAXES AND TAX RATES

1. Major taxes and tax rate

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, 6, 11 or 17
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 Shengli Petroleum Engineering Company Limited	15
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

The enterprise income tax of the group's foreign operating entities is adapted to the local taxation regulation.

2. Tax incentives and approval documents

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

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

(2) Corporate income tax

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

In accordance to "Notice on Recognizing 746 Enterprises such as Shandong Lianyou Communication Technology Development Co., Ltd. as a High-tech Enterprise in 2015" (Lu Ke Zi [2016]No.41 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 Shengli Petroleum Engineering Company Limited and 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	As at 31 December 2017			As at 31 December 2016		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	8,177	—	—	9,734
RMB	—	—	2,052	—	—	2,019
USD	296	6.5342	1,933	449	6.9370	3,115
DZD	7,558	0.0569	430	15,131	0.0626	947
SAR	491	1.7423	855	449	1.8497	830
KWD	28	21.6185	609	39	22.6293	882
KZT	7,982	0.0197	157	9,225	0.0208	192
BOB	58	0.9456	54	63	1.0039	63
Others	—	—	2,087	—	—	1,686
Cash at banks:	—	—	2,490,152	—	—	2,383,630
RMB	—	—	774,066	—	—	776,503
USD	171,569	6.5342	1,121,068	106,476	6.9370	738,624
DZD	869,091	0.0569	49,423	1,881,388	0.0626	117,762
SAR	48,453	1.7423	84,417	68,181	1.8497	126,116
KWD	3,122	21.6185	67,494	13,263	22.6293	300,137
KZT	1,471,807	0.0197	28,996	955,177	0.0208	19,892
BOB	104,516	0.9456	98,832	141,289	1.0039	141,843
KES	771,726	0.0633	48,848	475,784	0.0677	32,203
Others	—	—	217,008	—	—	130,550
Among cash at bank: Related party	—	—	1,050,749	—	—	1,099,702
Including: RMB	—	—	153,952	—	—	163,100
USD	126,308	6.5342	825,322	82,657	6.9370	573,394
SAR	13,023	1.7423	22,690	51,524	1.8497	95,305
Others	—	—	48,785	—	—	267,903
Other monetary funds:	—	—	39,565	—	—	56,571
RMB	—	—	243	—	—	8,786
USD	5,562	6.5342	36,341	6,446	6.9370	44,717
AED	131	1.7790	234	131	1.8890	248
DZD	8,454	0.0569	481	8,444	0.0626	529
KZT	1,420	0.0197	28	1,608	0.0208	33
BOB	209	0.9456	198	209	1.0039	210
Others	—	—	2,040	—	—	2,048
Total:	—	—	2,537,894	—	—	2,449,935
Amount deposited abroad:	—	—	1,748,032	—	—	1,472,479

At 31 December 2017, the Group's restricted cash such as margin deposit is RMB 14,538 thousand (At 31 December 2016: RMB 3,012 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes receivable

Category	As at 31 December 2017	As at 31 December 2016
Bank acceptance bills	1,014,337	445,415
Trade acceptance bills	194,810	406,209
Total	1,209,147	851,624

(1) There is no pledged or overdue notes receivable at 31 December 2017 and 31 December 2016.

(2) At 31 December 2017, the endorsed undue notes receivable.

Type	recognized amount at 31 December 2017	derecognized amount at 31 December 2017
Bank acceptance bills	1,227,957	
Trade acceptance bills	236,948	
Total	1,464,905	

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 have 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 2017, the five largest notes receivable that are not mature but have been endorsed to other parties are as follows:

	Issuance date	Maturity date	Amount
Entity 1	23 November 2017	23 May 2018	12,000
Entity 2	18 December 2017	18 June 2018	10,850
Entity 3	26 September 2017	26 March 2018	10,000
Entity 4	18 December 2017	18 June 2018	8,613
Entity 5	18 December 2017	18 June 2018	8,062
Total			49,525

3. Accounts receivable

	At 31 December 2017	At 31 December 2016
Accounts receivable	19,282,683	25,084,707
Less: provision for bad debts	2,320,747	1,177,173
Net	16,961,936	23,907,534

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(1) Accounts receivable disclosed by categories:

Type	As at 31 December 2017				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables which are individually significant and with provision made on an individual basis	973,982	5.05	973,982	100.00	—
Provision for bad and doubtful debts collectively					
Including: Ageing groups	9,103,891	47.21	1,346,765	14.79	7,757,126
Related party grouping	9,204,810	47.74	—	—	9,204,810
Subtotal	18,308,701	94.95	1,346,765	7.36	16,961,936
Receivables which are individually insignificant and with provision made on an individual basis	—	—	—	—	—
Total	19,282,683	100.00	2,320,747	12.04	16,961,936

Type	As at 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables which are individually significant 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 which are individually insignificant and with provision made on an individual basis	—	—	—	—	—
Total	25,084,707	100.00	1,177,173	4.69	23,907,534

① Individually significant and provision for bad and doubtful debts individually

Accounts receivable (By entity)	Amount	Bad debt provision	Provision proportion	Provision reason
Entity A	973,982	973,982	100%	The debtor was short of funds and the receivable was not withdrawn for a long time
Total:	973,982	973,982	100%	

In 2017, the company made a total provision for bad debts of the account receivable from a certain customer after judging the future recovery of funds due to the customer's financial difficulties and the customer's lacking of other funds payment channels. In addition, the account receivable from the certain customer was overdue for three years. For the provision, 804,034 thousand was accrued this year, and cumulative accruals were 973,982 thousand.

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

	As at 31 December 2017					As at 31 December 2016				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	6,704,160	73.64			6,704,161	7,417,921	79.16			7,417,921
1 – 2 years	1,154,977	12.69	346,493	30	808,484	1,135,122	12.11	340,537	30	794,585
2 – 3 years	611,204	6.71	366,722	60	244,482	379,783	4.05	227,870	60	151,913
Over 3 years	633,550	6.96	633,550	100	—	438,818	4.68	438,818	100	—
Total	9,103,891	100.00	1,346,765	—	7,757,127	9,371,644	100.00	1,007,225	—	8,364,419

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 RMB 1,164,308 thousand(The year in 2016:RMB 600,366thousand). 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

There is RMB 20,734 thousand of non-related party accounts receivable are cancelled during the year.

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

Company Name	Relationship with the company	Amount	Percentage of total accounts receivable	Ending balance bad debt provision
Entity A	Related party	7,723,840	40.06	—
Entity B	Related party	1,358,506	7.05	—
Entity C	Third party	989,281	5.13	110,322
Entity D	Third party	973,982	5.05	973,982
Entity E	Third party	679,645	3.52	25,345
Total		11,725,254	60.81	1,109,649

4. Prepayments

	As at 31 December 2017	As at 31 December 2016
Prepayments	441,556	374,398
Less: provision for bad debts	16,825	21,426
Net	424,731	352,972

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

Ageing	As at 31 December 2017		As at 31 December 2016	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	417,639	94.59	324,235	86.61
1 – 2 years	6,365	1.44	34,550	9.22
2 – 3 years	6,191	1.40	11,380	3.04
Over 3 years	11,361	2.57	4,233	1.13
Total	441,556	100.00	374,398	100.00

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

Company Name	Relationship with the company	Amount	Percentage of total prepayments
Entity A	Third party	49,511	11.21
Entity B	Third party	29,231	6.62
Entity C	Related party	25,822	5.85
Entity D	Third party	10,337	2.34
Entity E	Third party	9,576	2.17
Total		124,477	28.19

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables

	As at 31 December 2017	As at 31 December 2016
Other receivables	2,612,406	3,325,742
Less: provision for bad debts	612,494	503,333
Net	1,999,912	2,822,409

(1) Other receivables disclosed by categories:

Type	As at 31 December 2017				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables which are individually significant and with provision made on an individual basis					
Provision for bad and doubtful debts collectively					
Including: Ageing groups	2,245,334	85.95	584,697	26.04	1,660,637
Related party grouping	339,275	12.99			339,275
Subtotal	2,584,609	98.94	584,697	22.62	1,999,912
Receivables which are individually insignificant and with provision made on an individual basis	27,797	1.06	27,797	100.00	—
Total	2,612,406	100.00	612,494	23.45	1,999,912

Type	As at 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net carrying amount
Receivables which are individually significant and with provision made on an individual basis					
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	99.16	475,536	14.42	2,822,409
Receivables which are individually insignificant and with provision made on an individual basis	27,797	0.84	27,797	100.00	—
Total	3,325,742	100.00	503,333	15.13	2,822,409

① Individually significant and provision for bad and doubtful debts individually

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

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

	As at 31 December 2017					As at 31 December 2016				
	Amount	Proportion %	Bad debt provision	Provision proportion	Net	Amount	Proportion %	Bad debt provision	Provision proportion	Net
Within 1 year	1,343,067	59.08	—	—	1,343,067	2,213,730	76.20	—	—	1,277,522
1 – 2 years	353,320	15.54	105,996	30	247,324	240,634	8.28	72,190	30	168,444
2 – 3 years	175,615	7.73	105,369	60	70,246	118,258	4.07	70,955	60	47,303
Over 3 years	373,332	17.65	373,332	100	—	332,391	11.44	332,391	100	—
Total	2,245,334	100.00	584,697	—	1,660,637	2,905,013	100.00	475,536	—	2,429,477

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	As at 31 December 2017	As at 31 December 2016
Imprest	34,523	51,969
Guarantee	846,193	884,389
Amount paid on behalf	641,003	1,311,545
Temporary payment	759,129	704,098
Escrow funds	9,733	9,710
Deposits	42,944	46,722
Export tax refund receivable	5,261	6,712
Others	273,620	310,597
Total	2,612,406	3,325,742

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

Company Name	Relationship with the company	Nature of payment	Amount	Percentage of total accounts receivable	Ending balance of bad debt provision
Mexico DS	Third party	Amount paid on behalf、Temporary payment	387,619	14.84	—
China Eleventh Chemical Construction Company Co., LTD	Third party	Amount paid on behalf	277,451	10.62	60,070
Zhongyuan Petroleum Exploration Bureau(South Sudan)	Related party	Amount paid on behalf、Temporary payment	170,567	6.53	—
Xinjiang Qixing Construction Industry Group Co. LTD.	Third party	Amount paid on behalf、Guarantee	166,339	6.37	166,339
The Ukrainian oil UFN-III alliance	Third party	Amount paid on behalf	132,972	5.09	97,544
Total			1,134,948	43.45	323,953

6. Inventories

(1) Inventories by categories

Category	As at 31 December 2017			As at 31 December 2016		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,164,785	64,576	1,100,209	1,240,714	7,724	1,232,990
Work in progress	2,887	1,987	900	78,390	—	78,390
Finished goods	85,725	5,893	79,832	120,924	—	120,924
Turnover materials	10,151	—	10,151	20,120	—	20,120
Amounts due from customers for contract work	6,869,083	259,048	6,610,035	7,900,334	35,686	7,864,648
Others	1,947	—	1,947	1,305	—	1,305
Total	8,134,578	331,504	7,803,074	9,361,787	43,410	9,318,377

As at 31 December 2017 and 2016, the cost of inventories didn't include capitalized interest. In addition, the inventories haven't been used for mortgage or guarantee.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

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

Category		Increase during the period		Written back during the period		
	As at 1 January 2017	Provision	Others	Reversal or Write-off	Others	As at 31 December 2017
Raw materials	7,724	64,576	—	7,724	—	64,576
Work in progress	—	1,987	—	—	—	1,987
Finished goods	—	5,893	—	—	—	5,893
Amounts due from customers for contract work	35,686	245,039	—	—	21,677	259,048
Total	43,410	317,495	—	7,724	21,677	331,504

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 difference between the amount which the estimated total contract cost exceeds the total estimated total revenue and the losses of the contract which has been recognized.

(3) Completed yet settled assets formed by construction contracts

Items	As at 31 December 2017
Contract cost incurred	36,736,935
Plus: recognized profit	1,447,788
Less: Loss on contracts	259,048
Less: Progress billings	31,315,640
Book value of completed yet settled assets formed by construction contracts	6,610,035

7. Other current assets

Items	As at 31 December 2017	As at 31 December 2016
Excess value-added tax paid	651,200	325,005
Value-added tax to be certified	24,043	18,642
Prepaid VAT	205,916	65,073
Prepaid income tax	4,314	7,956
Total	885,473	416,676

8. Available-for-sale financial assets

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

Items	As at 31 December 2017			As at 31 December 2016		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Available-for-sale equity instruments	40,494	16,105	24,389	40,494	16,105	24,389
Including: based on cost	40,494	16,105	24,389	40,494	16,105	24,389
Total	40,494	16,105	24,389	40,494	16,105	24,389

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(2) Available –for-sale of equity instruments measured at costs

Investee	Balance amount				Provision for diminution in value					
	As at 1 January 2017	Increase during the period	Decrease during the period	As at 31 December 2017	As at 1 January 2017	Increase during the period	Decrease during the period	As at 31 December 2017	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	600
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	—	600

(3) The impairment of Available –for-sale financial assets

Category	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Amount of impairment at 1 January 2017	16,105	—	16,105
Increase during the period	—	—	—
Including: transfer from other comprehensive income	—	—	—
Decrease during the period	—	—	—
Including: rise in fair value after balance sheet date	—	—	—
Amount of impairment at 31 December 2017	16,105	—	16,105

9. Long-term receivables

(1) Long-term receivables disclosed by nature

Items	As at 31 December 2017			As at 31 December 2016			
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount	Discount rate interval
Instalment collection services	233,061	—	233,061	—	—	—	—
Subtotal	233,061	—	233,061	—	—	—	—
Less: Long-term receivables due within 1 year							
Total	233,061	—	233,061	—	—	—	—

(2) Analysis of long-term receivables overdue:

At 31 December 2017, there are no overdue long-term receivables.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term equity investments

Name of company		The fluctuation of this period									
	As at 1 January 2017	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	As at 31 December 2017	The ending balance of impairment
① Joint venture											
SinoFTS Petroleum Services Ltd. (SinoFTS)	177,531	—	—	-9,409	—	—	—	—	—	168,122	—
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	17,416	—	—	-5,591	—	—	—	—	—	11,825	—
Sinopec Gulf Petroleum Engineering Services, LLC	13,383	—	—	—	—	—	—	—	—	13,383	—
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,114	—	—	209	—	—	188	—	—	1,135	—
Subtotal	209,444	—	—	-14,791	—	—	188	—	—	194,465	—
② Associates											
Sinopec International Trading (Nigeria) Company Limited	128	—	28	-100			—			—	—
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	3,614	—	—	225	—	—	—	—	—	3,839	—
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,351	—	—	649	—	—	300	—	—	2,700	—
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,086	—	—	241			189	—	—	2,138	—
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	1,701	—	—	3	—	—	—	—	—	1,704	—
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	2,005	—	—	195	—	—	—	—	—	2,200	—
Subtotal	11,885	—	28	1,213	—	—	489	—	—	12,581	—
Total	221,329	—	28	-13,578	—	—	677	—	—	207,046	—

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 2016	1,331,721	59,220,039	60,551,760
2.Increase in the year	23,189	1,476,861	1,500,050
(1)Purchase	9,394	548,685	558,079
(2)Transferred from construction in progress(b)	13,795	928,176	941,971
3.Written back during the year	26,410	1,910,436	1,936,846
(1)Disposal or retirement	8,767	1,910,436	1,919,203
(2)Reclassification adjustment	17,643	—	17,643
4.At 31 December 2017	1,328,500	58,786,464	60,114,964
Accumulated depreciation:	—	—	—
1.At 31 December 2016	391,255	31,074,187	31,465,442
2.Increase in the year	49,621	3,234,574	3,284,195
(1)Depreciation (a)	49,621	3,234,574	3,284,195
3.Written back during the year	10,112	1,603,787	1,613,899
(1)Disposal or retirement	5,926	1,603,787	1,609,713
(2)Reclassification adjustment	4,186		4,186
4.At 31 December 2017	430,764	32,704,974	33,135,738
Provision for impairment	—	—	—
1.At 31 December 2016	8,436	270,625	279,061
2.Increase in the year	—	1,149,494	1,149,494
(1)Provision(c)	—	1,149,494	1,149,494
(2)Other additions	—	—	—
3.Written back during the year	—	31,838	31,838
(1)Disposal or retirement	—	31,838	31,838
(2)Reclassification adjustment	—		—
4.At 31 December 2017	8,436	1,388,281	1,396,717
Net carrying amount	—	—	—
1.At 31 December 2017	889,300	24,693,209	25,582,509
2.At 31 December 2016	932,030	27,875,227	28,807,257

As at 31 December 2017 and 2016, no fixed assets of the Group were pledged.

(a) At 31 December 2017, depreciation of fixed assets amounted to RMB 3,284,195 thousand (2016: 3,304,096 thousand), were included in operating expense 3,262,062 thousand, selling expense 549 thousand and administrative expense 21,584 thousand (2016: 3,274,515 thousand, 579 thousand and 29,002 thousand).

(b) At year 2017, the total cost of fixed assets transferred from construction in progress is 941,971 thousand (2016: 3,102,259 thousand).

(c) In 2017, the Company has implemented measures to reduce excessive capacity and cancelled project teams to obtain excessive equipment. According to the results of assets impairment test, the Company made the provision for impairment of fixed assets of RMB 1,149,494 thousand. The recoverable amount of related assets refers to the valuation report issued by an independent third-party asset appraisal agency that evaluates the relevant assets with market method.The amount is based on the net amount of fair value deducting disposal expenses.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fixed assets (Continued)

(2) Fixed assets rented under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Net carrying amount
Equipment	105,013	24,841	—	80,172
Total	105,013	24,841	—	80,172

(3) The situation of premises without qualified ownership certificates

There had been a total amount of 24 premises without qualified ownership certificates up to 31 December 2017, totaling amount in cost of 242,381 thousand, in accumulated depreciation of 25,756 thousand and net book value of 216,625 thousand.

12. Construction in progress

(1) Details of construction in progress

	As at 31 December 2017			As at 31 December 2016		
Items	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	88,319	3,502	84,817	21,711	3,502	18,209
Major Materials and equipment procurement projects	205,511	68,232	137,279	767,095	91,762	675,333
Other construction projects	15,542		15,542	173,304		173,304
Total	309,372	71,734	237,638	962,110	95,264	866,846

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

Project name	As at 1 January 2017	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	Including current capitalized interest	Capitalised rate%	As at 31 December 2017
	A	B	C	D				E=A+B-C-D
Shenli operating 90 meters	492,325	207,623	699,948	—	34,205	11,360	3.92	—
Geophysics vibroseis updates	—	39,597	39,597	—	—	—	—	—
No.3 drilling platform part of equipment facilities update project	—	74,410	—	—	—	—	—	74,410
Saudi drilling logistics service base construction	—	68,856	—	—	—	—	—	68,856
Long-term pipeline construction equipment of Xinyuezhe	—	21,956	21,956	—	—	—	—	—
No.3 drilling platform crane update project	149	20,051	—	—	—	—	—	20,200
Shengli submarine pipeline inspection	207	9,619	9,826	—	—	—	—	—
Total	492,681	442,112	771,327	—	34,205	11,360	3.92	163,466

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
Shenli operating 90 meters	700,000	99.99	100.00	loans、Selfraised
Geophysics vibroseis updates	40,750	97.17	100.00	Selfraised
No.3 drilling platform part of equipment facilities update project	133,340	55.80	55.80	Selfraised
Saudi drilling logistics service base construction	69,000	99.79	99.79	Selfraised
Long-term pipeline construction equipment of Xinyuezhe	22,520	97.50	100.00	Selfraised
No.3 drilling platform crane update project	30,000	67.33	67.33	Selfraised
Shengli submarine pipeline inspection	15,000	65.51	65.51	Selfraised
Total	—	—	—	—

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Computer software	Contract revenue right	Others	Total
Cost:					
1.At 31 December 2016	123,174	141,972	64,908	9,162	339,216
2.Increase in the year	17,643	6,836	159,818		184,297
(1)Purchase		6,836			6,836
(2)Construction completed			159,818		159,818
(3)Reclassification	17,643				17,643
3.Written back during the year		1,982			1,982
(1)Disposal or retirement		1,982			1,982
4.At 31 December 2017	140,817	146,826	224,726	9,162	521,531
Accumulated amortization:					
1.At 31 December 2016	14,996	94,774	41,712	2,409	153,891
2.Increase in the year	7,281	13,237	66,806	764	88,088
(1)Provision	3,095	13,237	66,806	764	83,902
(2)Reclassification	4,186				4,186
3.Written back during the year		1,982			1,982
(1)Disposal or retirement		1,982			1,982
4.At 31 December 2017	22,277	106,029	108,518	3,173	239,997
Provision for impairment					
1.At 31 December 2016					
2.Increase in the year					
3.Written back during the year					
4.At 31 December 2017					
Carrying amount					
1.At 31 December 2017	118,540	40,797	116,208	5,989	281,534
2.At 31 December 2016	108,178	47,198	23,196	6,753	185,325

As at 31 December 2017 and 31 December 2016, the above intangible assets were not pledged.

There was no land use right without qualified ownership certificates.

For the year ended 31 December 2017, amortisation of intangible assets amounted to RMB83,902 thousand (2016: 42,715 thousand), were included in profit and loss.

14. Long-term deferred expenses

Items	As at 31 December 2016	Increase in the year	Decrease in the year		As at 31 December 2017
			Amortisation in the year	Other decreases	
Special tools of petroleum engineering	3,114,838	819,638	1,497,135	25,979	2,411,362
Other tools of Petroleum engineering	488,589	217,997	338,311	29,721	338,554
Camping house	444,331	97,309	224,584	1,881	315,175
Other long-term deferred expenses	35,098	8,543	28,463	—	15,178
Total	4,082,856	1,143,487	2,088,493	57,581	3,080,269

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	As at 31 December 2017		As at 31 December 2016	
	Deductible/taxable temporary differences	Deferred income tax assets/liabilities	Deductible/taxable temporary differences	Deferred income tax assets/liabilities
Deferred income tax assets				
Provision for assets impairment and influence on depreciation	1,404,657	296,036	204,823	51,206
provision for bad debts	794,530	160,840	542,097	132,342
Deferred income	102,050	15,308	—	—
Subtotal	2,301,237	472,184	746,920	183,548
Deferred income tax liabilities				
Revaluation of assets	94,215	23,038	110,059	26,929
Depreciation of fixed assets	5,221	841	1,957	351
Subtotal	99,436	23,879	112,016	27,280

(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	As at 31 December 2017	As at 31 December 2016
Deductible temporary differences	2,585,097	1,480,823
Tax losses	23,534,199	19,054,303
Total	26,119,296	20,535,126

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

Years	As at 31 December 2017	As at 31 December 2016	Note
year 2017	—	944,730	
year 2018	1,143,155	1,143,155	
year 2019	1,551,644	1,551,644	
year 2020	710,556	783,452	
year 2021	12,456,813	14,631,322	
year 2022	7,672,031	—	
Total	23,534,199	19,054,303	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Short-term loans

Items	Currency	As at 31 December 2017	As at 31 December 2016
Unsecured borrowings from related parties	RMB	9,495,000	9,175,114
	USD	8,015,830	7,858,617
Total		17,510,830	17,033,731

As at 31 December 2017, no assets of the Group were pledged.

As at 31 December 2017, the Group has no overdue short-term borrowings.

As at 31 December 2017, the interest rate range of short-term borrowings is 1.70%-7.90% (31 December 2016: 2.50%-7.60%).

17. Bills payable

Category	As at 31 December 2017	As at 31 December 2016
Bank acceptance bills	1,184,044	2,013,497
Trade acceptance draft	1,861,349	
Total	3,045,393	2,013,497

As at 31 December 2017 and 2016, there is no bank deposit pledged for bills payable.

18. Accounts payable

Items	As at 31 December 2017	As at 31 December 2016
Payables for materials	7,252,290	8,254,619
Payables for construction	7,588,406	7,743,968
Payable for labour cost	8,102,709	8,663,426
Payables for equipment	2,796,545	3,031,689
Others	702,532	603,028
Total	26,442,482	28,296,730

Important accounts payable aged over one year:

Items	As at 31 December 2017	Overdue reasons
Entity A	114,930	Retention money、Unsettled
Entity B	87,338	Retention money、Unsettled
Entity C	79,363	Retention money、Unsettled
Entity D	58,964	Retention money、Unsettled
Entity E	52,802	Retention money、Unsettled
Total	393,397	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Advances from customers

Items	As at 31 December 2017	As at 31 December 2016
Advances for construction and labor	**1,773,584**	1,690,005
Amounts due to customers for contract work	**6,765,375**	8,983,973
Total	**8,538,959**	10,673,978

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

Items	As at 31 December 2017	Overdue reasons
Entity A	95,098	Not yet finalised
Entity B	90,349	Not yet finalised
Entity C	80,317	Not yet finalised
Entity D	79,614	Not yet finalised
Entity E	75,423	Not yet finalised
Total	420,801	

(2) Completed yet settled assets formed by construction contracts

Items	As at 31 December 2017
Progress billings	**28,977,277**
Less:Contract cost incurred	**22,991,128**
plus recognised profit	**-779,226**
Amounts due to customers for settled yet completed contract work	**6,765,375**

20. Employee benefits payable

Items	As at 31 December 2016	Increase in the year	Decrease in the year	As at 31 December 2017
Short term employee benefits	171,657	12,705,463	12,495,880	381,240
Post-employment benefits	—	1,591,278	1,591,278	—
Termination benefits	—	19,773	19,773	—
Total	171,657	14,316,514	14,106,931	**381,240**

(1) Short-term employee benefits

Items	As at 31 December 2016	Increase in the year	Decrease in the year	As at 31 December 2017
Wages or salaries, bonuses, allowances and subsidies	29,054	8,268,600	8,082,342	215,312
Staff welfare	—	1,322,304	1,321,757	547
Social security contributions	895	825,670	826,295	270
Including: 1. Basic medical insurance	—	582,363	582,363	—
2. Supplementary medical insurance	872	84,828	85,446	254
3. Work-related injury insurance	—	61,058	61,058	—
4. Birth insurance	—	32,548	32,548	—
5. Other insurance	23	64,873	64,880	16
Housing funds	1,582	792,661	792,780	1,463
Labor union and employee education funds	128,960	243,597	217,347	155,210
Others	11,166	1,252,631	1,255,359	8,438
Total	171,657	12,705,463	12,495,880	381,240

As at 31 December 2017, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2018.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Employee benefits payable

(2) Post-employment benefits

Items	As at 31 December 2016	Increase in the year	Decrease in the year	As at 31 December 2017
Basic pension insurance	—	1,220,611	1,220,611	
Unemployment insurance	—	48,355	48,355	
Annuity	—	322,312	322,312	
Total	—	1,591,278	1,591,278	

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	As at 31 December 2016	Increase in the year	Decrease in the year	As at 31 December 2017
Termination benefits		19,773	19,773	

During this report, the Group paid 19,773 thousand compensation to the resigning employee for terminating labor relation.

21. Taxes payable

Items	As at 31 December 2017	As at 31 December 2016
VAT	489,548	634,768
Business tax	—	8,389
Urban maintenance and construction tax	46,262	52,592
Education surtax	28,444	31,513
Corporate income tax	203,784	92,768
individual income tax	170,264	123,214
Withholding tax	5,467	45,147
Others	89,432	61,948
Total	1,033,201	1,050,339

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Interest payable

Items	As at 31 December 2017	As at 31 December 2016
Interest payable of long term loan which interest paid by instalment and principal paid at maturity date	1,907	3,181
Interest payable of short term loan	9,020	70,446
Total	10,927	73,627

23. Other payables

Items	As at 31 December 2017	As at 31 December 2016
Guarantee	670,463	525,496
Deposits	164,697	127,046
Amount paid on behalf	473,452	435,177
Temporary receipts	743,062	219,838
Escrow payments	44,850	33,676
Withheld payments	67,641	86,055
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	476,391	395,487
Total	6,359,459	5,541,678

As at 31 December 2017, other payables with aging over 1 year with a carrying amount of RMB4,463,245 thousand (31 December 2016: RMB4,448,495 thousand). Those except the undisbursed amount due to the Sinopec group generated from capital restructuring funds and the net profit and loss at transition period, are mainly construction projects retention money,deposits, guarantee and so on.Those payables are unsettled due to the guarantee period isn't end or not yet reached the settlement period.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Non-current liabilities due within one year

Items	As at 31 December 2017	As at 31 December 2016
Long-term loans within one year	—	203,548
Long-term payables within one year	28,844	17,360
Total	28,844	220,908

(1) Long-term loans within one year

Items	As at 31 December 2017	As at 31 December 2016
Loans on credit	—	203,548
Total	—	203,548

(2) Long-term payables within one year

Items	As at 31 December 2017	As at 31 December 2016
Payables of finance lease	28,844	17,360
Others	—	—
Total	28,844	17,360

25. Other current liabilities

Items	As at 31 December 2017	As at 31 December 2016
Short-term bonds payable	—	—
Output VAT to be certified	11,744	15,267
Total	11,744	15,267

26. Long-term loans

Items	As at 31 December 2017	Range of interest rate	As at 31 December 2016	Range of interest rate
Pledge loan			520,275	6.14%-6.69%
Loans on credit	455,826	6.86%-7.57%	446,343	4.73%-6.96%
Subtotal			966,618	—
Less: Long-term loans within one year			203,548	4.73%-6.96%
Total	455,826		763,070	

As at 31 December 2017, the Group has no overdue long-term loans..

27. Long-term payables

Items	As at 31 December 2017	As at 31 December 2016
Payables of finance lease	81,881	50,924
Others	14,496	24,077
Subtotal	96,377	75,001
Less: Long-term payables within one year	28,844	17,360
Total	67,533	57,641

28. Deferred income

Items	As at 31 December 2016	Increase for the period	Decrease for the period	As at 31 December 2017
Government grants related to assets	11,751	3,942	11,770	3,923
Government grants related to income	100,420	392,632	360,663	132,389
Total	112,171	396,574	372,433	136,312

Notes: The government grants which recognized as deferred income refer to Note IV.6. government grants

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Share capital(Unit: thousand shares)

At 31 December 2017:

Items	As at 1 January 2017	Changes in current (+、-)		Subtotal	As at 31 December 2017
		Issued shares	Others		
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 2016:

Items	As at 1 January 2016	Changes in current (+、-)		Subtotal	As at 31 December 2016
		Issued shares	Others		
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

30. Capital reserve

At 31 December 2017:

Items	As at 1 January 2017	Increase for the period	Decrease for the period	As at 31 December 2017
Share premium	8,826,247			8,826,247
Other capital reserve	70,985	10,636		81,621
Total	8,897,232	10,636		8,907,868

At 31 December 2016:

Items	As at 1 January 2016	Increase for the period	Decrease for the period	As 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

Reasons for the change are as follows:

Items	2017	2016
Capital reserve at 31 December 2016	8,897,232	8,894,216
Increase for the period:	10,636	3,016
Acquisition of subsidiaries' minority stake	—	—
Payment of unexercised share options (a)	10,636	3,016
Others	—	—
Decrease for the period:	—	—
Capital reserve at 31 December 2017	8,907,868	8,897,232

(a) Details refer to Note XI.Payment of share options.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Special reserve

Items	As at 31 December 2016	Increase for the period	Decrease for the period	As at 31 December 2017
Special reserve	176,068	702,477	676,068	202,477

In accordance with PRC regulations, the Group appropriated production safety fund of RMB702,477 thousand to specific reserve for the year ended 31 December 2017 (2016: RMB615,847 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2017, the Group utilised production safety fund amounting to RMB676,068 thousand (2016: RMB699,326 thousand) which was of expenditure nature.

32. Surplus reserve

Items	As at 31 December 2016	Increase for the period	Decrease for the period	As at 31 December 2017
Statutory surplus reserve	200,383			200,383
Total	200,383			200,383

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

33. Retained earnings

Items	2017	2016	Appropriation/ distribution ratio
Retained earnings at 12 December 2016	-14,973,476	1,141,287	
Add: Net profit attributable to parent company	-10,582,541	-16,114,763	—
Less: Withdrawal of statutory surplus reserves	—	—	10%
Retained earnings at 12 December 2017	-25,556,017	-14,973,476	
Including: Surplus reserve attributable to parent company extracted by subsidiaries	5,545	10,481	

34. Revenue and cost of sales

Items	2017		2016	
	Revenue	Cost	Revenue	Cost
Major business	47,585,124	50,431,023	42,284,743	53,037,300
Other business	900,664	545,247	638,757	479,444
Total	48,485,788	50,976,270	42,923,500	53,516,744

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	2017		2016	
	Revenue	Cost	Revenue	Cost
Geophysics	3,980,069	3,755,549	3,605,915	4,208,691
Drilling Engineering	24,718,771	26,506,528	19,368,752	24,841,079
Logging and Mud Logging	1,810,868	2,064,068	1,537,768	2,051,517
Special Down-hole Operations	4,189,002	4,521,604	3,867,913	4,775,774
Engineering Construction	11,740,711	12,392,692	12,827,062	16,026,093
Others	1,145,703	1,190,582	1,077,333	1,134,146
Total	47,585,124	50,431,023	42,284,743	53,037,300

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Revenue and cost of sales (Continued)

(2) Business revenue (Classified by area)

Area	2017	2016
China mainland	34,648,605	29,581,782
Hong Kong, Macao, Taiwan and overseas	12,936,519	12,702,961
Total	47,585,124	42,284,743

35. Tax and surcharges

Items	2017	2016
Business tax	—	37,515
Urban maintenance and construction tax	45,970	84,068
Education surtax	42,099	60,134
Overseas tax	136,217	120,515
Property tax	8,377	5,640
Land use tax	87,888	63,922
Vehicle usage tax	9,507	6,000
Stamp duty	49,184	17,983
Others	3,634	5,774
Total	382,876	401,551

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

36. Selling expenses

Items	2017	2016
Freight	2,027	2,955
Commission fee	—	74
Staff costs	38,726	36,339
Depreciation	591	579
Transportation	5,366	5,086
Storage charges	11	57
Sales service fees	4,710	4,654
Business promotion fee	547	553
Office expense	2,293	2,179
Others	5,344	6,082
Total	59,615	58,558

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. General and administrative expenses

Items	2017	2016
Repair and maintenance	371,360	358,983
Staff costs	986,198	915,534
Integrated service	1,583,799	1,588,968
Research and development expenses	517,599	362,586
Taxes	—	53,395
Destroyed inventory	97,637	30
The information system runs maintenance fees	73,818	7,621
Business entertainment	34,524	36,197
Transportation	80,926	83,568
Rental expenses	59,221	52,525
Depreciation and amortization	32,473	38,608
Consultation	19,347	14,087
Property insurance	8,249	7,836
Others	269,222	236,091
Total	4,134,373	3,756,029

38. Finance costs

Items	2017	2016
Interest expenses	646,017	496,071
Less: Interest capitalized	11,360	21,006
Less: Interest income	19,348	34,256
Exchange losses/(gains)	-116,166	-57,250
Bank charges and others	80,936	93,699
Total	580,079	477,258

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% in 2017(2016: 3.92%-6.83%).

39. Impairment losses on assets

Items	2017	2016
(1) Provision for bad debts	1,268,868	726,585
(2) Provision for decline in the value of inventories	317,495	11,656
(3) Provision for decline in the value of available for sale financial assets	—	16,105
(4) Provision for decline in the value of fixed assets	1,149,494	—
Total	2,735,857	754,346

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Investment income

Items	2017	2016
Investment income from long-term equity investments under equity method	-13,578	979
Investment income from available-for-sale financial assets	600	500
Entrusted investment and financing	67	27,555
Total	-12,911	29,034

41. Disposal income on assets

Items	2017	2016
Gains from disposal of fixed assets (loss in "-")	-156,155	-73,101
Gains from disposal of others (loss in "-")	-16,452	4,789
Total	-172,607	-68,312

42. Other income

Items	2017	2016	Related to assets/income
Self-use consumption tax refund	221,759	—	Related to income
National research grants	55,008	—	Related to income
Subsidy funds for resettlement	55,335	—	Related to income
Subsidies of stable post	17,262	—	Related to income
Recurrent funding subsidies	4,141	—	Related to income
Subsidy funds for business development	2,640	—	Related to income
Subsidy income for asset replacement	2,362	—	Related to income
Government incentives	2,156	—	Related to income
National research grants	2,467	—	Related to asset
Non-profit compensation of relocation	9,303	—	Related to asset
Total	372,433	—	

Notes:

(1) The analysis information of the government grants refer to Note XIV No.6

(2) 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, the oil field enterprises will be refunded the consumption tax after the actual payment of consumption tax paid for the purchases of refined oil from Sinopec. In this year, the Self-use consumption tax refund of 221,759 thousand from the MOF was closely related to the company's business, it was a government grant that was quantitatively allocated according to the national uniform standard and was taken as a regular profit and loss.

43. Non-operating income

(1) Breakdown of non-operating income

Items	2017	2016	Recognised as non-recurring income
Government grants	—	250,859	—
Debt restructuring gains	49,849	—	49,849
Penalty income	26,836	23,612	26,836
Waived payables	35,791	8,344	35,791
Gains from assets counts	2	200	2
Compensation received	10,528	1,991	10,528
Others	3,161	34,550	3,161
Total	126,167	319,556	126,167

(2) The analysis information of the government grants refer to Note XIV No.6

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Non-operating expenses

Items	2017	2016	Recognised as non-recurring income
Debt restructuring loss	35,368	—	35,368
Donation	1,032	301	1,032
Fixed assets written off	55	1,017	55
Penalty	29,019	6,890	29,019
Compensation	176,382	10,714	176,382
Others	32,026	24,072	32,026
Total	273,882	42,994	273,882

45. Income tax expense

(1) Details of income taxes expenses

Items	2017	2016
Current tax in accordance with tax laws and related regulations	530,592	311,285
Deferred income tax	-292,037	-89
Total	238,555	311,196

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

Items	2017	2016
Profit before income tax	-10,344,082	-15,803,702
Taxation calculated at the statutory tax rate	-2,586,021	-3,950,926
Effect of other tax rates used by certain subsidiaries	335,235	167,863
Adjustments of current tax in previous years	16,047	-17,943
Equity method accounting for the joint venture and associates' profit or loss	3,609	-245
Non-taxable income (expressed in "-")	—	—
Non-deductible costs, expenses and losses	597,005	322,368
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	-43,578	-12,079
Effect of unrecognised tax losses and deductible temporary differences	1,970,358	3,871,339
Tax effect on research and development expenses (expressed in "-")	-54,854	-73,957
Others	754	—
Income tax expense	238,555	311,196

46. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	2017	2016
Amount paid on behalf	1,124,792	1,169,855
Government grants	396,575	304,456
Temporary receipt and payment	418,371	380,067
Guarantee	1,146,308	1,248,382
Compensation	5,229	2,511
Deposits	53,187	86,827
Others	121,044	115,370
Total	3,265,506	3,307,468

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Notes to Cash Flow Statement (Continued)

(2) Cash paid for other operating activities

Items	2017	2016
Temporary receipt and payment	404,226	450,779
Guarantee	1,068,578	1,337,572
Integrated service	1,583,799	1,588,968
Repair and maintenance expenses	371,750	358,983
Other period expenses	1,218,499	712,615
Others	342,492	141,152
Total	4,989,344	4,590,069

(3) Cash received from other financing activities

Items	2017	2016
Other loans	500,000	—
Amount of leaseback	28,000	—
Interest received from selfraised funds special deposit	4,641	5,071
Total	532,641	5,071

(4) Cash paid for other financing activities

Items	2017	2016
Finance lease expenses	29,190	22,310
Notes acceptance fees	1,062	782
Payment of guarantee and commitment fees	41,824	27,206
Payment of internal borrowing interest shall bot be deducted from the input VAT	540	3,715
Total	72,616	54,013

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	2017	2016
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	-10,582,637	-16,114,898
Add: Provision for impairment losses on assets	2,735,857	754,346
Depreciation of fixed assets	3,284,195	3,304,096
Amortization of intangible assets	83,902	42,715
Amortization of long-term deferred expenses	2,088,493	2,185,288
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	172,607	70,658
Losses on retirement of fixed assets (Gain as in "-")	55	1,017
Fair value losses (Gain as in "-")	—	—
Finance costs (Income as in "-")	553,835	454,809
Investment losses (Income as in "-")	12,911	-29,034
Decrease in deferred tax income assets (Increase as in "-")	-288,636	3,882
Increase in deferred income tax liabilities (Decrease as in "-")	-3,401	-3,971
Decrease in inventories (Increase as in "-")	1,197,808	5,439,242
Decrease in operating receivables (Increase as in "-")	4,847,813	1,159,341
Increase in operating payables (Decrease as in "-")	-3,720,391	-1,094,346
Safety costs	26,409	-83,479
Payment of unexercised share options	10,636	3,016
Others	—	—
Net cash flows from operating activities	419,456	-3,907,318
2. Significant investment or finance activities not involving cash:	—	—
3. Net changes in cash and cash equivalents:		
Closing balance of cash	2,523,356	2,446,923
Less: Opening balance of cash	2,446,923	1,993,209
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net decrease/(increase) in cash and cash equivalents	76,433	453,714

(2) Composition of cash and cash equivalents

Items	2017	2016
1. Cash	2,523,356	2,446,923
Including: Cash in hand	8,178	9,734
Cash at bank	2,478,544	2,383,630
Other monetary funds	36,634	53,559
2. Cash equivalents	—	—
3. Closing balance of cash and cash equivalents	2,523,356	2,446,923
4. Restricted funds	14,538	3,012
5. Balance of cash on hand and at bank	2,537,894	2,449,935

48. Restricted assets

Items	2017	Restricted reasons
Cash at bank and on hand	14,538	Guarantee

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,761,533
Including: USD	177,427	6.5342	1,159,343
DZD	885,103	0.0569	50,334
KWD	3,150	21.6185	68,103
KZT	1,481,209	0.0197	29,181
SAR	48,944	1.7423	85,271
BOB	104,783	0.9456	99,084
Others	—	—	270,217
Accounts receivable			6,077,394
Including: USD	703,856	6.5342	4,599,136
DZD	1,091,214	0.0569	62,054
KWD	29,863	21.6185	645,600
KZT	10,282,237	0.0197	202,570
SAR	201,305	1.7423	350,724
BOB	24,725	0.9456	23,381
Others	—	—	193,929
Other receivables			1,174,768
Including: USD	90,105	6.5342	588,766
DZD	198,372	0.0569	11,281
KWD	5,694	21.6185	123,098
KZT	7,605	0.0197	150
SAR	189,925	1.7423	330,897
BOB	39,618	0.9456	37,463
Others	—	—	83,113
Long-term receivables			233,061
Including: USD	35,668	6.5342	233,061
Accounts payable			1,494,742
Including: USD	145,548	6.5342	951,042
DZD	956,574	0.0569	54,397
KWD	3,230	21.6185	69,828
KZT	1,145,465	0.0197	22,567
SAR	182,395	1.7423	317,787
BOB	5,180	0.9456	4,899
Others	—	—	74,222
Other payables			620,627
Including: USD	55,696	6.5342	363,928
DZD	646,651	0.0569	36,773
KWD	1,960	21.6185	42,381
KZT	425,160	0.0197	8,376
SAR	95,518	1.7423	166,422
BOB	1,839	0.9456	1,739
Others	—	—	21,078
Dividend payable			
Including: USD	1,669	6.5342	10,903
Short-term loans			
Including: USD	1,226,750	6.5342	8,015,830
Long-term loans			
Including: USD	69,760	6.5342	455,826

VI. CHANGES IN SCOPE OF CONSOLIDATION

There are no changes in scope of consolidation for the year ended 31 Dec 2017.

VII. EQUITIES IN OTHER ENTITIES

1. Equities in principal subsidiaries

Name	Place of Major operation activities	Place of registration	Nature of business	% of shareholding held		Ways of acquisition
				directly	indirectly	
Sinopec Oilfield Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control
Sinopec Shengli Petroleum Engineering Corporation	China	Dongying, Shandong	Petroleum Engineering	100		Business combination under common control
Sinopec Zhongyuan Petroleum Engineering Corporation	China	Puyang, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec Jianghan Petroleum Engineering Corporation	China	Qianjiang, Hubei	Petroleum Engineering	100		Business combination under common control
Sinopec East China Petroleum Engineering Corporation	China	Nanjing, Jiangsu	Petroleum Engineering	100		Business combination under common control
Sinopec North China Petroleum Engineering Corporation	China	Zhengzhou, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec South West Petroleum Engineering Corporation	China	Chengdu, Sichuan	Petroleum Engineering	100		Business combination under common control
Sinopec Geophysical Corporation	China	Beijing	Geophysical prospecting	100		Business combination under common control
Sinopec Petroleum Engineering and Construction Corporation	China	Beijing	Engineering and Construction	100		Business combination under common control
Sinopec Offshore Petroleum Engineering Corporation	China	Shanghai	Offshore Petroleum Engineering	100		Business combination under common control
Sinopec International Petroleum Service Corporation	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		Method of accounting
				Directly	Indirectly	
① Joint ventures						
SinoFTS Petroleum Services Ltd. (SinoFTS)	Beijing	Beijing	Petroleum service	55.00		Equity method
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	Beijing	Beijing	Oilfield Service	50.00		Equity method

The Group holds 55% shareholding of and 50% voting rights of SinoFTS. Both parties to the joint venture must reach an agreement when an essential financial and operation decision is supposed to be made.

VII. EQUITIES IN OTHER ENTITIES (Continued)

2. Equities in joint ventures and associates (Continued)

(2) Financial information of principal joint ventures

Items	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	Closing balance	Opening balance	Closing balance	Opening balance
Current assets:	117,204	124,168	66,202	91,745
Cash and cash equivalents	47,991	6,367	1,998	2,531
Non-current assets	225,684	243,480	6,159	6,409
Total assets	342,888	367,648	72,361	98,154
Current liabilities	34,730	23,934	48,711	63,321
Non-current liabilities	—	18,448	—	—
Total liabilities	34,730	42,382	48,711	63,321
Net assets	308,158	325,266	23,650	34,833
Shareholder's equity	169,487	178,896	11,825	17,416
Carrying amount of equity investment in joint ventures	168,121	177,531	11,825	17,416

Continued:

Items	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	For the year ended 31 December		For the year ended 31 December	
	2017	2016	2017	2016
Revenue	92,664	82,180	26,280	62,328
Finance costs	1,293	1,409	-151	-246
Income tax expense	—	—	—	—
Net profit	-17,108	683	-11,182	287
Other comprehensive income	—	—	—	—
Total comprehensive income	-17,108	683	-11,182	287
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	14,518	14,497
Equity contributed to the Group		
Net profit	209	53
Other comprehensive income		
Total comprehensive income	209	53
Associates:		
Total investment from the Group	12,582	11,885
Equity contributed to the Group:		
Net profit	1,214	407
Other comprehensive income		
Total comprehensive income	1,214	407

(4) The Group has signed the investment contract and remains RMB129,625 thousand on 31 December 2017.

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 other interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flows 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. At the same time, the Group 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 2017, 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-17	31-Dec-16
Fixed interest rate financial instruments		
Financial instruments		
including: Cash and cash equivalents	311,176	461,775
Long-term receivables	233,061	
Financial liabilities		
Including: Short-term borrowings	9,495,000	7,680,000
Long-term borrowings	—	—
Long-term payables	81,881	50,924
Floating interest rate financial instruments		
Financial assets		
including: Cash and cash equivalents	2,226,718	1,988,160
Financial liabilities		
Including: Short-term borrowings	8,015,830	9,353,731
Long-term borrowings	455,826	966,618

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(1) Market risk (Continued)

Interest rate risk (Continued)

As at 31 December 2017, 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 RMB31,769thousand (2016: RMB38,701 thousand).

The financial instruments held by the Group at the date of balance sheet expose the Group to fair value interest rate risk. Under the hypothesis of a floating interest rate at the date of balance sheet, the effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the recalculation of these financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the date of balance sheet expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenues at the floating interest rate. The analysis of the previous period is based on the same hypothesis and method.

Foreign currency risk

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

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

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

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

	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
Items	As at 2017/12/31	As at 2016/12/31	As at 2017/12/31	As at 2016/12/31
USD	9,797,529	9,828,929	6,580,306	6,405,103
SAR	484,209	580,760	766,894	950,792
KWD	112,209	82,817	836,802	1,044,885
Others	224,051	167,684	1,062,754	983,950
Net exposure in RMB	10,617,998	10,660,190	9,246,756	9,384,730

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange agreements or currency swap agreements to mitigate the foreign currency risk. The Group has not entered into any forward exchange agreements or currency swap agreements in the 6 months ended 2017 and the year ended 2016.

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	2017		2016	
Appreciation in USD	5%	-120,646	5%	-128,393
Depreciation in USD	-5%	120,646	-5%	128,393
Appreciation in SAR	5%	10,601	5%	13,876
Depreciation in SAR	-5%	-10,601	-5%	-13,876
Appreciation in KWD	5%	27,172	5%	36,078
Depreciation in KWD	-5%	-27,172	-5%	-36,078

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(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.

Among the accounts receivable of the Group, the accounts receivable of the top five customers accounted for 60.81% (2016:68.90%); among the other receivable of the Group, the accounts receivable of the top five customers accounted for 43.45% (2016: 54%).

(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:

	As at 31 December 2017				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,537,894	—	—	—	2,537,894
Notes receivable	1,209,147	—	—	—	1,209,147
Accounts receivable	16,961,936	—	—	—	16,961,936
Interests receivable	188	—	—	—	188
Other receivables	1,999,912	—	—	—	1,999,912
Long-term receivables	—	233,061	—	—	233,061
Other current assets	885,473	—	—	—	885,473
Total assets	23,594,550	233,061			23,827,611
Financial liabilities:					
Short-term borrowings	17,510,830				17,510,830
Notes payable	3,045,393				3,045,393
Accounts payable	26,442,482				26,442,482
Employee benefits payable	381,240				381,240
Tax payable	1,033,201				1,033,201
Interest payables	10,927				10,927
Other payables	6,359,459				6,359,459
Non-current liabilities due within 1 year	28,844				28,844
Long-term borrowings	—	455,826			455,826
Long-term payables	—	23,919	43,614		67,533
Financial lease payables of unrecognized financial expenses	5,356	3,304	3,075		11,735
Total liabilities	54,817,732	483,049	46,689		55,347,470

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 2016 are analyzed by their maturity date below at their undiscounted contractual cash flows as follows:

	As 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)

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	As at 31 December 2017	As at 31 December 2016
Short-term borrowings	17,510,830	17,033,731
Long-term borrowings due within 1 year		203,548
Long-term payables due within 1 year	28,844	17,360
Long-term borrowings	455,826	763,070
Long-term payables	53,037	33,564
Less: cash and cash equivalents	2,523,356	2,446,923
Net debt	15,525,181	15,604,350
Shareholder's equity	-2,104,000	8,441,592
Total equity	13,421,181	24,045,942
Debt to equity ratio	115.68	64.89

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 2017 and 31 December 2016, 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 except the following items.

	As at 31 December 2017		As at 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Fixed rate receivables	233,061	261,618	—	—

The second level rules that the fair value of long-term receivables and fixed-rate long-term loans are determined at the present value of the contractual future cash flows discounted at the market rate that has a comparable credit rating and provides approximately the same cash flow under the same conditions.

X. RELATED PARTIES AND TRANSACTION

1. Particulars of parent company

Name Of parent company	Place of registration	Nature of business	Registered capital	Percentage of the Company shareholding held by parent company %	Percentage of the Company voting power held by parent company %
China Petrochemical Corporation	22 Chaoyangmen North Street, Chaoyang District Beijing	Exploring for, extracting and selling crude oil and natural gas; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information.	274.866 billion	65.22	65.22

The Company's ultimate controlling party is Sinopec Group.

Changes of registered capital of parent company during the reporting period

As at 1 January 2017	Increase in the year	Decrease in the year	As at 31 December 2017
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 Petroleum 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 2017	Amount of the year ended 31 December 2016
Sinopec Group and its subsidiaries	Purchases of materials and equipments	Based on normal commercial terms or relevant agreements	5,797,473	5,215,004

② Sales of goods

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2017	Amount of the year ended 31 December 2016
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	85,984	83,812

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering of engineering services

Rendering of engineering services:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2017	Amount of the year ended 31 December 2016
Sinopec Group and its subsidiaries	Total		28,018,646	22,567,053
	Geophysical exploration	Based on normal commercial terms or relevant agreements	2,606,170	1,880,824
	Drilling	Based on normal commercial terms or relevant agreements	13,440,179	8,748,008
	Logging and mud-logging	Based on normal commercial terms or relevant agreements	1,552,257	1,316,014
	Special down-hole service	Based on normal commercial terms or relevant agreements	3,348,325	2,875,760
	Engineering & construction	Based on normal commercial terms or relevant agreements	6,677,171	7,275,199
	Other services	Based on normal commercial terms or relevant agreements	394,544	471,248

Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2017	Amount of the year ended 31 December 2016
Joint ventures and associates	Services	Based on normal commercial terms or relevant agreements	901,953	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 2017	Amount of the year ended 31 December 2016
Sinopec Group and its subsidiaries	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	1,583,799	1,588,968
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	293,071	277,718

(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 2017	Amount of the year ended 31 December 2016
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	265,207	227,264

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(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	117,136	130,902
Joint venture of Sinopec Group	Equipment	Based on normal commercial terms or relevant agreements	14,811	

(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 thousand	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 Petroleum Service Corporation	Performance guarantee	USD 588,000 thousand	May 2015	December 2020	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD 61,830 thousand	February 2016	August 2019	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	THB314,290 thousand; USD 123,929 thousand	April 2017	October 2020	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 2017	Amount of the year ended 31 December 2016
Subsidiaries of Sinopec Group	Deposit interest income	Based on normal commercial terms or relevant agreements	524	2,533
	Loan interest expense	Based on normal commercial terms or relevant agreements	639,109	486,755
	Entrusted loans interest income	Based on normal commercial terms or relevant agreements	67	27,555
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	37,416,244	52,286,133
	Payment of the loan	Based on normal commercial terms or relevant agreements	36,929,663	47,300,764
CITIC Bank	Deposit interest income	Based on normal commercial terms or relevant agreements		—

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(8) Security funds

Related party	Content of related transaction	Pricing policy and procedure for decision-making	Amount of the year ended 31 December 2017	Amount of the year ended 31 December 2016
Sinopec Group	Security fund expenditure	Relevant agreement	79,326	90,143
	Return on security fund	Relevant agreement	87,111	87,340

(9) Remuneration of key management personnel

The Group has 19 key management personnel for the year ended 31 December 2017 and 25 for the prior period. The remuneration payment is as follows:

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Remuneration	6,368	6,354
Retirement scheme contribution	532	533
Share options	360	103
Total	7,260	6,990

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

Item	Related party	As at 31 December 2017		As at 31 December 2016	
		Balance	Provision for bad debt	Balance	Provision for bad debt
Bank deposit	Sinopec Finance Co., LTD	152,155		178,446	
	Sinopec Century Bright Capital Investment Limited	898,594		921,255	
	CITIC Bank	—		1	
Accounts receivable	Sinopec Group and its subsidiaries	9,082,346		14,464,757	
	Joint ventures of the Group	14		13	
	Joint ventures and associates of Sinopec Group	122,450		214,270	
Prepayments	Sinopec Group and its subsidiaries	30,088		19,144	
	Joint ventures and associates of the Group	72		7,145	
	Joint ventures and associates of Sinopec Group	3		—	
Other receivables	Sinopec Group and its subsidiaries	337,509		366,978	
	Joint ventures of the Group	309		10,758	
	Joint ventures and associates of Sinopec Group	1,457		15,196	

X. RELATED PARTIES AND TRANSACTION (Continued)

6. Receivables from and payables to related parties (Continued)

(2) Payables to related parties

Item	Related party	As at 31 December 2017	As at 31 December 2016
Accounts payable	Sinopec Group and its subsidiaries	**1,150,292**	1,979,856
	Joint ventures of the Group	**49,643**	85,043
	Joint ventures and associates of Sinopec Group	**47,623**	58,918
Prepayments	Sinopec Group and its subsidiaries	**6,244,831**	8,584,825
	Joint ventures and associates of Sinopec Group	**7,024**	9,909
Other payables	Sinopec Group and its subsidiaries	**3,767,038**	3,781,374
Short-term borrowings	Sinopec Finance Co., LTD	**6,995,000**	1,180,000
	Sinopec Century Bright Capital Investment Limited	**8,015,830**	9,353,731
	Sinopec Group	**2,500,000**	6,500,000
Interest payable	Sinopec Group and its subsidiaries	**10,927**	73,627
Long-term loan	Sinopec Finance Co., LTD	**—**	80,000
	Sinopec Century Bright Capital Investment Limited	**455,826**	366,343

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:

The Company's compound growth rate for 2017、2018、2019 shall not be less than 6% (on the base of the Company's total profit 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 2017, 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

XI. PAYMENT OF SHARE OPTION (Continued)

2. Changes of share options for 2017

	2017
Number of share options at 1 January 2017	49,050,000
Number of share options granted in the period	—
Number of share options exercised in the period	—
Number of share options lapsed in the period	14,715,000
Number of share options in the end of balance sheet date	34,335,000

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:

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:

	2017
The cost of equity-settled share-based payment within the period	10,636
The accumulated amount of equity-settled share-based payment in capital reserves	10,636

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	2017	2016
Land and buildings, plant & machineries	130,116	640,414

(2) Operating lease commitments

On the 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	2017	2016
Within one year	291,189	294,430
Between one and two years	32,746	46,589
Between three and four years	11,775	36,139
After four years	21,130	41,058
Total	356,840	418,216

XII. COMMITMENTS AND CONTINGENCES (Continued)

1. Principle commitments (Continued)

(3) Investment commitments

As at 31 December 2017, the outstanding commitment in respect of the Group's investment in associates which is not provided in the financial statements is RMB 129,625 thousand. (31 December 2016: RMB 129,625 thousand)

(4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2017.

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 2017, there is no contingent liability from guarantee provided for other entities.

As at 31 December 2017, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD 773,759 thousand and THB 314,290 thousand guarantee to its subsidiaries (31 December 2016: USD 649,830 thousand).

(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 24,289,800), 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 until 31 December 2017. 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

Pursuant to “the Approval for Non-public Issuance of A Share and H Share of Sinopec Oilfield Service Corporation” (SASAC Property Right [2017] No.1169) issued by the State-Owned Assets Supervision and Administration Commission and “the Approval for Non-public Issuance of Stocks by Sinopec Oilfield Service Corporation” (CSRC Permit [2018] No.142); “the Approval for Non-public Issuing Shares of Sinopec Oilfield Service Corporation” (CSRC Permit [2018] No.130) issued by China Securities Regulatory Commission and the resolutions of the first temporary shareholders’ meeting in 2017, the company issued 1,526,717,556 A shares and 3,314,961,482 H shares by private placement respectively in January 2018, raised funds at RMB 7,637,715 thousand in total, which enforces the liquidity.

As at 27 March 2018, 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.

XIII. POST BALANCE SHEET DATE EVENTS (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2017 and as at 31 December 2017	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	3,985,345	25,002,907	2,438,312	4,404,985	12,029,346	2,034,303	-1,409,410	48,485,788
Including:External revenue	3,980,166	24,821,489	1,823,517	4,193,964	11,811,950	1,854,702	—	48,485,788
Including: Inter-segment revenue	5,179	181,418	614,795	211,021	217,396	179,601	-1,409,410	—
Including: Major business revenue	3,985,248	24,900,188	2,425,663	4,400,024	11,958,107	1,325,304	-1,409,410	47,585,124
Cost of sales	3,760,807	26,761,261	2,678,955	4,731,074	12,714,319	1,739,264	-1,409,410	50,976,270
Including:Major business cost	3,760,728	26,687,945	2,678,863	4,732,625	12,610,089	1,370,183	-1,409,410	50,431,023
Operating expenses	536,235	3,660,968	530,305	1,226,044	1,347,172	405,162	—	7,705,886
Operating profit/(loss)	-311,698	-5,419,321	-770,948	-1,552,133	-2,032,145	-110,122	—	-10,196,367
Total assets	5,318,569	34,807,136	2,007,167	6,394,501	6,928,328	22,703,276	-16,216,348	61,942,629
Total liabilities	4,602,485	29,309,833	1,568,472	3,830,778	15,557,750	25,393,659	-16,216,348	64,046,629
Supplementary information:								
Capital expenditure	142,746	653,891	45,940	61,983	57,963	74,973	—	1,037,496
Depreciation and amortization	529,657	3,723,547	242,715	558,548	236,293	165,830	—	5,456,590
Impairment loss on assets	49,296	1,044,534	181,049	911,490	545,760	3,728	—	2,735,857

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

XIII. POST BALANCE SHEET DATE EVENTS (Continued)

5. Segment information (Continued)

(2) Other segment information

① External revenue of goods and services

Item	2017	2016
Geophysics	3,980,166	3,605,962
Drilling engineering	24,821,489	19,405,525
Logging and mud logging	1,823,517	1,538,534
Special down-hole operations	4,193,964	3,879,024
Engineering construction	11,811,950	12,878,284
Others	1,854,702	1,616,171
Total	48,485,788	42,923,500

② Geographical information

For the year ended 31 December 2017 and as at 31 December 2017	PRC	Other countries or regions	Total
External revenue	35,499,572	12,986,216	48,485,788
Non-current assets	25,096,608	5,023,666	30,120,274

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

② The dependence of principle customers

A single customer contributed over 50% of the total revenue of the Group.

XIII. POST BALANCE SHEET DATE EVENTS (Continued)

6. Government grants

Category	As at 31 December 2016	Increase in the year	Decrease in the year	As at 31 December 2017	Presentation	Amount recognized in current profit or loss
Government grant related to income	100,420	392,632	360,663	132,389	Other income	360,663
Government grant related to assets	11,751	3,942	11,770	3,923	Other income	11,770
Total	112,171	396,574	372,433	136,312		372,433

(1) Government grants which recognized as deferred income shall be subsequently measured via total-value method.

Government grants projects	category	As at 31 December 2016	Increase in current year	Amount recognized in current profit or loss	As at 31 December 2017	Presentation item in current income statements	Related to assets/income
Consumption tax refund of self-used refined oil	financial appropriation		221,759	221,759		Other income	Related to income
Special funds for national scientific research	financial appropriation	100,420	86,977	55,008	132,389	Other income	Related to income
Stabilization allowance	financial appropriation		17,262	17,262		Other income	Related to income
Recurrent subsidies	financial appropriation		4,141	4,141		Other income	Related to income
Subsidies for enterprises' development	financial appropriation		2,640	2,640		Other income	Related to income
Asset replacement subsidy income	financial appropriation		2,362	2,362		Other income	Related to income
Government incentives	financial appropriation		2,156	2,156		Other income	Related to income
Subsidy funds for resettlement	financial appropriation		55,335	55,335		Other income	Related to income
Special funds for national scientific research	financial appropriation	6,190	200	2,467	3,923	Other income	Related to assets
Compensation for public welfare relocation	public welfare	5,561	3,742	9,303		Other income	Related to assets
Total		112,171	396,574	372,433	136,312		

Notes:

(1) In accordance to "Notification of refund of consumption tax for own-used refined oil during oil or gas field production" (Cai Shui [2011] No.7) issued by MOF and State Taxation Administration, from 1 January 2009, the oil or 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. In 2017, the company received refund of consumption tax (RMB 221,759 thousand) from MOF, which was recognized as other income.

In accordance to "Notification of subsidy funds of disposing zombie companies approved by central state-owned capital operating budget in 2016" (Cai Zi [2016] No.100) issued by MOF, the company received subsidy fund (RMB 55,008 thousand) which was recognized as other income in 2017.

The Group undertook national scientific research projects, and received special funds from the Ministry of Finance for scientific research, which was carried forward profits and losses with the progress of research and development. RMB 55,008,000 was recognized as other income in 2017.

(2) The government subsidy of RMB 372,433,000 which was recognized in current profit and loss was counted in other income.

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS

1. Cash at bank and on hand

Item	At 31 December 2017			At 31 December 2016		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	—	—	—	—
RMB	—	—	—	—	—	—
Cash at banks:	—	—	236,745	—	—	382,997
RMB	—	—	236,745	—	—	382,997
Total			236,745			382,997

As at 31 December 2017, there is no deposit in the related party of China CITIC Bank and Sinopec Finance Company Limited ("Sinopec Finance").

At 31 December 2017, there is no deposits pledged to banks for issuing bankers' acceptances (At 31 December 2013: RMB20,000 thousand).

2. Other receivables

	At 31 December 2017	At 31 December 2016
Other receivables	5,313,186	5,179,627
Less: provision for bad debts	—	—
Net amount	5,313,186	5,179,627

(1) Other receivables disclosed by categories

Category	At 31 December 2017				
	Amount	Proportion %	Bad debt provision	Proportion %	Net amount
Receivables which are individually significant and with provision made on an individual basis	—	—	—	—	—
Provision for bad and doubtful debts collectively	—	—	—	—	—
Including: Ageing groups	—	—	—	—	—
Related party grouping	5,313,186	100			5,313,186
Subtotal	5,313,186	100			5,313,186
Receivables which are individually insignificant and with provision made on an individual basis	—	—	—	—	—
Total	5,313,186	100	—	—	5,313,186

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(1) Other receivables disclosed by categories (Continued)

Category	At 31 December 2016				
	Amount	Proportion %	Bad debt provision	Proportion %	Net Amount
Receivables which are individually significant 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 which are individually insignificant and with provision made on an individual basis	—	—	—	—	—
Total	5,179,627	100	—	—	5,179,627

① At 31 December 2017 and 2016, there is no other receivables that individually significant and with provision made on an individual basis.

(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 2017	At 31 December 2016
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	—	—

4. Other payables

Item	At 31 December 2017	At 31 December 2016
Payables due to construction and equipment cost	**—**	
The net profit or loss during the material assets reorganization	**1,118,903**	1,118,903
Others	**8,260**	899
Total	**1,127,163**	1,119,802

As at 31 December 2017, other payables with aging over 1 year with a carrying amount of RMB 1,119,703 thousand (2016: 1,119,802 thousand) are net profit/loss with an amount of RMB 1,118,903 thousand during material assets reorganization mainly due to Sinopec Group which are unsettled.

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

5. Share capital (Unit: thousand shares)

At 31 December 2017:

Item	At 1 January 2017	Issued shares	Written off shares	At 31 December 2017
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 2016:

Item	At 1 January 2016	Issued shares	Written off shares	At 31 December 2016
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 mentioned in Note I, pursuant to the A Share Reform Scheme, Sinopec Corp. and CITIC Limited commits to hold those non-circulating shares without trading and transferring within 12 months since they obtains the circulating right. After the maturity of the restriction period, Sinopec Corp. and CITIC Limited can trade those non-circulating shares up to 5% of the Company's total shares within 12 months and 10% within 24 months. 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 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 RMB 5,962,517,000 The new shares are limited tradable shares with lock-up period of 12 months and had been traded on the market since 3 March 2016.

6. Capital reserve

At 31 December 2017:

Items	At 1 January 2017	Increase for the period	Decrease for the period	At 31 December 2017
Share premium (Note.V.32)	11,683,349			11,683,349
Other capital reserve	70,985	10,636		81,621
Total	11,754,334	10,636		11,764,970

At 31 December 2016:

Items	At 1 January 2016	Increase for the period	Decrease for the period	At 31 December 2016
Share premium (Note.V.32)	11,683,349			11,683,349
Other capital reserve	67,969	3,016		70,985
Total	11,751,318	3,016		11,754,334

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

7. Surplus reserve

Items	At 31 December 2016	Increase for the period	Decrease for the period	At 31 December 2017
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

Item	2017	2016	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	-1,439,418	-1,422,273	
Add: Net profit attributable to parent company	-56,732	-17,145	—
Retained earnings at the end of the year	-1,496,150	-1,439,418	

9. Business tax and surcharges

Item	2017	2016
Business tax	—	30
Urban maintenance construction tax	—	2
Education surtax	—	2
Stamp duty	25,922	—
Total	25,922	34

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	2017	2016
Consulting expenses	1,247	1,754
Audit fee	11,600	11,600
Conference cost	1,344	1,715
Payment of unexercised share options	10,636	3,016
Others	10,623	4,095
Total	35,450	22,180

11. Finance costs

Item	2017	2016
Interest expenses	—	—
Less: Interest income	4,641	5,071
Exchange losses/(gains)	—	—
Bank charges and others	1	2
Total	-4,640	-5,069

12. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Item	2017	2016
Transactions with subsidiaries	13,245	412,093
Total	13,245	412,093

(2) Cash paid for other operating activities

Item	2017	2016
Transactions with subsidiaries	150,410	437,825
Other	13,728	15,426
Total	164,138	453,251

(3) Cash received from other financing activities

Item	2017	2016
Interest received from self-raised funds special deposit	4,641	5,071

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		2017	2016
1.	Reconciliation of net profits to cash flows from operating activities:		
	Net profit	-56,732	-17,145
	Finance expense (Gain as in "-")	-4,641	-5,071
	Decrease in operating receivables (Increase as in "-")	-133,559	-22,112
	Increase in operating payables (Decrease as in "-")	33,403	120
	Others	10,636	3,016
	Net cash flows from operating activities	-150,893	-41,192
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	236,745	382,997
	Less: Opening balance of cash	382,997	419,118
	Add: Closing balance of cash equivalents		—
	Less: Opening balance of cash equivalents		—
	Net decrease/(increase) in cash and cash equivalents	-146,252	-36,121

Composition of cash and cash equivalents

Item		2017	2016
1.	Cash	236,745	382,997
	Including: Cash in hand		
	Cash at bank	236,745	382,997
2.	Closing balance of cash and cash equivalents	236,745	382,997
3.	Add: restricted deposit		
4.	Closing balance of cash at bank and cash on hand	236,745	382,997

XVI. SUPPLEMENTARY INFORMATION

1. Details of non-recurring gains or losses

Item	2017	Notes
Gain or loss on disposal of non-current assets	-172,607	
Government grants recognized in profit or loss for the year/period	150,674	
Gain or loss on debt restructuring	14,481	
Gain from entrusted investment and financing	67	
Non-operating income/(expenses) except the above	-162,195	
Total non-recurring gains or losses	-169,580	
Less: Effects of income tax on non-recurring gains or losses	13,665	
Net non-recurring gains or losses	-183,245	
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	-183,245	

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

Profit of reporting period	Weighted average return on net assets%	Earnings/(loss) per share	
		Basic earnings/(loss)	Diluted earnings/(loss)
		(Yuan/share)	(Yuan/share)
Net profit attributable to the Company's ordinary equity shareholders	-335.78%	-0.748	-0.748
Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-329.97%	-0.735	-0.735

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	
	2017	2016	**2017**	2016
Based on CASBE	**-10,582,541**	-16,114,763	**-2,102,628**	8,442,868
Adjusted items and amounts in accordance with IFRS:				
Government grants				
Special reserve	**26,409**	-83,479		
Based on IFRS	**-10,556,132**	-16,198,242	**-2,102,628**	8,442,868

(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

27 March 2018

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 (together, the "Group") set out on pages 163 to 227, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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, revenue and cost of sales mainly rely on management's estimation and judgement, including total budgeted revenue, total budgeted costs, remaining contract costs, estimated progress and contract execution risk. 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:

– Evaluating the appropriateness of the application of accounting policies for recognising revenue and cost of sales associated with the rendering of services and construction contracts in light of business nature, contract terms and IAS 11 –"Construction Contracts";

– understanding, assessing and testing the design and implementation of internal controls about management's determination on the total budgeted contract revenue, the total budgeted contract costs, the actual contract costs incurred, remaining contract costs and the stage of completion 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, and checking the consistency of the preparation methods and assumptions of various types of projects;

– 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 management's estimation on workload forecast and remaining contract 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 to 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, and comparing, on a sample basis, the accumulated costs incurred up to the end of the reporting period with the budgeted costs to verify the existence of cost overrun.

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 2017 were approximately RMB25,820,147,000 and RMB3,065,771,000 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 2017. 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 the recognition of an impairment loss on property, plant and equipment of RMB1.149 billion 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 estimation and judgement 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;

– 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 and public information of other companies in the same industry, to consider the appropriateness of the assumptions and estimations; and

– performing sensitivity analyses on the discount rate and terminal revenue growth rate applied by management in the estimation of future cash flow to assess the impact of changes in these key assumptions on the conclusion reached in management's impairment assessment and considering whether there were any indicators of management bias in the assumption adopted.

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	How our audit addressed the Key Audit Matter
Impairment assessment on trade receivables Refer to notes 2.10(Financial instruments), notes 3(1) (Critical accounting judgement and estimates) and notes 22 (Notes and trade receivables) to the consolidated financial statements for related disclosures and accounting polices respectively. As at 31 December 2017, the Group had recognised the provision for impairment on trade receivables of RMB1.26 billion, including provision for impairment on trade receivables from a customer of RMB804 million. At 31 December 2017, the customer's trade receivables amounted to RMB974 million and its accumulated provision for impairment on trade receivables was RMB974 million. We identified the impairment assessment on trade receivables as a key audit matter because the involvement of numerous estimation and significant degree of management's judgement and significant balance of aforesaid provision.	Our procedures in relation to the impairment assessment on trade receivables included: – assessing and testing the related internal controls of impairment assessment of trade receivables established by the management; – assessing the accuracy and consistency of the methods, input data and assumptions used by the management for impairment assessment and whether the provision is sufficient; – reviewing customers' payment history and evaluating management's judgement on the customers' credit risk; – reviewing public information related to the customers to assess the impact of the information on the management's impairment assessment; and – evaluating the reasonableness of management's assessment on the recoverability of trade receivables by considering events subsequent to the reporting date and credit risk characteristics. We found that that the management's judgment in determining the impairment assessment on trade receivables 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 IFRSs 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

27 March 2018

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017	2016
		RMB'000	RMB'000
Revenue	4	48,485,788	42,923,500
Cost of sales and business taxes		(51,332,737)	(54,001,774)
Gross loss		(2,846,949)	(11,078,274)
Selling expenses		(59,615)	(58,558)
General and administrative expenses		(4,134,373)	(3,756,029)
Finance (expenses)/income - net	6	(580,012)	(449,703)
Impairment losses on assets	7	(2,735,857)	(754,346)
Investment income	8	600	500
Share of (loss)/profit from joint ventures	20(a)	(14,791)	572
Share of profit from associates	20(b)	1,213	407
Operating loss		(10,369,784)	(16,095,431)
Other income	9	498,600	324,345
Other expenses	10	(446,489)	(116,095)
Loss before income tax	11	(10,317,673)	(15,887,181)
Income tax expense	12	(238,555)	(311,196)
Loss for the year		(10,556,228)	(16,198,377)
Other comprehensive income for the year, net of tax		—	—
Total comprehensive expense for the year		(10,556,228)	(16,198,377)
Total comprehensive expense for the year attributable to:			
Owners of the Company		(10,556,132)	(16,198,242)
Non-controlling interests		(96)	(135)
Total comprehensive expense for the year		(10,556,228)	(16,198,377)
		RMB	RMB
Loss per share for loss attributable to owners of the Company (presented in RMB per share)	13		
Basic and diluted		(0.746)	(1.145)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	As at 31 December 2017	As at 31 December 2016
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	17	25,820,147	29,674,103
Other non-current assets		3,065,771	4,048,981
Long-term receivables		233,061	—
Prepaid land leases	18	118,540	108,178
Intangible assets	19	162,994	77,147
Interests in joint ventures	20(a)	194,465	209,444
Interests in associates	20(b)	12,581	11,885
Available-for-sale financial assets	21	24,389	24,389
Deferred income tax assets	36	472,184	183,548
Total non-current assets		30,104,132	34,337,675
Current assets			
Inventories	25	1,193,039	1,453,729
Notes and trade receivables	22	18,171,083	24,759,158
Prepayments and other receivables	23	3,326,446	3,628,021
Amounts due from customers for contract works	24	6,610,035	7,864,648
Restricted cash	26	14,538	3,012
Cash and cash equivalents	27	2,523,356	2,446,923
Total current assets		31,838,497	40,155,491
Total assets		61,942,629	74,493,166
Equity			
Share capital	28	14,142,661	14,142,661
Reserves		(16,245,289)	(5,699,793)
Equity attributable to owners of the Company		(2,102,628)	8,442,868
Non-controlling interests		(1,372)	(1,276)
(Capital deficiencies)/Total equity		(2,104,000)	8,441,592
Liabilities			
Non-current liabilities			
Long term borrowings	35	508,863	796,634
Deferred income	32	136,312	112,171
Deferred income tax liabilities	36	23,879	27,280
Total non-current liabilities		669,054	936,085
Current liabilities			
Notes and trade payables	33	29,487,875	30,310,227
Deposits received and other payables	34	9,380,867	8,473,882
Amounts due to customers for contract works	24	6,765,375	8,983,973
Short term borrowings	35	17,539,674	17,254,639
Current income tax payable		203,784	92,768
Total current liabilities		63,377,575	65,115,489
Total liabilities		64,046,629	66,051,574
Total equity and liabilities		61,942,629	74,493,166
Net current liabilities		(31,539,078)	(24,959,998)
Total assets less current liabilities		(1,434,946)	9,377,677

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/ (Accumulated losses)	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 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
At 1 January 2017	**14,142,661**	**8,826,247**	**70,985**	**200,383**	**176,068**	**(14,973,476)**	**8,442,868**	**(1,276)**	**8,441,592**
Total comprehensive loss	**—**	**—**	**—**	**—**	**—**	**(10,556,132)**	**(10,556,132)**	**(96)**	**(10,556,228)**
Transactions with owners:									
Equity settled share-based transaction (Note 31)	**—**	**—**	**10,636**	**—**	**—**	**—**	**10,636**	**—**	**10,636**
Appropriation of specific reserve	**—**	**—**	**—**	**—**	**702,477**	**(702,477)**	**—**	**—**	**—**
Utilisation of specific reserve	**—**	**—**	**—**	**—**	**(676,068)**	**676,068**	**—**	**—**	**—**
Total transactions with owners	**—**	**—**	**10,636**	**—**	**26,409**	**(26,409)**	**10,636**	**—**	**10,636**
At 31 December 2017	**14,142,661**	**8,826,247**	**81,621**	**200,383**	**202,477**	**(25,556,017)**	**(2,102,628)**	**(1,372)**	**(2,104,000)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash flows from/(used in) operations	38 (a)	819,684	(3,478,564)
Interests received		19,348	34,256
Income tax paid		(419,576)	(463,010)
Net cash generated from/(used in) operating activities		419,456	(3,907,318)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,168,565)	(1,188,871)
Proceeds from disposal of property, plant and equipment		162,626	17,146
Payment of prepaid land leases		—	(6,040)
Purchases of intangible assets		(6,836)	(33,246)
Increase in investments in associates		—	(4,000)
Dividends received from joint ventures		22	—
Dividends received from associates		489	—
Collection of entrusted loans		—	951,000
Interests received		67	27,555
Investments income received from available-for-sale financial assets		600	500
Net cash used in investing activities		(1,011,597)	(235,956)
Cash flows from financing activities			
Proceeds from borrowings		37,781,867	52,017,245
Repayments of borrowings		(36,285,426)	(47,074,937)
Interests paid		(748,407)	(480,787)
Net cash generated from financing activities		748,034	4,461,521
Net increase in cash and cash equivalents		155,893	318,247
Effect of foreign exchange rate changes on cash and cash equivalents		(79,460)	135,467
Cash and cash equivalents at beginning of year		2,446,923	1,993,209
Cash and cash equivalents at end of year	27	2,523,356	2,446,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 服务有限公司 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 2017, the Group had net current liabilities of approximately RMB 31,539,078,000 (2016: RMB 24,959,998,000) and capital commitments of approximately RMB 130 million; and it had a net loss of RMB10,556,228,000 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. In November 2017 and March 2018, the Group obtained a line of credit of RMB12.3 billion and USD1.45 billion (Total: approximately RMB 21.77 billion), and line of credit promissory note of RMB 4 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. In January 2018, the Group issued 1,526,717,556 A Shares and 3,314,961,482 H Shares respectively to raise funds of RMB7,637,715,000 in total, which enforces the liquidity, please refer to Note 42 for details. 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, daily operation 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 27 March 2018.

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 ("IFRSs") 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 IFRSs 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 IFRSs. The Group has adopted all these revised IFRSs, which are relevant to the Group and effective for the accounting period beginning on or after 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle	Disclosure of Interests in Other Entities

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The amendments to IAS 7 require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 38(b).

The amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount or expected manner of recovery of the asset. The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference. The Group has applied these amendments retrospectively. The application of these amendments had no impact on the Group's consolidated financial statements as the Group has no deductible temporary difference.

The new and revised accounting standards issued but not yet effective for the accounting period ended 31 December 2017 which are relevant to the Group but the Group has not early adopted are set out below:

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 15	Classifications to IFRS 15 Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IAS 40	Transfers of Investment Property[1]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

[1] Accounting periods beginning on or after 1 January 2018
[2] Accounting periods beginning on or after 1 January 2019
[3] Accounting periods beginning on or after 1 January 2021
[4] Effective date not yet been determined

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 9 "Financial instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The directors have identified the following areas that are expected to be most impacted by the application of IFRS 9:

– the classification and measurement of the Group's financial assets. The Group holds most financial assets (cash and cash equivalents, restricted cash, notes and trade receivables and other receivables) to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. The directors expect a number of available-for-sale investments are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.

– the impairment of financial assets applying the expected credit loss model. For trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components.

– the measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to IFRS 9. This will affect the Group's investment in unlisted equity securities (see note 21) of which the Group intends to hold beyond 1 January 2018. Currently, the Group is not intending to elect to present changes in the equity investment in other comprehensive income but will account for its equity investments at fair value through profit or loss.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring 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 the 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.

The directors of the Company anticipate that the application of IFRS 15 may result in more disclosures. Effective from 1 January 2018, for the year ended 31 December 2018, the Group adopted "Revenue from Contracts with Customers" (IFRS 15), and the Group has assessed its performance obligations under its arrangements pursuant to IFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under IFRS 15 and the deliverables considered to be units of account under IAS 18.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

As disclosed in note 37(b), the Group as lessee has non-cancellable operating lease commitments of RMB356,840,000 as at 31 December 2017. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus, each lease will be mapped in the Group's consolidated statements of financial position. Short term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. Leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense in the consolidated statement of comprehensive income.

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 consolidated 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.

Impairment of other non-current assets is set out in Note 2.9.

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) 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.

3 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(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 39.

(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 36.

(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 39(c).

Change in accounting estimates of property, plant and equipment and other non-current assets

During the year of 2016, management has reviewed the estimated useful lives, estimated years of amortization, 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:

	2017	2016
	RMB'000	RMB'000
Geophysics	**3,980,166**	3,605,962
Drilling engineering	**24,821,489**	19,405,525
Logging and mud logging	**1,823,517**	1,538,534
Special downhole operations	**4,193,964**	3,879,024
Engineering construction	**11,811,950**	12,878,284
Others	**1,854,702**	1,616,171
	48,485,788	42,923,500

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.

All assets are allocated to reportable segments other than certain property, plant and equipment, certain prepaid land leases, certain intangible assets, certain other non-current assets, certain inventories, certain amounts due from customers for contract works, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred income tax assets.

All liabilities are allocated to reportable segments other than certain borrowings, certain deferred income, certain deferred income tax liabilities, certain notes and trade payables, certain deposits received and other payables, certain amounts due to customers for contract works, and certain tax payable.

The resources related to interest income, interest expenses, interests in joint venture, interests in associates, gain on investment, income tax expense as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

Segment information of each reportable segment were reported and disclosed to the senior executive management in accordance with the accounting policies and the respective measurement bases. These accounting policies and measurement bases were the same as those used in for the preparation of the 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 2017 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 2017								
Segment revenue and results								
Revenue from external customers	3,980,166	24,821,489	1,823,517	4,193,964	11,811,950	1,854,702	—	48,485,788
Inter-segment income	5,179	181,418	614,795	211,021	217,396	179,601	(1,409,410)	—
Segment revenue	3,985,345	25,002,907	2,438,312	4,404,985	12,029,346	2,034,303	(1,409,410)	48,485,788
Reportable segment loss	(283,140)	(5,418,639)	(769,873)	(1,575,487)	(2,165,575)	(157,070)	—	(10,369,784)
Other income	29,727	238,152	8,153	45,848	99,577	77,143	—	498,600
Other expenses	(79,382)	(309,788)	(9,618)	(7,769)	(28,537)	(11,395)	—	(446,489)
Loss before income tax	(332,795)	(5,490,275)	(771,338)	(1,537,408)	(2,094,535)	(91,322)	—	(10,317,673)
Income tax expense								(238,555)
Loss for the year								(10,556,228)

	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 2017								
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	476,755	1,832,594	194,605	458,709	203,485	118,047	—	3,284,195
– Other non-current assets	52,372	1,824,144	47,134	97,103	25,934	41,806	—	2,088,493
– Prepaid land leases	—	427	417	1,805	446	—	—	3,095
– Intangible assets	530	66,382	559	931	6,428	5,977	—	80,807
Capital expenditure								
– Property, plant and equipment	142,746	653,396	42,150	61,983	55,412	74,973	—	1,030,660
– Prepaid land leases	—	495	3,790	—	2,551	—	—	6,836
Impairment loss on trade receivables, net	38,509	92,645	20,696	811,349	196,887	4,222	—	1,164,308
Impairment loss on/(Reversal of) other receivables, net	2,058	4,555	(51)	2,618	103,834	(8,454)	—	104,560
Expected loss on contracts work-in-progress	—	—	—	—	245,039	—	—	245,039
Write down of inventories to net realizable value	3,052	69,404	—	—	—	—	—	72,456
Impairment loss on property, plant and equipment	5,677	877,930	160,404	97,523	—	7,960	—	1,149,494
As at 31 December 2017								
Assets								
Segment assets	5,318,569	34,807,136	2,007,167	6,394,501	6,928,328	22,703,276	(16,216,348)	61,942,629
Liabilities								
Segment liabilities	4,602,485	29,309,833	1,568,472	3,830,778	15,557,750	25,393,659	(16,216,348)	64,046,629

5 SEGMENT INFORMATION (CONTINUED)

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

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	18,280	145,860	9,613	33,270	41,470	75,852	—	324,345
Other expenses	(41,197)	(43,247)	(5,199)	(10,983)	(17,953)	2,484	—	(116,095)
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, net	42,967	160,539	33,010	156,705	203,914	3,231	—	600,366
Impairment loss on/(Reversal of) other receivables, net	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)

(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	
	2017	2016
	RMB'000	RMB'000
The PRC	**35,499,572**	30,170,197
Middle East	**7,913,339**	8,135,493
Other countries	**5,072,877**	4,617,810
	48,485,788	42,923,500

	Specified non-current assets	
	2017	2016
	RMB'000	RMB'000
The PRC	**26,416,413**	28,943,361
Other countries	**2,958,085**	5,186,377
	29,374,498	34,129,738

(c) Major customer

For the years ended 31 December 2017 and 2016, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2017	2016
	RMB'000	RMB'000
Customer A	**28,369,837**	22,878,129

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

	2017 RMB'000	2016 RMB'000
Finance income		
Interest income from entrusted loans		
– Sinopec Group's subsidiaries	**67**	27,555
Interest income		
– Sinopec Group's subsidiaries	**524**	2,533
– Third-party banks and other financial institutions	**18,824**	31,723
	19,415	61,811
Finance expenses		
Interest expenses on bank loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	**(639,109)**	(486,755)
– Third-party banks and other financial institutions	**(6,908)**	(9,316)
Capitalisation of interest expenses for qualifying assets (i)	**11,360**	21,006
Exchange gains, net	**116,166**	57,250
Bank and other charges	**(80,936)**	(93,699)
	(599,427)	(511,514)
	(580,012)	(449,703)

Note:

(i) Qualifying assets represent property, plant and equipment, its related interest expenses had been capitalised at rates of 3.92% (2016: 3.92% % to 6.83%) per annum.

7 IMPAIRMENT LOSSES ON ASSETS

	2017 RMB'000	2016 RMB'000
Impairment loss on trade and other receivables, net	**1,268,868**	726,585
Expected losses on contracts work-in-progress	**245,039**	11,656
Write down of inventories to net realisable value	**72,456**	—
Impairment loss on available-for-sale financial assets	**—**	16,105
Impairment loss on property, plant and equipment (note 17)	**1,149,494**	—
	2,735,857	754,346

8 INVESTMENT INCOME

	2017 RMB'000	2016 RMB'000
Investment income from available-for-sale financial assets	**600**	500

9 OTHER INCOME

	2017	2016
	RMB'000	RMB'000
Gain on disposal of other non-current assets, net	—	4,789
Gain on debt restructuring	49,849	—
Government grants	372,433	250,859
Waived payables	35,791	8,344
Penalty income	26,836	23,612
Compensation received	10,528	1,991
Asset inventory surplus	2	200
Others	3,161	34,550
	498,600	324,345

10 OTHER EXPENSES

	2017	2016
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment, net	156,155	73,101
Loss on disposal of other non-current assets, net	16,452	—
Discount of trade receivables	35,368	—
Loss on scraps of assets	55	1,017
Penalty	29,019	6,890
Donation	1,032	301
Compensation	176,382	10,714
Others	32,026	24,072
	446,489	116,095

11 LOSS BEFORE INCOME TAX

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

	2017 RMB'000	2016 RMB'000
Staff costs, including directors and supervisors emoluments (Note 16)	14,323,973	13,939,756
Retirement benefit plan contribution (included in the above mentioned staff costs)		
– Municipal retirement scheme costs	1,220,611	1,274,423
– Supplementary retirement scheme costs	322,312	332,770
Share options granted to directors and employees	10,636	3,016
Cost of goods sold	11,949,182	12,338,591
Depreciation and amortisation		
– Property, plant and equipment	3,284,195	3,304,096
– Other non-current assets	2,088,493	2,185,288
– Prepaid land leases	3,095	2,816
– Intangible assets	80,807	39,899
Operating lease expenses		
– Property, plant and equipment	1,627,403	1,619,385
Provision for impairment losses		
– Trade and other receivables	1,268,868	726,585
– Available-for-sales financial assets	—	16,105
– Expected loss on contracts work-in-progress	245,039	11,656
– Impairment loss on property, plant and equipment	1,149,494	—
– Write down of inventories to net realisable value	72,456	—
Rental income from property, plant and equipment less relevant expenses	(27,537)	(7,436)
Research and development expenses	517,599	362,586
Losses on disposal/write-off of property, plant and equipment, net	156,155	73,101
Losses/(Gains) on disposal/write-off of other non-current assets, net	16,452	(4,789)
Auditors' remuneration	7,139	5,307
Exchange gains, net	(116,166)	(57,250)

12 INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
PRC enterprise income tax	31,782	356
Overseas enterprise income tax	498,810	310,929
	530,592	311,285
Deferred income tax		
Origination and reversal of temporary difference (Note 36)	(292,037)	(89)
Income tax expense	238,555	311,196

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2017 and 2016 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 2017 and 2016, the majority of the companies of the Group are subject to 25% income tax rate.

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

12 INCOME TAX EXPENSE (Continued)

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

	2017	2016
	RMB'000	RMB'000
Loss before income tax	(10,317,673)	(15,887,181)
Taxation calculated at the statutory tax rate	(2,579,418)	(3,971,795)
Income tax effects of:		
Difference in overseas profits tax rates	335,235	167,863
Non-deductible expenses	590,402	343,237
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(43,578)	(12,079)
Effect of unrecognised tax losses and deductible temporary differences	1,970,358	3,871,339
Adjustments of current tax in previous years	16,047	(17,943)
Equity method accounting for the joint venture and associates' profit or loss	3,609	(245)
Effect on opening deferred tax balances arising from change in tax rates during the year	—	4,776
Tax effect on research and development expenses	(54,854)	(73,957)
Others	754	—
Income tax expense	238,555	311,196

13 LOSS PER SHARE

(a) Basic

For the years ended 31 December 2017 and 2016, the basic loss per share is calculated by dividing the loss attributable to owners of the Company.

	2017	2016
Loss for the year attributable to owners of the Company (RMB'000)	(10,556,132)	(16,198,242)
Weighted average number of ordinary shares in issue (Shares)	14,142,660,995	14,142,660,995
Basic loss per share (RMB)	(0.746)	(1.145)

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2017 and 2016, and therefore the diluted loss per share for the years ended 31 December 2017 and 2016 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 2017 (2016: Nil).

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

Directors', supervisors' and highest individuals' emoluments, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance is as follows:

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

(i) For the year ended 31 December 2017

	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:					
ZHOU Shiliang(vi)	—	571	51	46	668
SUN Qingde	—	571	51	46	668
	—	1,142	102	92	1,336
Non-executive directors:					
JIAO Fangzheng	—	—	—	—	—
LI Lianwu (vi)	—	—	—	—	—
ZHANG Hong (ii)	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
JIAO Bo	200	—	—	—	200
ZHANG Huaqiao	200	—	—	—	200
PAN Ying	200	—	—	—	200
	600	—	—	—	600
Supervisors:					
ZOU Huiping	—	—	—	—	—
ZHANG Qin	—	—	—	—	—
CONG Peixin (iii)	—	—	—	—	—
XU Weihua (i)	—	105	6	—	111
DU Guangyi (iii)	—	275	14	—	289
DU Jiang-bo (iii)	—	243	24	—	267
HU Guoqiang	—	—	—	—	—
HUANG Songwei (iv)	—	503	50	39	592
LI Wei (iv)	—	243	26	—	269
Zhang Hongshan (v)	—	523	32	—	555
	—	1,892	152	39	2,083
	600	3,034	254	131	4,019

Notes:
(i) Resigned on 22 February 2017
(ii) Resigned on 15 June 2017.
(iii) Resigned on 27 June 2017.
(iv) Appointed on 27 June 2017.
(v) Appointed on 23 February 2017.
(vi) Resigned on 8 February 2018.

For the year ended 31 December 2017, 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 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)

(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 2017 and 2016 are as follows:

	2017	2016
Director or supervisor	3	3
Non-director or supervisor	2	2
	5	5

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

	2017	2016
	RMB'000	RMB'000
Salaries, allowances and bonus	1,089	1,047
Contributions to pensions plans	101	98
Share-based payments	80	23
	1,270	1,168

The emoluments of the two (2016: two) highest paid individuals who are non-director or supervisor are within the following bands:

	2017	2016
Nil to HK$1,000,000	2	2

16 EMPLOYMENT BENEFITS

	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits	12,770,414	12,329,547
Contribution to pension plans (a)		
– Municipal retirement scheme costs	1,220,611	1,274,423
– Supplementary retirement scheme costs	322,312	332,770
Share options granted to directors and employees (note 31)	10,636	3,016
	14,323,973	13,939,756

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 2017, the Group and its employees pay 20% and 8% (2016: 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 2017

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2017	1,331,721	59,220,040	962,110	61,513,871
Additions	9,394	548,685	472,581	1,030,660
Disposals/Write-off	(8,767)	(1,910,436)	(23,530)	(1,942,733)
Reclassification	(17,643)	—	(159,818)	(177,461)
Transferred from construction in progress	13,795	928,176	(941,971)	—
At 31 December 2017	1,328,500	58,786,465	309,372	60,424,337
Accumulated depreciation				
At 1 January 2017	391,255	31,074,188	—	31,465,443
Depreciation	49,621	3,234,574	—	3,284,195
Disposals/write-off	(5,926)	(1,603,787)	—	(1,609,713)
Reclassification	(4,186)	—	—	(4,186)
At 31 December 2017	430,764	32,704,975	—	33,135,739
Accumulated impairment loss				
At 1 January 2017	8,436	270,625	95,264	374,325
Impairment loss	—	1,149,494	—	1,149,494
Disposals/write-off	—	(31,838)	(23,530)	(55,368)
At 31 December 2017	8,436	1,388,281	71,734	1,468,451
Carrying amounts				
At 31 December 2017	889,300	24,693,209	237,638	25,820,147

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Recognised depreciation is analysed as follows:

	2017	2016
	RMB'000	RMB'000
Cost of sales	**3,262,062**	3,274,515
Selling expenses	**549**	579
General and administrative expenses	**21,584**	29,002
	3,284,195	3,304,096

As at 31 December 2017, assets under finance leases with carrying amounts of RMB80,172,000 (2016: RMB60,045,000) are included in "Oil engineering equipment and others" of property, plant and equipment.

During the year ended 31 December 2017, due to low level of oil price, the services prices and utilization rates of the plant and equipment decreased. The management carried out the review of the recoverable amounts of the Group's property, plant and equipment.

The assets of "Oil engineering equipment and others" are used in the Group's geophysics segment, drilling engineering segment, logging and mud logging segment and special downhole operations segment. The review led to the recognition of an impairment loss on property, plant and equipment of RMB1,149,494,000 (2016: Nil), which has been recognised in profit or loss for the year ended 31 December 2017. The impairment losses have been classified under the geophysics segment, drilling engineering segment, logging and mud logging segment and special downhole operations segment.

The recoverable amounts of the relevant assets are determined by higher of fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived at the basis of valuation carried out by an independent qualified professional valuer ZhongHe Appraisal Co., Ltd., in which the fair value of relevant assets is determined by market approach. The reasonableness of the assumptions and range of estimates adopted in by the valuation were considered by the Group. The measure of fair value is categorised as a Level 3 measurement, using significant unobservable inputs. The market approach is by reference to the value that would be received from selling the asset in an orderly transaction between market participants at the measurement date. As at 31 December 2017, the recoverable amounts of the relevant assets were RMB29,879,000.

18 PREPAID LAND LEASES

	2017	2016
	RMB'000	RMB'000
At 1 January	108,178	104,954
Additions	—	6,040
Reclassification	13,457	—
Amortisation	(3,095)	(2,816)
At 31 December	118,540	108,178

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:

	2017	2016
	RMB'000	RMB'000
Cost of sales	168	103
General and administrative expenses	2,927	2,713
	3,095	2,816

19 INTANGIBLE ASSETS

For the year ended 31 December 2017

	Computer softwares	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2017	141,972	74,070	216,042
Additions	6,836	—	6,836
Reclassification	—	159,818	159,818
Disposals/write-off	(1,982)	—	(1,982)
At 31 December 2017	146,826	233,888	380,714
Accumulated amortisation			
At 1 January 2017	94,774	44,121	138,895
Amortisation	13,237	67,570	80,807
Disposals/write-off	(1,982)	—	(1,982)
At 31 December 2017	106,029	111,691	217,720
Carrying amounts			
At 31 December 2017	40,797	122,197	162,994

19 INTANGIBLE ASSETS (Continued)

For the year ended 31 December 2016

	Computer softwares RMB'000	Others RMB'000	Total 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

Recognised amortisation is analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Cost of sales	**72,887**	33,166
General and administrative expenses	**7,920**	6,733
	80,807	39,899

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures

	2017 **RMB'000**	2016 RMB'000
At 1 January	**209,444**	208,922
Share of total comprehensive (expense)/income	**(14,791)**	572
Dividend paid	**(188)**	(50)
At 31 December	**194,465**	209,444

The interests in each joint venture are as follows:

	2017 **RMB'000**	2016 RMB'000
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun")	**1,135**	1,114
Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering")	**13,383**	13,383
Zhong Wei Energy Service Co. Limited ("Zhong Wei")	**11,825**	17,416
SinoFTS Petroleum Services Limited ("SinoFTS")	**168,122**	177,531
	194,465	209,444

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(a) Interests in joint ventures (Continued)

The details of joint ventures, unlisted and established as limited companies, 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	The PRC	2,100 (2016: 2,100)	—	49.10% (2016: 49.10%)	Transportation services/ The PRC
Gulf Petroleum Engineering	Kuwait	27,312 (2016: 27,312)	—	49.00% (2016: 49.00%)	Oilfield service/Kuwait
Zhong Wei	The PRC	305,000 (2016: 305,000)	—	50.00% (2016: 50.00%)	Oilfield technical service/ The PRC
SinoFTS	The PRC	—	55,000 (2016: 55,000)	55.00% (2016: 55.00%)	Petroleum technical service/ The PRC

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 2017 and 2016, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

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

	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**47,991**	6,367
Current assets	**117,204**	161,039
Non-current assets	**225,684**	243,480
Total assets	**342,888**	404,519
Current liabilities	**(34,730)**	(60,805)
Non-current liabilities	**—**	(18,448)
Total liabilities	**(34,730)**	(79,253)
Net assets	**308,158**	325,266
Share of equity by the Group (55.00%) (2016: 55.00%)	**169,487**	178,896

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(a) Interests in joint ventures (Continued)

	2017	2016
	RMB'000	RMB'000
Revenue	92,664	82,180
Depreciation and amortisation	21,159	21,071
Interest income	105	81
Interest expense	1,207	2,187
(Loss)/profit for the year and total comprehensive (expense)/income for the year	(17,108)	683
Share of total comprehensive (expense)/income (55.00%) (2016: 55.00%)	(9,409)	376

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

	2017	2016
	RMB'000	RMB'000
(Loss)/Profit for the year and total comprehensive (expense)/income for the year	(10,755)	339

(b) Interests in associates

	2017	2016
	RMB'000	RMB'000
At 1 January	11,885	7,478
Increase in investments	—	4,000
Decrease in investments	(28)	—
Share of total comprehensive income	1,213	407
Dividend paid	(489)	—
At 31 December	12,581	11,885

The details of associate, unlisted and established as limited companies, 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	—	N/A (2016:100)	N/A (2016: 20%)	Oil exploration/Nigeria
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	The PRC	10,000 (2016: 10,000)	—	35.00% (2016: 35.00%)	Oil and natural gas exploration/ The PRC
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	The PRC	10,000 (2016: 10,000)	—	20.00% (2016: 20.00%)	Oil and natural gas exploration/ The PRC
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	The PRC	5,000 (2016: 5,000)	—	37.00% (2016: 37.00%)	Oil and natural gas exploration/ The PRC
Henan Zhongyuan Petroleum Technology Service Company Limited ("Henan Zhongyuan")	The PRC	10,000 (2016:10,000)	—	20.00% (2016:20.00%)	Oil and natural gas exploration/ The PRC
Henan Zhongyou Petroleum Technology Service Company Limited ("Henan Zhongyou")	The PRC	10,000 (2016:10,000)	—	20.00% (2016:20.00%)	Oil and natural gas exploration/ The PRC

The above associates are accounted for using equity method.

Notes:

(i) Commitments and contingent liabilities of the associates
As at 31 December 2017 and 2016, there is no material contingent liability and commitment between the Group with its associates or associates themselves.

(ii) During the year of 31 December 2017, International Trading was voluntarily deregistered.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	RMB'000	RMB'000
At 1 January	24,389	40,494
Impairment	—	(16,105)
At 31 December	24,389	24,389

Available-for-sale financial assets include the following:

	2017	2016
	RMB'000	RMB'000
Unlisted securities:		
Equity securities – the PRC	24,389	24,389

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

	2017 RMB'000	2016 RMB'000
Trade receivables		
– Sinopec Group and its subsidiaries	9,082,346	14,464,757
– Joint ventures	14	13
– Sinopec Group's associates and joint ventures	122,450	214,270
– Third parties	10,077,873	10,405,667
	19,282,683	25,084,707
Less: Provision for impairment	(2,320,747)	(1,177,173)
Trade receivables - net	16,961,936	23,907,534
Notes receivables	1,209,147	851,624
Notes and trade receivables - net	18,171,083	24,759,158

As at 31 December 2017 and 2016, 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 2017 and 2016, none of the Group's notes receivables were pledged as collateral or overdue.

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

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

	2017 RMB'000	2016 RMB'000
Within 1 year	13,428,767	20,558,241
1 to 2 years	3,631,272	3,135,366
2 to 3 years	821,310	804,418
Over 3 years	289,734	261,133
	18,171,083	24,759,158

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

	2017 RMB'000	2016 RMB'000
Not yet due	9,428,129	17,145,465
Over due within 3 months	1,575,252	1,304,452
Over due 3 months but within 6 months	1,184,238	1,286,422
Over due 6 months but within 1 year	2,560,899	2,821,983
Over due 1 year but within 2 years	2,681,927	1,958,365
Over due over 2 years	740,638	242,471
	18,171,083	24,759,158

22 NOTES AND TRADE RECEIVABLES (Continued)

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

	2017	2016
	RMB'000	RMB'000
At 1 January	1,177,173	577,791
Provisions	1,257,214	630,020
Reversal	(92,906)	(29,654)
Receivables write-off as uncollectible	(20,734)	(984)
At 31 December	2,320,747	1,177,173

23 PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Prepayments (i)	441,556	374,398
Other receivables (ii)		
Petty cash funds	34,523	51,969
Guarantee deposits	846,193	884,389
Disbursement of funds	641,003	1,311,545
Temporary payment	759,129	704,098
Escrow payments	9,733	9,710
Deposits	42,944	46,722
Export tax refund receivables	5,261	6,712
Excess value-added tax paid	651,200	325,005
Value-added tax to be certified	24,043	18,642
Prepaid value-added tax	205,916	65,073
Prepaid income tax	4,314	7,956
Others	289,950	346,561
	3,955,765	4,152,780
Less: Provision for impairment	(629,319)	(524,759)
Prepayments and other receivables - net	3,326,446	3,628,021

Notes:

(i) As at 31 December 2017, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB30,088,000 (2016: RMB19,144,000), the associates and joint ventures of the Group amounting to RMB72,000 (2016: RMB7,145,000) and the associates and joint ventures of Sinopec Group amounting to RMB3,000 (2016: Nil).

(ii) As at 31 December 2017, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB337,509,000 (2016: RMB366,978,000), the joint ventures of the Group amounting to RMB309,000 (2016: RMB10,758,000) and the associates and joint ventures of Sinopec Group amounting to RMB1,457,000 (2016: RMB15,196,000).

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

(iv) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2017 and 2016 approximate their fair values.

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

	2017	2016
	RMB'000	RMB'000
At 1 January	524,759	398,540
Provisions	141,743	170,754
Reversal	(37,183)	(44,535)
At 31 December	629,319	524,759

24 CONTRACT WORK-IN-PROGRESS

	2017	2016
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	60,396,625	60,777,112
Less: Expected loss on contracts	(259,048)	(35,686)
Less: Progress billings	(60,292,917)	(61,860,751)
Contract work-in-progress	(155,340)	(1,119,325)
Representing:		
Amounts due from customers for contract works	6,869,083	7,900,334
Less: Expected loss on contracts	(259,048)	(35,686)
Net amounts due from customers for contract works	6,610,035	7,864,648
Amounts due to customers for contract works	(6,765,375)	(8,983,973)
	(155,340)	(1,119,325)

	2017	2016
	RMB'000	RMB'000
Contract revenue recognised as revenue during the year	48,342,526	42,713,052

25 INVENTORIES

	2017	2016
	RMB'000	RMB'000
Raw materials	1,164,785	1,240,714
Finished goods	85,725	120,924
Work in progress	2,887	78,390
Turnover materials	10,151	20,120
Others	1,947	1,305
	1,265,495	1,461,453
Less: Provision for impairment/write off	(72,456)	(7,724)
	1,193,039	1,453,729

For the years ended 31 December 2017 and 2016, cost of inventories recognised as expenses and included in “cost of sales” amounting to RMB 11,949,182,000 and RMB 12,338,591,000 respectively. For the year ended 31 December 2017, the provision for inventories of RMB72, 456,000 (2016:RMB7, 724,000) was made to write down to their net realisable values and the inventories of RMB7, 724,000 have been written off (2016: Nil).

26 RESTRICTED CASH

	2017	2016
	RMB'000	RMB'000
Letter of credit guarantee deposits	2,108	2,120
Guarantee deposits	12,430	892
	14,538	3,012

As at 31 December 2017 and 2016, 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 2017 and 2016, 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

	2017	2016
	RMB'000	RMB'000
Cash on hand	8,178	9,734
An initial term less than three months:		
– Sinopec Finance Company Limited	152,155	178,446
– Sinopec Century Bright Capital Investment Company Limited	898,594	921,255
– China CITIC Bank	—	1
– Third party banks and other financial institutions	1,464,429	1,337,487
	2,523,356	2,446,923

As at 31 December 2017 and 2016, 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

	2017		2016	
	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 31 December 2016, 1 January 2017 and 31 December 2017	14,142,660,995	14,142,661

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

	2017	2016
	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	5,313,186	5,179,627
Cash and cash equivalents	236,745	382,997
Total current assets	5,549,931	5,562,624
Total assets	25,765,258	25,777,951
Equity		
Share capital	14,142,661	14,142,661
Reserves	10,469,203	10,515,299
Total equity	24,611,864	24,657,960
Liabilities		
Current liabilities		
Other payables	1,153,394	1,119,991
Total current liabilities	1,153,394	1,119,991
Total liabilities	1,153,394	1,119,991
Total equity and liabilities	25,765,258	25,777,951
Net current assets	4,396,537	4,442,633
Total assets less current liabilities	24,611,864	24,657,960

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
		(Note 30(i))		(Note 30(ii))		
At 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 and 1 January 2017	14,142,661	11,123,358	31,355	200,383	(839,797)	24,657,960
Total comprehensive income	—	—	—	—	(56,732)	(56,732)
Total transactions with owners:						
– Equity settled share-based transaction (note 31)	—	—	10,636	—	—	10,636
At 31 December 2017	14,142,661	11,123,358	41,991	200,383	(896,529)	24,611,864

The distributable profits of the Company are as follows:

	2017	2016
	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 (refer to note 2.19 to the consolidated financial statements for the accounting policies).

(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" was 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 amortisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;

(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 the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 31 December 2017, 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 RMB10,636,000 have been recognised in the consolidated statement of compressive income for the year ended 31 December 2017 (2016: RMB3,016,000). As at 31 December 2017, no share option had been exercised yet.

At 31 December 2017, under the current capital structure, fully exercise of the outstanding shares will lead to issue of 34,335,000 (2016: 49,050,000) extra ordinary A share and increase in share capital of RMB34,335,000 (2016:RMB49,050,000), before issue expenses.

The movement of share options are as follows:

	No. of share options
Outstanding shares at 31 December 2016 and 1 January 2017	49,050,000
Lapsed during the year	(14,715,000)
Outstanding shares at 31 December 2017	34,335,000

32 DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	112,171	59,008
Government grants received during the year	396,574	304,022
Recognised in the statement of comprehensive income for the year	(372,433)	(250,859)
At 31 December	136,312	112,171

Deferred income mainly related to income from the national special research government grants.

33 NOTES AND TRADE PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables		
– Sinopec Group and its subsidiaries	1,150,292	1,979,856
– Joint ventures	49,643	85,043
– Sinopec Group's associates and joint ventures	47,623	58,918
– Third parties	25,194,924	26,172,913
	26,442,482	28,296,730
Notes payables	3,045,393	2,013,497
	29,487,875	30,310,227

As at 31 December 2017 and 2016, 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:

	2017 RMB'000	2016 RMB'000
Within 1 year	20,493,186	21,027,583
1 to 2 years	5,007,071	5,221,330
2 to 3 years	1,799,618	2,201,443
Over 3 years	2,188,000	1,859,871
	29,487,875	30,310,227

34 DEPOSITS RECEIVED AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Deposits received (i)		
Advances for construction and service	1,773,584	1,690,005
Salaries payables	381,240	171,657
Other tax payables	829,417	957,571
Output value-added tax to be certified	11,744	15,267
Interest payables (ii)	10,927	73,627
Other payables (iii)		
Guarantee deposits	670,463	525,496
Deposits	164,697	127,046
Disbursement of funds	473,452	435,177
Temporary receipts	743,062	219,838
Escrow payments	44,850	33,676
Withheld payments	67,641	86,055
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	490,888	419,565
	9,380,867	8,473,882

Notes:

(i) As at 31 December 2017, deposits received included related party balances: Sinopec Group and its subsidiaries amounting to RMB423,073,000 (2016: RMB259,956,000) and the associates and joint ventures of Sinopec Group amounting to RMB5,179,000 (2016: RMB 9,612,000).

(ii) As at 31 December 2017 and 2016, interest payables above are related party balance with Sinopec Group and its subsidiaries.

(iii) As at 31 December 2017, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB3,767,038,000 (2016: RMB3,781,374,000).

(iv) Amounts due to related parties are unsecured, interest free and repayable on demand.

35 BORROWINGS

	2017 RMB'000	2016 RMB'000
Current liabilities		
Loans from Sinopec Finance Company Limited (ii)	**6,995,000**	1,260,000
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	**8,015,830**	9,477,279
Loans from Sinopec Group (ii)	**2,500,000**	6,500,000
Finance lease liabilities (iii)	**28,844**	17,360
	17,539,674	17,254,639
Non-current liabilities		
Bank loans (i)	**—**	520,275
Loans from Sinopec Century Bright Capital Investment Company Limited (ii)	**455,826**	242,795
Finance lease liabilities (iii)	**53,037**	33,564
	508,863	796,634
	18,048,537	18,051,273

(i) Bank loans

The bank loans of the Group are repayable as follows:

	2017 RMB'000	2016 RMB'000
Over 5 years	**—**	520,275
	—	520,275

As at 31 December 2016, the annual interest rates of the bank loans are in the range of 6.14% to 6.69%.

(ii) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**17,510,830**	17,237,279
1 to 2 years	**455,826**	242,795
	17,966,656	17,480,074

As at 31 December 2017, loans from related parties are unsecured and their annual interest rates are in the range of 1.70% to 7.90% (2016: 1.85% to 6.96%).

(iii) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	2017 RMB'000	2016 RMB'000
Total minimum lease payments		
– Within 1 year	**34,200**	20,778
– 1 to 2 years	**27,223**	19,476
– 2 to 5 years	**32,193**	17,017
	93,616	57,271
Future finance charges on finance leases	**(11,735)**	(6,347)
Present value of finance lease liabilities	**81,881**	50,924

35 BORROWINGS (Continued)

	2017 RMB'000	2016 RMB'000
Present value of minimum lease payments:		
– Within 1 year	28,844	17,360
– 1 to 2 years	23,919	17,360
– 2 to 5 years	29,118	16,204
	81,881	50,924
Less: Portion due within one year included under current liabilities	(28,844)	(17,360)
Portion due after one year included under non-current liabilities	53,037	33,564

At 31 December 2017, the Group leased certain oil engineering equipment for its business operations. The remaining lease term are from 2 to 5 years. (2016: 3 years).

36 DEFERRED INCOME TAX

Deferred income tax assets and liabilities recognised:

The analysis of deferred income tax assets and liabilities is as follows:

	2017 RMB'000	2016 RMB'000
Deferred income tax assets	472,184	183,548
Deferred income tax liabilities	(23,879)	(27,280)
Deferred income tax assets, net	448,305	156,268

The movement of the deferred income tax account is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	156,268	156,179
Credited to profit or loss (Note 12)	292,037	89
At 31 December	448,305	156,268

The movement of deferred income tax assets/(liabilities) during the years ended 31 December 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Deferred income RMB'000	Provision for impairment on assets RMB'000	Total RMB'000
At 1 January 2016	11,767	175,663	187,430
(Credited)/Debited to:			
Profit or loss	(11,767)	7,885	(3,882)
At 31 December 2016 and 1 January 2017	—	183,548	183,548
Debited to:			
Profit or loss	15,308	273,328	288,636
At 31 December 2017	15,308	456,876	472,184

36 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Accelerated depreciation allowance	Revaluation on assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2016	424	30,827	31,251
Credited to:			
Profit or loss	(73)	(3,898)	(3,971)
At 31 December 2016 and 1 January 2017	351	26,929	27,280
Debited/(Credited) to:			
Profit or loss	490	(3,891)	(3,401)
At 31 December 2017	841	23,038	23,879

Deferred income tax assets represent the recognised tax losses carried forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax losses not recognised as deferred income tax assets in the Group is as follow:

	2017	2016
	RMB'000	RMB'000
Tax losses not recognised as deferred income tax assets	23,534,199	19,054,303

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.

37 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2017 and 2016 not provided for in the financial statements are as follows:

	2017	2016
	RMB'000	RMB'000
Contracted but not provided for	130,116	640,414

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 31 December 2017 and 2016 are as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year	291,189	294,430
1 to 2 years	32,746	46,589
2 to 3 years	11,775	36,139
Over 3 years	21,130	41,058
Total	356,840	418,216

The Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 24 years (2016: 1 to 25 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 2017, the Group has outstanding commitments of RMB129,625,000 in respect of its investment in joint ventures (2016: RMB129,625,000).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2017.

38 (a) CASH GENERATED FORM/(USED IN) OPERATIONS

	2017 RMB'000	2016 RMB'000
Loss before income tax	(10,317,673)	(15,887,181)
Adjustments for:		
– Depreciation of property, plant and equipment	3,284,195	3,304,096
– Impairment loss on property, plant and equipment	1,149,494	—
– Losses on write-off/disposal of property, plant and equipment	156,155	73,101
– Amortisation of other non-current assets	2,088,493	—
– Losses on write-off/disposal of other non-current assets	16,452	—
– Amortisation of prepaid land leases	3,095	2,816
– Amortisation of intangible assets	80,807	39,899
– Impairment loss on available-for-sale financial assets	—	16,105
– Interest income	(19,415)	(61,811)
– Interest expense	634,657	475,065
– Share of loss/(profit) from joint ventures	14,791	(572)
– Share of profit from associates	(1,213)	(407)
– Provision for impairment on trade receivables	1,164,308	600,366
– Provision for impairment on other receivables	104,560	126,219
– Write down of inventories to net realisable value	72,456	—
– Provision for expected loss on contracts work-in-progress	245,039	11,656
– Gain from disposal of available-for-sale financial assets	(600)	(500)
– Share-based payment	10,636	3,016
Cash flows used in operating activities before changes in working capital	(1,313,763)	(11,298,132)
Changes in working capital:		
– Other non-current assets	(1,162,864)	726,110
– Long-term receivables	(255,041)	—
– Inventories	188,234	524,997
– Notes and trade receivables	4,386,509	2,186,427
– Prepayments and other receivables	(66,207)	(483,635)
– Restricted cash	(11,771)	15,737
– Contract work-in-progress	(1,209,024)	6,093,705
– Deferred income	24,141	53,163
– Specific payables	—	(1,051)
– Notes and trade payables	(358,164)	39,499
– Deposits received and other payables	597,634	(1,335,384)
Cash generated from/(used in) operations	819,684	(3,478,564)

38 (b) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

As at 31 December 2017, the details changes in the Group's liabilities arising from financing activities are as below:

	Loans	Finance lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017	18,000,349	50,924	18,051,273
Changes from financing cash flows:			
Proceeds from borrowings	37,753,867	28,000	37,781,867
Repayments of borrowings	(36,256,236)	(29,190)	(36,285,426)
Total changes from financing cash flows	1,497,631	(1,190)	1,496,441
Other changes:			
Purchases of property, plant and equipment	—	32,147	32,147
Deposits received and other payables	(500,000)	—	(500,000)
Exchange difference	(1,031,324)	—	(1,031,324)
Total other changes	(1,531,324)	32,147	(1,499,177)
At 31 December 2017	17,966,656	81,881	18,048,537

39 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 2017, 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 24,289,800, 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 2017. 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.

40 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 2017 and 2016.

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.

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	2017 RMB'000	2016 RMB'000
Purchases of materials		
– Sinopec Group and its subsidiaries	5,797,473	5,215,004
Sales of products		
– Sinopec Group and its subsidiaries	85,984	83,812
Rendering of engineering services		
– Sinopec Group and its subsidiaries	28,018,646	22,567,053
Receiving of community services		
– Sinopec Group and its subsidiaries	1,583,799	1,588,968
Receiving of integrated services		
– Sinopec Group and its subsidiaries	293,071	277,718
Rendering of technology development services		
– Sinopec Group and its subsidiaries	265,207	277,264
Rental expenses		
– Sinopec Group and its subsidiaries	117,136	130,902
Deposits interest income		
– Sinopec Group's subsidiaries	524	2,533
Interest income from entrusted loans		
– Sinopec Group's subsidiaries	67	27,555
Loans interest expenses		
– Sinopec Group and its subsidiaries	639,109	486,755
Borrowings obtained		
– Sinopec Group and its subsidiaries	37,416,244	52,286,133
Borrowings repaid		
– Sinopec Group and its subsidiaries	36,929,663	47,300,764
Safety and insurance fund expenses		
– Sinopec Group	79,326	90,143
Safety and insurance fund refund		
– Sinopec Group	87,111	87,340

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	2017 RMB'000	2016 RMB'000
Receiving of engineering services		
– Associates and joint ventures of the Group	901,953	686,314
Rental expenses		
– Joint ventures of the Group	14,811	—

(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:

	2017 RMB'000	2016 RMB'000
Fee	600	600
Salaries, allowances and bonus	5,768	5,754
Contributions to pension plans	532	533
Share-based payments	360	103
	7,260	6,990

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2017 Number of individuals	2016 Number of individuals
RMB0 to RMB500,000	9	4
RMB500,001 to RMB1,000,000	2	5
	11	9

(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 2016: USD210,000,000).

41 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.

41.1 Category of financial assets and liabilities

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables		
– Restricted cash and cash and cash equivalents	2,537,894	2,449,935
– Notes and trade receivables	18,171,083	24,759,158
– Other receivables	2,885,573	3,239,108
– Long-term receivables	233,061	—
	23,827,611	30,448,201
Financial liabilities		
Financial liabilities measured at amortised cost		
– Notes and trade payables	29,487,875	30,310,227
– Other payables	7,811,067	6,876,645
– Borrowings	18,048,537	18,051,273
	55,347,479	55,238,145

41.2 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

(i) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash 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 2017 and 2016, 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.

41 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

41.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

Interest-bearing financial instruments held by the Group are as below:

	2017		2016	
	%	RMB'000	%	RMB'000
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	1.35% - 2.75%	311,176	1.1% - 2.75%	461,775
Long-term receivables	2.0%	233,061	—	—
Borrowings (Note 35)	3.30% - 7.50%	9,576,881	2.5% - 7.5%	7,730,924
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	0.3% - 0.35%	2,226,718	0.3% - 0.35%	1,988,160
Borrowings (Note 35)	1.70% - 7.90%	8,471,656	1.85% - 6.96%	10,320,349

As at 31 December 2017, 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 RMB31,769,000 (2016: increase the Group's net loss and decrease the shareholder's equity for the year by approximately RMB38,701,000).

As at 31 December 2017 and 2016, a general decrease of 50 basis points in variable interest rates as at 31 December 2017 and 2016 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.

(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.

41 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

41.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

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 2017	USD RMB'000	SAR RMB'000	KWD RMB'000	BRL RMB'000	Others RMB'000
Restricted cash and cash and cash equivalents	1,159,343	85,272	68,103	457	448,358
Trade and other receivables	5,187,902	681,622	768,699	61,321	552,618
Long-term receivables	233,061	—	—	—	—
Trade and other payables	(1,325,873)	(484,209)	(112,209)	(48,524)	(175,527)
Borrowings	(8,471,656)	—	—	—	—
Net exposure in RMB	(3,217,223)	282,685	724,593	13,254	825,449

As at 31 December 2016	USD RMB'000	SAR RMB'000	KWD RMB'000	BRL RMB'000	Others 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

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 2017 and 2016, 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 2017 and 2016:

	2017 RMB'000	2016 RMB'000
Decrease in net loss/(Increase in net loss)		
– USD	120,646	128,393
– SAR	(10,601)	(13,876)
– KWD	(27,172)	(36,078)
– BRL	(497)	(1,134)

As at 31 December 2017 and 2016, 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.

41 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

41.2 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 Group has certain concentration of credit risk in respect of trade receivables as 60.81% (2016: 68.90%) of the total trade receivables was due from the Group's five largest customers.

The Group's maximum exposure to credit risk on recongised financial assets is limited to the carrying amount at the end of the reporting period as summarized in note 41.1. 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 2017						
Restricted cash and cash and cash equivalents	2,537,894	—	—	—	2,537,894	2,537,894
Notes and trade receivables	18,171,083	—	—	—	18,171,083	18,171,083
Other receivables	2,885,573	—	—	—	2,885,573	2,885,573
Long-term receivables	4,661	237,722	—	—	242,383	233,061
Notes and trade payables	(29,487,875)	—	—	—	(29,487,875)	(29,487,875)
Other payables	(7,811,067)	—	—	—	(7,811,067)	(7,811,067)
Borrowings	(17,684,137)	(485,446)	(32,193)	—	(18,201,776)	(18,048,537)
	(31,383,868)	(247,724)	(32,193)	—	(31,663,785)	(31,519,868)
As at 31 December 2016						
Restricted cash and cash and cash equivalents	2,449,935	—	—	—	2,449,935	2,449,935
Notes and trade receivables	24,759,158	—	—	—	24,759,158	24,759,158
Other receivables	3,239,108	—	—	—	3,239,108	3,239,108
Notes and trade payables	(30,310,227)	—	—	—	(30,310,227)	(30,310,227)
Other payables	(6,876,645)	—	—	—	(6,876,645)	(6,876,645)
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)

41 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

41.3 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:

	2017	2016
	RMB'000	RMB'000
Total borrowings (Note 35)	18,048,537	18,051,273
Less: Cash and cash equivalents (Note 27)	(2,523,356)	(2,446,923)
Net debts	15,525,181	15,604,350
(Capital deficiencies)/Total equity	(2,104,000)	8,441,592
Total capital	13,421,181	24,045,942
Gearing ratio	116%	65%

41.4 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 2017 and 2016, financial assets and liabilities of the Group measured at amortised cost mainly represent: restricted cash and cash and cash equivalents, long-term receivables, notes and trade receivables, other receivables, note and trade payables, other payables and borrowings. Other than noted as below, the carrying amounts of these financial assets and liabilities are not materially different from those measured at fair values.

	2017	2016
Long-term receivables	RMB'000	RMB'000
Carrying amounts	233,061	—
Fair value	261,618	—

The fair value of long-term receivables is estimated by discounting future cash flow using an interest rate stated in the contract which is comparable to market returns derived from comparable credit ratings and similar conditions, which is categorised as level 2 of fair value hierarchy.

42 POST BALANCE SHEET EVENTS

According to the improvement by State-owned Assets Supervision and Administration Commission of the State Council's state-owned assets [2017] No. 1169, the improvement by China Securities Regulatory Commission's license [2018] No. 142, the improvement by China Securities Regulatory Commission's license [2018] No. 130, and the approval of resolutions of the first extraordinary general meeting of shareholders held in 2017, the Group issued 1,526,717,556 A Shares and 3,314,961,482 H Shares by private placement in January 2018 respectively, raised funds of RMB7,637,715,000 in total, which enforces the liquidity.

As at 27 March 2018, there are no other material events after reporting date to be disclosed.

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2017, 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.

Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 28 March 2018 (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 2017 and the First Quarter Report and the Third Quarter Report from 2002 to 2017 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.