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Sinopec Oilfield Service Corporation
(a joint stock limited company established in the People's Republic of China)
(Stock code: 1033)

Announcement on Annual Results 2016

The Board of Directors (“**the Board**”) and the Supervisory Committee of Sinopec Oilfield Service Corporation (“**the Company**”) and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this announcement and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this announcement. The content of the annual results is extracted from the 2016 annual report (the “Annual Report”). In order to understand the full content, the investors should read the Annual Report for more details.

The Board of the Company has pleasure in presenting the audited annual results of the Company and its subsidiaries (“**the Group**”) for the year ended 31 December 2016.

1. COMPANY PROFILE

- | | |
|-----------------------------------|---|
| (1).Legal name: | Sinopec Oilfield Service Corporation
中石油工程技術服務股份有限公司 |
| Abbreviation: | SSC
石化油服 |
| (2). Legal representative: | Mr. Jiao Fangzheng |
| (3). Registered address: | 22#, Chaoyangmen North Street, Chaoyang District, Beijing,
P.R.China |
| Office address: | 9#, Jishikou Road, Chaoyang District, Beijing, P.R. China |
| Postal code: | 100728 |
| Telephone: | 86-10-59965998 |
| Fax: | 86-10-59965997 |
| Internet website: | http://ssc.sinopec.com |
| E-mail: | ir.ssc@sinopec.com |

(4).Secretary to the Board: Mr. Li Honghai
Securities affairs representative: Mr.Wu Siwei
Address: 9#, Jishikou Road,Chaoyang District, Beijing, P.R.China
The Office of the Board of Director
Telephone: 86-10-59965998
Fax: 86-10-59965997
E-mail: ir.ssc@sinopec.com

(5). Domestic newspapers to disclose information: China Securities, Shanghai Securities News, Securities Times

Internet website designated by HKSE to disclose information: <http://www.hkexnews.hk>

Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the annual report: <http://www.sse.com.cn>

Place where the annual report available for inspection: The Office of the Board of Director of the Company

(6). Places of listing, names and codes of the stock:

H share: The Stock Exchange of Hong Kong Limited ("HKSE")
Stock name: SSC
Stock code: 1033

A Share: Shanghai Stock Exchange ("SSE")
Stock name: SSC
Stock code: 600871

2. PRINCIPAL FINANCIAL INFORMATION AND FINANCIAL INDICATORS

(1) Extracted from the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS")

Unit: RMB'000

	As at 31 December				
	2016	2015	2014	2013	2012
Total assets	74,493,166	85,307,777	81,295,708	92,736,669	11,138,204
Total liabilities	66,051,574	60,670,824	62,599,570	62,003,460	2,624,721
Equity attributable to owners of the Company	8,442,868	24,638,094	18,697,120	30,648,271	8,513,483
Net assets per share attributable to owners of the Company ³ (RMB)	0.60	1.74	1.46	2.39	1.419
Equity ratio of owners	11.33%	28.88%	23.00%	33.05%	76.43%
Return on net assets	(191.89%)	(0.05%)	12.93%	4.78%	(4.21%)
	For the year ended 31 December				
	2016	2015	2014	2013	2012
Revenue ¹	42,923,500	60,349,334	78,993,315	89,729,072	16,987,916
(Loss) / profit before income tax ¹	(15,887,181)	469,719	3,320,072	2,179,996	(536,627)
Income tax expense /(credit) ¹	311,196	481,421	900,930	687,350	(178,171)
(Loss)/profit attributable to owners of the Company					
Including: continuing operations ²	(16,198,242)	(11,543)	2,416,928	1,464,987	-
discontinued operations ²	-	-	(1,159,620)	(1,450,019)	(358,456)
Basic and diluted (loss)/ earnings per share(RMB)					
Including: continuing operations ²	(1.145)	(0.001)	0.159	0.096	-
discontinued operations ²	-	-	(0.076)	(0.095)	(0.060)

Notes:

1. Information of 2016, 2015, 2014 and 2013 included the continuing operations only. Information of 2012 included the discontinued operations only.

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

3. The per share information was calculated on the base of the number of shares at the end of each reporting year.

(2) Extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (“PRC ASBE”)

2.1 Principal financial information

Unit: RMB’000

	For the year ended 31 December 2016	For the year ended 31 December 2015	Increase/ (Decrease) (%)	For the year ended 31 December 2014
Operating income	42,923,500	60,349,334	-28.9	94,481,041
Operating profit (“-” for losses)	-16,011,952	125,445	-12,864.1	615,387
Profit before income tax (“-” for losses)	-15,803,702	505,740	-3,224.9	2,206,680
Net profit attributable to equity shareholders of the Company (“-” for losses)	-16,114,763	24,478	-65,933.7	1,229,753
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company (“-” for losses)	-16,173,871	-58,509	Not applicable	-2,323,027
Net cash inflow from operating activities (“-” for outflow)	-3,907,318	2,575,929	-251.7	6,746,135
	As at 31 December 2016	As at 31 December 2015	Increase/ (Decrease) (%)	As at 31 December 2014
Total equity attributable to equity shareholders of the Company	8,442,868	24,638,094	-65.7	18,697,120
Total assets	74,493,166	85,307,777	-12.7	81,295,708

2.2 Principal financial indicators

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

2.3 Extraordinary gain and loss items and amounts

Unit: RMB'000

Extraordinary gain and loss items	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Disposal of non-current assets	-68,312	262	1,139,513
Government grants recognised in profit or loss during the year	74,863	111,106	2,466
Gain and loss from external entrusted loans	27,555	2,406	-
Net profit or loss from the beginning to the merger date of the subsidiary of the business combination under common control	-	-	2,424,556
Other non-operating income and expenses excluding the aforesaid items	25,703	-1,656	-11,540
Tax effect	-701	-29,131	-
Total	59,108	82,987	3,554,995

(3) Differences between the financial statements prepared in accordance with PRC ASBE and IFRS

Unit: RMB'000

	Net profit attributable to owners of the Company (“-” for losses)		Total equity attributable to owners of the Company	
	For the year ended 31 December 2016	For the year ended 31 December 2015	As at 31 December 2016	As at 31 December 2015
PRC ASBE	-16,114,763	24,478	8,442,868	24,638,094
IFRS	-16,198,242	-11,543	8,442,868	24,638,094

Please refer to the section 7.4 of the Financial Report in this announcement for explanations of the related differences.

3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(1) Changes in the Company's share capital

Unit of share: Share

	Before change		Increase/(decrease)(+/-)					After change	
	Numbers of shares	Per cent (%)	New issue	Stock dividends	Conversion from reserve	Others	Sub-total	Numbers of shares	Per cent (%)
I. Shares with selling restrictions :	11,592,660,995	82.0	-	-	-	- 2,368,333,333	-2,368,333,333	9,224,327,662	65.2
1.State-owned shares	-	-	-	-	-	-	-	-	-
2.Shares held by state-owned companies	10,259,327,662	72.6	-	-	-	- 1,035,000,000	-1,035,000,000	9,224,327,662	65.2
3.Shares held by other domestic investors	1,333,333,333	9.4	-	-	-	- 1,333,333,333	-1,333,333,333	-	-
4.Shares held by foreign investors	-	-	-	-	-	-	-	-	-
II.Shares without selling restrictions	2,550,000,000	18.0	-	-	-	+2,368,333,333	+2,368,333,333	4,918,333,333	34.8
1.RMB-denominated ordinary shares	450,000,000	3.2	-	-	-	+2,368,333,333	+2,368,333,333	2,818,333,333	20.0
2.Shares traded in non-RMB currencies and listed domestically	-	-	-	-	-	-	-	-	-
3.Shares listed overseas	2,100,000,000	14.8	-	-	-	-	-	2,100,000,000	14.8
4.Others	-	-	-	-	-	-	-	-	-
III.Total shares	14,142,660,995	100.0	-	-	-	-	-	14,142,660,995	100.0

(2)Information on shareholders

2.1 Number of shareholders

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

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

2.2 The shareholdings of the top ten shareholders of the Company

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Number of shares held increased/decreased by (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation	State-owned legal person	0	9,224,327,662	65.22	9,224,327,662	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") *	Overseas legal person	448,000	2,086,450,496	14.75	0	0
CITIC Limited	State-owned legal person	0	1,035,000,000	7.32	0	0
Darry Asset Management (Hangzhou) Co., Ltd.	Others	0	133,333,333	0.94	0	133,333,300
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	Others	-169,325,673	124,007,660	0.88	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	Others	0	13,333,300	0.09	0	Unknown
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	Others	0	10,842,727	0.08	0	Unknown
Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan	Others	-12,477,500	10,300,000	0.07	0	Unknown
Shareholdings of top ten shareholders of shares without selling restrictions						
Name of shareholders			Number of shares without selling restrictions held at the end of the reporting period (shares)		Types of shares	
HKSCC (Nominees) Limited*			2,086,450,496		H Share	
CITIC Limited			1,035,000,000		A Share	
Darry Asset Management (Hangzhou) Co., Ltd			133,333,333		A Share	
Beijing Harvest Yuanhe Investment Center (Limited Partnership)			124,007,660		A Share	
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan			66,666,666		A Share	
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan			66,666,666		A Share	

Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	10,842,727	A Share
Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan	10,300,000	A Share
Yunnan International Trust Co., Ltd.-Yunduantonghui Investment Trust Plan	10,028,200	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan” and “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan” belong to Donghai Fund Management Limited Company, “Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.” and “Huaan Fund-Minsheng Bank-Huaan Jifeng No.7 Asset Management Plan” belong to Huaan Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

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

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

Name of shareholder	Number of share held (shares)	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
China Petrochemical Corporation	9,224,327,662	65.22	76.60	Not applicable	-
CITIC Limited	1,035,000,000	7.32	8.59	Not applicable	-

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

(4) The controlling shareholder

Name of the controlling shareholder: China Petrochemical Corporation, holding 65.22% of the Company's shares

Legal representative: Wang Yupu

Date of establishment: 14 September 1983

Registered capital: RMB 274.866 billion

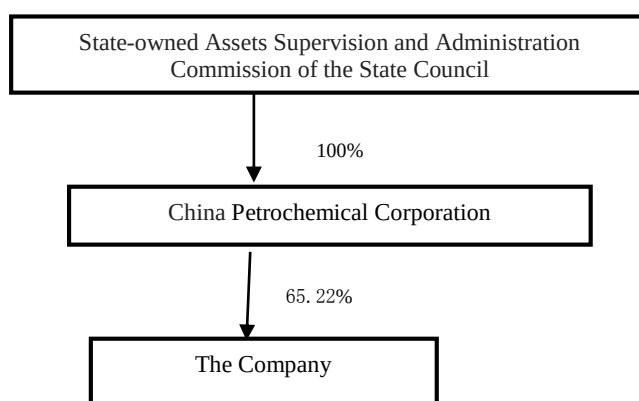
Principal activities: Upon the reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

During the reporting period, the controlling shareholder of the Company did not change.

(5) The actual controller

The actual controller is still China Petrochemical Corporation.

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



4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Information on interests in share and remuneration of directors, supervisors and senior management

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	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Sun Qingde	Vice Chairman	Male	55	6 June 2016	8 February 2018	0	0	No Change	415,350	No
	General Manager			11 March 2016						
Zhou Shiliang	Director, Deputy General Manager	Male	59	9 February 2015	8 February 2018	0	0	No Change	553,800	No
Li Lianwu	Director	Male	59	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Hong	Director	Male	58	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Jiang Bo	Independent Non-Executive Director	Female	61	9 February 2015	8 February 2018	0	0	No Change	200,000	No
Zhang Huaqiao	Independent Non-Executive Director	Male	53	9 February 2015	8 February 2018	0	0	No Change	200,000	No
Pan Ying	Independent Non-Executive Director	Male	47	16 December 2015	8 February 2018	0	0	No Change	200,000	No
Hu Guoqiang	Chairman of Supervisory Committee	Male	52	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Zou Huiping	Supervisor	Male	56	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	52	16 June 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Qin	Supervisor	Female	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes

Cong Peixin	Supervisor	Male	54	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Zhang Hongshan	Supervisor	Male	56	23 February 2017	8 February 2018	0	0	No Change	—	Yes
Du Guangyi	Supervisor	Male	51	9 February 2015	8 February 2018	0	0	No Change	522,300	No
Zhang Yongjie	Deputy General Manager	Male	53	9 February 2015	8 February 2018	0	0	No Change	546,400	No
Lu Baoping	Deputy General Manager	Male	55	30 August 2016	8 February 2018	0	0	No Change	—	Yes
Liu Rushan	Deputy General Manager	Male	55	9 February 2015	8 February 2018	0	0	No Change	500,900	No
Wang Hongchen	Chief Financial Manager	Male	53	9 February 2015	8 February 2018	0	0	No Change	460,800	No
Zhang Jinhong	Deputy General Manager	Male	53	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Huang Songwei	Deputy General Manager	Male	52	28 April 2015	8 February 2018	0	0	No Change	460,800	No
Li Honghai	Secretary to the board	Male	53	9 February 2015	8 February 2018	0	0	No Change	366,920	No
Zhu Ping	Former Vice Chairman, Former General Manager	Male	53	9 February 2015	11 March 2016	0	0	No Change	135,225	No
Wen Dongfen	Former Supervisor	Female	52	9 February 2015	2 August 2016	0	0	No Change	—	Yes
Geng Xianliang	Former Deputy General Manager	Male	52	9 February 2015	5 July 2016	0	0	No Change	292,192	No
Xu Weihua	Former Supervisor	Male	53	9 February 2015	22 February 2017	0	0	No Change	578,200	No

(2) Information on share option scheme provided to directors, supervisors and senior management during the reporting period

Unit: shares

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

(3) Changes in Directors, Supervisors and Senior Management

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

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

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

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

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

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

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

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

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

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

(4) Directors', Supervisors' and Senior Management's rights to acquire shares and debentures and short position

As at 31 December 2016, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

5 REPORT OF THE BOARD

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

(1) Discussion and analysis of operation during the reporting period

1.1 Market Review

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

1.2 Operations Review

In 2016, the Company's consolidated revenue was RMB 42,923,500,000, representing a year-on-year decrease of 28.9%, and net loss attributable to shareholders of the Company is RMB 16,114,763,000. The loss is mainly caused by the sharp reduction of work volumes, including the year-on-year decrease of 32.0% of drilling business, by the decreased service prices with a year-on-year reduction of 5%-15%; by some postponed engineering and construction projects whose cost increased but claim for compensation was under expectation; and by the year-on-year increase of RMB599,209,000 of provision for bad debt for receivable accounts.

Under such challenging circumstances, the Company operated according to features of the oil service industry. With solid basis of internal markets within the Sinopec Group, SSC made joint efforts to explore the external markets, especially the overseas ones, and increased work volumes of drilling, logging and special downhole operation. Also SSC allocated internal resources by cutting off overstaffed departments and lower production crews, strengthened cost controls by tapping potentiality and increasing profits, and optimized investment to reduce the losses.

1.2.1 Geophysical service

In 2016, the Company's operation revenue in geophysical service was RMB 3,605,915,000, representing a decline of 31.8% than the same period of the previous year, for which the figure was RMB 5,285,158,000. The completed 2D seismic accumulated for 14,172 kilometers, a decline of 67.6% than the previous year; while the 3D seismic accumulated for 12,641 square kilometers, a decline of 13.1% than the previous year. The company broadly promoted the high-efficient vibroseis acquisition technology and significantly improved the quality of seismic data, with 2D and 3D records reaching quality standards at 100%. It also accelerated the movement to exploring the internal markets in China and the overseas markets. For example, it won bid for 13 seismic projects of the China Geological Survey with contract value of RMB 110 million, and bid for 2D Seismic, acquisition processing projects in Bangladesh for the first time, making new breakthroughs in exploring shallow sea markets overseas.

1.2.2 Drilling service

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

1.2.3 Logging/ mud logging service

In 2016, the Company's operation revenue in logging/mud logging service was RMB 1,537,768,000, a decline of 37.1% than the same period of the previous year, for which the figure was RMB2,445,848,000. Its completed logging projects have accumulated for 158,700,000 standard meters, a decline of 32.1% than the previous year. Its completed mud logging projects have accumulated for 5,310 kilo meters, a decline of 41.3% than the previous year. Given the investment on oil service industry was cut down in 2016, the revenue continued the decrease. In order to make profits, the Company reduced fees for non-production activities, controlled cost, and leveraged technologies of oil and gas gathering, identification and evaluation to provide services for the Fuling Shale Gas productivity construction (Phase II), and oil field construction projects in western Sichuan and Tarim .

1.2.4 Downhole operation service

In 2016, the Company's operation revenue in downhole operation was RMB3,867,913,000, a decline of 44.1% than the same period of the previous year, for which the figure was RMB 6,916,025,000. It completed downhole operation for 4,396 wells, a decline of 18.7% than the previous year. In 2016, the Company strongly fostered capabilities of technological services as well as the science and technology development around the sylogistic structure carbonate rocks, tight oil & gas and shale gas exploration and development. And it has further improved capabilities of coiled tubing, high pressure operation and service for shallow water, and ensured the oil and gas production and development of the Fuling Shale Gas Project, marine shale gas in western Sichuan areas, tight gas reservoir and projects in Tarim.

1.2.5 Engineering and construction service

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

1.2.6 International business

In 2016, the Company's operation revenue in international business service was RMB 12,702,961,000, a decline of 8.5% than the same period of the previous year, for which the figure was RMB 13,884,643,000. The revenue contributed by the international business accounted for 29.6% of the whole revenue, with a

year-on-year growth of 6.6 percentage point. The Company is firmly committed to its internationalization strategy and established 5 large-scale markets in the Middle East, Africa, America, Central Asia & Mongolia, and the Southeast Asia. In 2016, the Company signed 92 new contracts and renewed 39 contracts in overseas markets with contractual value of USD 2.38 billion, a decline of 12.2% than the previous year, the completed contracts worth USD 2.12 billion, a decline of 6.2% than the previous year. What's more, the value of its signed new drilling contracts has constantly exceeded USD 2 billion for the 4th year, and its completed contract value has constantly exceeded USD 1.5 billion for the 3rd year, with a year-on-year increase of 1.8% compared to the previous year. In Kuwait, the Company signed new contracts for 8 drilling rigs and renewed contracts for 18 drilling rigs with contractual value of USD 690 million, and was still the largest onshore drilling contractor of Kuwait Oil Company. In Saudi Arabia, the Company newly signed and renewed contracts for 15 drilling rigs with contractual value of USD 380 million. In Algeria, the Company signed new contracts for 8 drilling rigs with contractual value of USD 350 million. And in Ecuador, it successfully signed the lumpsum contract of drilling and completion for 40 wells of ITT (Phase I) with contractual value of USD 210 million.

1.2.7 Research and development

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

1.2.8 Internal reform and management

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

1.2.9 Capital expenditure

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

Unit: RMB '000

Major Project Name	Project Value	Project Progress	Investment in Current Year	Accumulated Paid-in Investment	Project Outcome
Shengli 90-meter Drilling Platforms	700,000	70%	148,294	492,325	Under Construction
25-meter Operation Platform Project	466,030	100.0%	53,237	447,535	In Operation
8000HP Multipurpose Supply Vessel	195,000	100.0%	40,053	181,802	In Operation
Purchase of Drillings Rigs for Algeria	122,200	100.0%	107,126	107,126	In Operation
Purchase of Workover Rigs for Kuwait	186,400	100.0%	184,767	184,767	In Operation
ERP Systematic Development	83,660	22.5%	18,841	18,841	Under Construction
Total	1,753,290	-	552,318	1,432,396	/

1.3. Financial analysis (Prepared in accordance with IFRS)

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

1.3.1 Assets, liabilities and equity analysis

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

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

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

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

1.3.2 Cash flow analysis

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

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

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

1.3.3 Bank borrowings and loans from related companies

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

1.3.4 Assets pledge

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

1.3.5 Gearing ratio

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

1.4 Statement of the operations by industries (in accordance with PRC ASBE)

Industries	Operating income for 2016 RMB'000	Operating cost for 2016 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	3,605,915	4,208,691	-16.7	-31.8	-13.2	Decreased by 25.0 percentage points
Drilling	19,368,752	24,841,079	-28.3	-32.2	-5.1	Decreased by 36.6 Percentage points
Logging/Mud logging	1,537,768	2,051,517	-33.4	-37.1	-0.1	Decreased by 49.5 percentage points
Downhole Operation	3,867,913	4,775,774	-23.5	-44.1	-21.8	Decreased by 35.2 percentage points
Engineering and	12,827,062	16,026,093	-24.9	-16.6	12.8	Decreased by

construction						32.5 percentage points
Other	1,077,333	1,134,146	-5.3	16.6	91.7	Decreased by 41.3 percentage points
Total	42,284,743	53,037,300	-25.4	-28.9	-1.8	Decreased by 34.7 percentage points

1.5 Operating income by regions (in accordance with PRC ASBE)

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

1.6 Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	6,084,639	Percent of total purchases	25.7%
Aggregate sales amounts to the top five largest customers	30,822,551	Percent of total sales	71.8%

(2) Prospects

2.1 Competitive Structure and Development Trend

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

2.2 Business Strategy

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

2.2.1 Geophysical service

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

2.2.2 Drilling Service

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

2.2.3 Logging/ Mud logging service

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

2.2.4 Downhole operation service

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

2.2.5 Engineering and construction service

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

2.2.6 International business

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

2.2.7 Technology development

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

2.2.8 Internal reform and management

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

2.2.9 Capital expenditures

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

(3) Proposed scheme of profit distribution

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

6 SIGNIFICANT EVENTS

(1) During this reporting period, the Company was not involved in any material litigation or arbitration or events commonly disputable by the media.

(2) During this reporting period, there were no non-operational funds supplied by the Company to the controlling shareholders and its related parties.

(3) During this reporting period, there were no material acquisition or disposals of assets, any merger and acquisitions activities.

(4) Information on connected transactions

The Company's significant connected transactions entered into during the year ended 31 December 2016 are as follows:

(a) The significant connected transactions relating to ordinary operation during the reporting period are as follow.

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipments	China Petrochemical Corporation and its subsidiaries	5,215,004	22.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	22,567,053	52.6
Receiving of community services	China Petrochemical Corporation and its subsidiaries	1,588,968	100.0
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	277,718	100.0
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	227,264	100.0
Rental expenses	China Petrochemical Corporation and its subsidiaries	130,902	28.6

Loan interest expenses	China Petrochemical Corporation and its subsidiaries	486,755	94.9
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	52,286,133	100.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	47,300,764	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	90,143	100.0
Safety and insurance fund refund	China Petrochemical Corporation	87,340	100.0

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

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

In accordance with Rule 14A.56 of 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, and containing its findings and conclusions.

(c) The following is non-operational obligatory rights and debts with related parties during the reporting period:

Unit: RMB '000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	18,064,678	-3,213,799	14,850,879	6,056,849	14,789,206	20,846,055
Sinopec Finance Company Limited	-	-	-	2,295,000	-1,035,000	1,260,000
Sinopec Century Bright Capital Investment Limited	-	-	-	9,977,261	-257,187	9,720,074
Total	18,064,678	-3,213,799	14,850,879	18,329,110	13,497,019	31,826,129
Causes of connected claims and debts	Normal production and operation					

Influence of connected claims and debts on the Company	No material adverse effect
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(5) 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% or more of its total profits for the current period.

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

(7) The appointment and dismissal of the accounting firm during the reporting period.

Whether or not change the accounting firm	No
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	2
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The audit period for the overseas accounting firm	2
The remuneration of the domestic and overseas accounting firm	RMB 9,600,000
The name of the internal control accounting firm	Grant Thornton (Special General Partnership)
The remuneration of the internal control accounting firm	RMB 2,000,000

The description for the appointment and removal of the auditor:

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

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

(8) The special undertakings by the Company and its shareholders with holdings of more than 5% and the implementation of commitments for the year ended 31 December 2016:

Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
Undertakings regarding share reform	Sinopec, CITIC Limited	within 12 months from the date their non-tradable A shares in the Company have obtained the right to be tradable on the stock market, they will propose that, subject to compliance with the relevant systems of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance and CSRC, the board of directors of the Company makes a proposal for a share option incentive scheme, with the exercise price of the first grant of share options being not less than RMB 6.64 per A share, being the closing price of the A Shares on 30 May 2013 (such minimum exercise price will be subject to adjustment due to matters for exclusion of rights and dividends prior to the announcement of the proposal for the share option incentive scheme)	19 August 2014	As at 19 August 2014, the Company does not have the conditions of the implementation of equity incentive plan due to the consecutive losses of operating results. China Petrochemical Corporation Board of Directors of the Company made the commitment to draw share option incentive scheme after the completion of Material Assets Reorganisation under the related regulation. On 29 March 2016, the Company held the eighth meeting of the eighth session of the Board of Directors, and approved proposals related with share

				option incentive. Related proposals were approved at the 2016 first A shareholders class meeting, the 2016 first H shareholders class meeting and the 2016 first extraordinary general meeting held on 25 October 2016.
Undertakings regarding the major asset restructuring	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 major asset restructuring, 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 major asset restructuring, China Petrochemical Corporation will find the appropriate opportunity to sell the Petroleum Service Business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the major asset restructuring, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Undertakings regarding the major asset restructuring	China Petrochemical Corporation	The Commitment of Regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

		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.		
Undertakings regarding the major asset restructuring	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 independence of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2\ China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding company. 3\ If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

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

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

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

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

To further establish and improve the Company's operational mechanism, establish and improve the incentive and restraint mechanism for the senior management members of the Company, advocate the concept of sustainable development achieved by the Company together with the management and key

personnel, effectively incentivise the management team and key personnel, attract and retain talents, enhance the Company's competitive position in the industry, increase the core competitiveness of the Company, and ensure the realisation of the Company's development strategy and operational objectives.

b. Participants of the Scheme

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

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

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

d. Maximum entitlement of each participant

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

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

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

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

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

f. The shortest vesting period before exercising the share options

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

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

None

h. Determination of the exercise price

I. Exercise price of the Proposed Grant

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

- i. the average trading price of the A shares of the Company on the trading day immediately preceding the date of the announcement under the Scheme; (RMB4.84);
- ii. at least one of the average trading price of A shares during the last 20 trading days, 60 trading days or 120 trading days preceding the date of the announcement under the Scheme (RMB5.30, RMB5.57 and RMB7.38, respectively); and
- iii. RMB4.43 per share. All shareholders of non-circulating shares of SSC undertook in the equity division reform plan of the Company in August 2013 that they would propose to the Board a share option scheme subject to compliance with the relevant regulations of the SASAC under the State Council and the CSRC, with an initial Exercise Price of the Share Options no lower than RMB6.64 per share. (If there is occurrence of any ex-right or ex-dividend event before the release of the draft share option scheme, the price shall be adjusted accordingly). As the Company carried out capitalisation of surplus reserves in November 2013, the aforesaid initial Exercise Price of the Share Options, i.e. no less than RMB6.64 per share, is adjusted to no less than RMB4.43 per share. (If there is occurrence of any ex-right or ex-dividend event in the Company before the grant of Share Options, the price shall be adjusted accordingly).

In conclusion, the Exercise Price of the Proposed Grant shall be RMB5.63 per share.

II. Exercise price of any other grants of share options

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

- i. the average trading price of the A shares of the Company on the trading day immediately preceding the date of the announcement under the scheme;
- ii. at least one of the average trading price of A shares during the last 20 trading days, 60 trading days or 120 trading days preceding the date of the announcement under the scheme

i. Remaining period of validity

The validity period of this scheme expires at 24 October 2026.

Information on the Proposed Grant of the share option in 2016

a. Grant date: 1 November 2016

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

c. Number of participants: 477 persons

d. Exercise price of the Proposed Grant

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

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

f. Validity period and exercise arrangement under the Proposed Grant

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

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

The Proposed Grant covers 2 directors and 7 senior management, and the amount of share options granted to them is 1.67 million shares, accounting for 3.4% of the total amount of share options in the Proposed Grant, and accounting for 0.0119% of the total shares. For the amount of share options granted to each of them, please refer to chapter 4 – “**Information on share options scheme provided to directors, supervisors and senior management during the reporting period**”.

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

The Proposed Grant covers 468 key business personnel with holding core positions, and the amount of share options granted to them is 47.38 million shares, accounting for 96.6% of the total amount of the share options in the Proposed Grant, and accounting for 0.335% of the total shares. During the reporting period, the share options granted were not exercisable, and no share options were cancelled or lapsed.

(10). During the reporting period, neither the Company nor its other Directors, Supervisors, Senior Management, shareholders holding over 5% of the Company’s shares 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 unsuitability to act as directors thereby by other administrative authorities or any public criticisms made by a stock exchange.

7. FINANCIAL REPORT

7.1 Audit Opinion

The financial statements of the Group for the year ended 31 December 2016, prepared in accordance with the PRC ASBE have been audited by Liu Zhizeng and Wang Tao of Grant Thornton (Special General Partnership), which has issued unqualified opinion on 28 March 2017. Also, the financial statements of the Group for the year ended 31 December 2016, prepared in accordance with IFRS have been audited by Grant Thornton Hong Kong Limited, which has issued unqualified opinion on 28 March 2017.

7.2 Financial Statements prepared in accordance with IFRS

The following financial information were extracted from the audited financial statements of the Company for the year ended 31 December 2016, which were prepared in accordance with the IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	2	42,923,500	60,349,334
Cost of sales and business taxes		(54,001,774)	(55,317,074)
Gross (loss)/profit		(11,078,274)	5,032,260
Selling expenses		(58,558)	(62,315)
General and administrative expenses		(3,756,029)	(4,043,145)
Finance (expenses)/income - net	4	(449,703)	(654,684)
Impairment losses on assets		(754,346)	(171,376)
Investment income	5	500	642
Share of profit/(loss) from joint ventures		572	(11,958)
Share of profit from associates		407	-
Operating (loss)/profit		(16,095,431)	89,424
Other income	6	337,844	471,912
Other expenses	7	(129,594)	(91,617)
(Loss)/Profit before income tax	8	(15,887,181)	469,719
Income tax expense	9	(311,196)	(481,421)
Loss for the year		(16,198,377)	(11,702)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive expense for the year		(16,198,377)	(11,702)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Total comprehensive expense for the year attributable to :			
Owners of the Company		(16,198,242)	(11,543)
Non-controlling interests		(135)	(159)
Total comprehensive expense for the year		(16,198,377)	(11,702)
		RMB	RMB
Loss per share for loss attributable to owners of the Company (presented in RMB per share)			
Basic and diluted	10	(1.145)	(0.001)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	As at 3 1 December 2016 RMB'000	As at 31 December 2015 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		29,674,103	31,718,367
Other non-current assets		4,048,981	4,775,091
Prepaid land leases		108,178	104,954
Intangible assets		77,147	77,249
Interests in joint ventures		209,444	208,922
Interests in associates		11,885	7,478
Available-for-sale financial assets		24,389	40,494
Deferred income tax assets		183,548	187,430
Total non-current assets		34,337,675	37,119,985
Current assets			
Inventories		1,453,729	1,978,726
Notes and trade receivables	12	24,759,158	27,262,259
Prepayments and other receivables		3,628,021	4,144,668
Amounts due from customers for contract works		7,864,648	12,790,549
Restricted cash		3,012	18,381
Cash and cash equivalents		2,446,923	1,993,209
Total current assets		40,155,491	48,187,792
Total assets		74,493,166	85,307,777

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2016

	Notes	As at 31 December 2016 RMB'000	As at 3 1 December 2015 RMB'000
Equity			
Share capital		14,142,661	14,142,661
Reserves		(5,699,793)	10,495,433
Equity attributable to owners of the Company		8,442,868	24,638,094
Non-controlling interests		(1,276)	(1,141)
Total equity		8,441,592	24,636,953
Liabilities			
Non-current liabilities			
Long term borrowings		796,634	670,123
Deferred income		112,171	59,008
Special payables		-	1,051
Deferred income tax liabilities		27,280	31,251
Total non-current liabilities		936,085	761,433
Current liabilities			
Notes and trade payables	13	30,310,227	30,193,846
Deposits received and other payables		8,473,882	9,508,867
Amounts due to customers for contract works		8,983,973	7,804,513
Short term borrowings		17,254,639	12,157,672
Current income tax payable		92,768	244,493
Total current liabilities		65,115,489	59,909,391
Total liabilities		66,051,574	60,670,824
Total equity and liabilities		74,493,166	85,307,777
Net current liabilities		(24,959,998)	(11,721,599)
Total assets less current liabilities		9,377,677	25,398,386

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1 General information, the Reorganisation and basis of presentation

1.1 General information and the Reorganisation

Sinopec Oilfield Service Corporation (the “Company”) is a joint stock company with limited liability established in the People’s Republic of China (the “PRC”). The registered office is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC and the headquarter address is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation (“SSC”) with effect from 20 March 2015.

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the “Sinopec Group”) 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 中石化石油工程技术服务有限公司 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 General information, the Reorganisation and basis of presentation (Continued)

1.2 Basis of presentation

As at 31 December 2016, the Group had net current liabilities of approximately RMB 24,959,998,000 (2015: RMB 11,721,599,000) and capital commitments of approximately RMB640 million; and it had a net loss of RMB16,198,377,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. On 21 March 2017, the Group obtained a line of credit of RMB10.5billion and USD1.7billion (Total: approximately RMB 22 billion) from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

1.3 Consolidation Financial statements

These consolidation financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 28 March 2017.

2 REVENUE

The Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Geophysics	3,605,962	5,340,826
Drilling engineering	19,405,525	28,743,959
Logging and mud logging	1,538,534	2,474,434
Special downhole operations	3,879,024	6,928,400
Engineering construction	12,878,284	15,614,180
Others	1,616,171	1,247,535
	42,923,500	60,349,334

3 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, 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.

3 SEGMENT INFORMATION (Continued)

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

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

Segment information of each reportable segment were reported and disclosed to the senior executive management in accordance with the accounting policies and the respective measurement bases. These accounting policies and measurement bases were the same as those used in for the preparation of the financial statements.

3 SEGMENT INFORMATION (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 2016 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016								
Segment revenue and results								
Revenue from external customers	3,605,962	19,405,525	1,538,534	3,879,024	12,878,284	1,616,171	-	42,923,500
Inter-segment income	-	175,157	63,994	46,439	69,728	514,970	(870,288)	-
Segment revenue	3,605,962	19,580,682	1,602,528	3,925,463	12,948,012	2,131,141	(870,288)	42,923,500
Reportable segment loss	(1,072,412)	(7,534,523)	(887,153)	(1,353,748)	(4,672,109)	(575,486)	-	(16,095,431)
Other income	19,209	153,513	9,627	34,434	44,477	76,584	-	337,844
Other expenses	(42,126)	(50,900)	(5,213)	(12,147)	(20,960)	1,752	-	(129,594)
Loss before income tax	(1,095,329)	(7,431,910)	(882,739)	(1,331,461)	(4,648,592)	(497,150)	-	(15,887,181)
Income tax expense								(311,196)
Loss for the year								(16,198,377)

3 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: (Continued)

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
Year ended 31 December 2016								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	499,132	1,781,430	197,607	452,362	213,706	159,859	-	3,304,096
-- Other non-current assets	115,577	1,849,565	70,326	108,614	28,251	12,955	-	2,185,288
-- Prepaid land leases	-	417	417	1,536	446	-	-	2,816
-- Intangible assets	651	27,779	956	1,046	5,948	3,519	-	39,899
Capital expenditure								
-- Property, plant and equipment	317,188	788,302	29,671	168,246	67,078	23,856	-	1,394,341
-- Prepaid land leases	-	-	-	6,040	-	-	-	6,040
-- Intangible assets	-	9,990	-	877	8,785	13,594	-	33,246
-- Long-term investment	-	-	-	-	-	4,000	-	4,000
Impairment loss on trade receivables	42,967	160,539	33,010	156,705	203,914	3,231	-	600,366
Impairment loss on /(Reversal of) other receivables	3,800	5,726	61	244	129,694	(13,306)	-	126,219
Expected loss on contracts work-in-progress	-	-	-	-	11,656	-	-	11,656
Impairment loss on available-for-sales financial assets	-	-	-	-	-	16,105	-	16,105
As at 31 December 2016								
Assets								
Segment assets	5,757,665	36,873,638	3,477,663	9,009,124	18,465,114	18,576,616	(17,666,654)	74,493,166
Liabilities								
Segment liabilities	4,027,462	22,347,804	1,999,770	4,307,503	23,986,109	27,049,580	(17,666,654)	66,051,574

3 SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2015 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015								
Segment revenue and results								
Revenue from external customers	5,340,826	28,743,959	2,474,434	6,928,400	15,614,180	1,247,535	-	60,349,334
Inter-segment income	4,790	505,715	829,819	192,435	157,793	837,745	(2,528,297)	-
Segment revenue	5,345,616	29,249,674	3,304,253	7,120,835	15,771,973	2,085,280	(2,528,297)	60,349,334
Reportable segment profit/(loss)	17,138	77,768	16,943	411,716	(426,822)	(7,319)	-	89,424
Other income	31,553	238,196	21,322	30,653	47,074	103,114	-	471,912
Other expenses	(6,129)	(48,846)	(5,912)	(7,424)	(20,879)	(2,427)	-	(91,617)
Profit/(loss) before income tax	42,562	267,118	32,353	434,945	(400,627)	93,368	-	469,719
Income tax expense								(481,421)
Loss for the year								(11,702)

3 SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2015 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
Year ended 31 December 2015								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	515,899	2,223,171	275,624	434,714	220,867	252,236	-	3,922,511
-- Other non-current assets	95,213	1,938,775	131,290	139,640	23,222	14,067	-	2,342,207
-- Prepaid land leases	-	525	417	126	446	-	-	1,514
-- Intangible assets	788	3,643	2,422	1,194	4,718	4,658	-	17,423
Capital expenditure								
-- Property, plant and equipment	256,947	2,991,540	128,297	1,173,991	63,226	26,108	-	4,640,109
-- Prepaid land leases	-	-	-	55,361	-	-	-	55,361
-- Intangible assets	692	36,668	21	2,616	11,484	1,948	-	53,429
-- Long-term investment	-	-	-	-	-	120,392	-	120,392
Impairment loss on trade receivables	21,823	23,225	14,402	36,989	49,049	2,906	-	148,394
Impairment loss on /(Reversal of) other receivables	1,512	(649)	33	(4,323)	36,179	(9,770)	-	22,982
Reversal of expected loss on contracts work-in-progress	-	-	-	-	(4,128)	-	-	(4,128)
As at 31 December 2015								
Assets								
Segment assets	6,271,544	43,881,210	3,460,699	11,398,121	20,978,881	15,996,289	(16,678,967)	85,307,777
Liabilities								
Segment liabilities	3,466,176	21,716,987	1,041,834	4,934,069	21,549,797	24,640,928	(16,678,967)	60,670,824

3 SEGMENT INFORMATION (Continued)

(b) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	30,170,197	46,441,077	28,943,361	30,848,215
Other countries	12,753,303	13,908,257	5,186,377	6,043,846
	42,923,500	60,349,334	34,129,738	36,892,061

(c) Major customer

For the years ended 31 December 2016 and 2015, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2016	2015
	RMB'000	RMB'000
Customer A	22,878,129	38,030,533

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and accounted for more than 50% of the Group's revenue.

4 FINANCE (EXPENSES)/ INCOME - NET

	2016 RMB'000	2015 RMB'000
Finance income		
Interest income from entrusted loans		
- Sinopec Group's subsidiaries	27,555	2,406
Interest income		
- Sinopec Group's subsidiaries	2,533	1,602
- Third-party banks and other financial institutions	31,723	36,665
	61,811	40,673
Finance expenses		
Interest expenses on bank loans wholly repayable within 5 years		
- Sinopec Group's subsidiaries	(486,755)	(335,616)
- Third-party banks and other financial institutions	(9,316)	(5,063)
Capitalisation of interest expenses for qualifying assets (i)	21,006	32,239
Exchange gains/(losses), net	57,250	(334,117)
Bank and other charges	(93,699)	(52,800)
	(511,514)	(695,357)
	(449,703)	(654,684)

Note:

- (i) Qualifying assets represent property, plant and equipment, its related interest expenses had been capitalised at rates of 3.92% to 6.83% (2015: 3.12% to 5.86%) per annum.

5 INVESTMENT INCOME

	2016 RMB'000	2015 RMB'000
Investment income from available-for-sale financial assets	500	642

6 OTHER INCOME

	2016 RMB'000	2015 RMB'000
Gain on disposal of property, plant and equipment	12,158	10,126
Gain on disposal of other non-current assets	6,130	18,625
Government grants	250,859	381,690
Waived payables	8,344	35,404
Penalty income	23,612	4,238
Compensation received	1,991	3,217
Asset inventory surplus	200	1,169
Others	34,550	17,443
	<u>337,844</u>	<u>471,912</u>

7 OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Loss on disposal of property, plant and equipment	85,259	28,480
Loss on disposal of other non-current assets	1,341	-
Loss on scraps of assets	1,017	9,127
Penalty	6,890	20
Donation	301	9,375
Compensation	10,714	11,959
Others	24,072	32,656
	<u>129,594</u>	<u>91,617</u>

8 (LOSS)/PROFIT BEFORE INCOME TAX

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

	2016	2015
	RMB'000	RMB'000
Staff costs, including directors and supervisors emoluments	13,939,756	15,915,588
Retirement benefit plan contribution (included in the above mentioned staff costs)		
—Municipal retirement scheme costs	1,274,423	1,273,687
—Supplementary retirement scheme costs	332,770	344,299
—Share options granted to directors and employees	3,016	-
Cost of goods sold	12,338,591	13,821,642
Depreciation and amortisation		
—Property, plant and equipment	3,304,096	3,922,511
—Other non-current assets	2,185,288	2,342,207
—Prepaid land leases	2,816	1,514
—Intangible assets	39,899	17,423
Operating lease expenses		
—Property, plant and equipment	1,619,385	1,621,573
Provision for/(Reversal of) impairment losses		
—Trade and other receivables	726,585	171,376
—Available-for-sale financial assets	16,105	-
—Expected loss on contracts work-in-progress	11,656	(4,128)
Rental income from property, plant and equipment less relevant expenses	(7,436)	(12,806)
Research and development expenses	362,586	448,185
Losses/(Gains) on disposal/write-off of property, plant and equipment	73,101	18,354
Gains on disposal/write-off of other non-current assets	(4,789)	(18,625)
Auditors' remuneration	5,307	6,892
Exchange (gains)/losses, net	(57,250)	334,117

9 INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax		
PRC enterprise income tax	356	276,816
Overseas enterprise income tax	310,929	251,000
	311,285	527,816
Deferred income tax		
Origination and reversal of temporary difference	(89)	(46,395)
Income tax expense	311,196	481,421

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2016 and 2015 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the period, for the years ended 31 December 2016 and 2015, the majority of the companies of the Group are subject to 25% income tax rate.

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

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

	2016 RMB'000	2015 RMB'000
(Loss)/profit before income tax	(15,887,181)	469,719
Taxation calculated at the statutory tax rate	(3,971,795)	117,430
Income tax effects of:		
Difference in overseas profits tax rates	167,863	(18,015)
Non-deductible expenses	343,237	222,214
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(12,079)	(82,204)
Effect of unrecognised tax losses and deductible temporary differences	3,871,339	236,966
Adjustments of current tax in previous years	(17,943)	72,017
Equity method accounting for the joint venture and associates' profit or loss	(245)	2,990
Effect on opening deferred tax balances arising from change in tax rates during the year	4,776	-
Tax effect on research and development expenses	(73,957)	(69,977)
Income tax expense	311,196	481,421

10 LOSS PER SHARE

(a) Basic

For the years ended 31 December 2016 and 2015, the basic loss per share is calculated by dividing the loss attributable to owners of the Company.

	2016	2015
Loss for the year attributable to owners of the Company (RMB'000)	(16,198,242)	(11,543)
Weighted average number of ordinary shares in issue (Shares)	14,142,660,995	13,981,930,401
Basic loss per share (RMB)	(1.145)	(0.001)

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015, and therefore the diluted loss per share for the years ended 31 December 2016 and 2015 were the same as the basic loss per share.

11 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

12 NOTES AND TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables		
- Sinopec Group and its subsidiaries	14,464,757	17,797,091
- Joint ventures	13	1,078
- Sinopec Group and its associates and joint ventures	214,270	283,281
- Third parties	10,405,667	9,617,468
	25,084,707	27,698,918
Less: Provision for impairment	(1,177,173)	(577,791)
Trade receivables-net	23,907,534	27,121,127
Notes receivables	851,624	141,132
Notes and trade receivables-net	24,759,158	27,262,259

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

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

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

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

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

	2016 RMB'000	2015 RMB'000
Within 1 year	20,558,241	23,814,935
1 to 2 years	3,135,366	2,613,848
2 to 3 years	804,418	600,288
Over 3 years	261,133	233,188
	24,759,158	27,262,259

12 NOTES AND TRADE RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
Not yet due	17,145,465	21,758,477
Overdue within 3 months	1,304,452	1,316,086
Overdue 3 months but within 6 months	1,286,422	694,806
Overdue 6 months but within 1 year	2,821,983	3,066,529
Overdue 1 year but within 2 years	1,958,365	361,772
Overdue over 2 years	242,471	64,589
	24,759,158	27,262,259

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

	2016 RMB'000	2015 RMB'000
At 1 January	577,791	429,415
Provisions	630,020	187,610
Reversal	(29,654)	(39,216)
Receivables write-off as uncollectible	(984)	(18)
At 31 December	1,177,173	577,791

13 NOTES AND TRADE PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables		
- Sinopec Group and its subsidiaries	1,979,856	2,071,793
- Joint ventures	85,043	31,983
- Sinopec Group and its associates and joint ventures	58,918	81,400
- Third parties	26,172,913	26,723,925
	28,296,730	28,909,101
Notes payables	2,013,497	1,284,745
	30,310,227	30,193,846

As at 31 December 2016 and 2015, the carrying amounts of the Group's notes and trade payables were approximately their fair values.

13 NOTES AND TRADE PAYABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
Within 1 year	21,027,583	21,307,084
1 to 2 years	5,221,330	5,574,874
2 to 3 years	2,201,443	2,148,850
Over 3 years	1,859,871	1,163,038
	<u>30,310,227</u>	<u>30,193,846</u>

7.3 Financial statements prepared in accordance with PRC ASBE

The following financial information has been extracted from the Company's audited financial statements, prepared in accordance with PRC ASBE for the year ended 31 December 2016.

Consolidated Balance sheet

(Expressed in thousands of Renminbi Yuan)

Assets	<u>2016</u>	<u>2015</u>
Current assets:		
Cash at bank and on hand	2,449,935	2,011,590
Notes receivable	851,624	141,132
Accounts receivable	23,907,534	27,121,127
Advances to suppliers	352,972	460,035
Dividend receivable	23	6
Other receivables	2,822,409	2,432,785
Inventories	9,318,377	14,769,275
Non-current assets due within one year	1,011,028	2,493,030
Other current assets	416,676	82,062
Total current assets	41,130,578	49,511,042
Non-current assets:		
Available-for-sale financial assets	24,389	40,494
Long-term equity investments	221,329	216,400
Fixed assets	28,807,257	29,008,189
Construction in progress	866,846	2,710,178
Disposal of fixed assets	2,066	4,023
Intangible assets	185,325	182,203
Long-term prepaid expenses	3,071,828	3,447,818
Deferred tax assets	183,548	187,430
Total non-current assets	33,362,588	35,796,735
Total assets	74,493,166	85,307,777

Consolidated Balance sheets (continued)*(Expressed in thousands of renminbi yuan)*

Liabilities and shareholders' equity	<u>2016</u>	<u>2015</u>
Current liabilities :		
Short-term loans	17,033,731	12,070,312
Notes payable	2,013,497	1,284,745
Accounts payable	28,296,730	28,909,101
Advances from customers	10,673,978	9,263,970
Employee benefits payable	171,657	187,561
Taxes payable	1,050,339	2,612,168
Interest payable	73,627	14,823
Other payables	5,541,678	5,473,433
Non-current liabilities due within one year	220,908	87,360
Other current liabilities	15,267	-
Total current liabilities	65,091,412	59,903,473
Non-current liabilities:		
Long-term loans	763,070	618,969
Long-term payables	57,641	57,072
Special payables	-	1,051
Deferred income	112,171	59,008
Deferred income tax liabilities	27,280	31,251
Total non-current liabilities	960,162	767,351
Total liabilities	66,051,574	60,670,824
Shareholders' equity :		
Share capital	14,142,661	14,142,661
Capital reserve	8,897,232	8,894,216
Specific reserve	176,068	259,547
Surplus reserve	200,383	200,383
Retained earnings	-14,973,476	1,141,287
Equity attributable to the owners of the Company	8,442,868	24,638,094
Minority interests	-1,276	-1,141
Total shareholders' equity	8,441,592	24,636,953
Total liabilities and shareholders' equity	74,493,166	85,307,777

Consolidated Income statements
(Expressed in thousands of Renminbi Yuan)

	<u>2016</u>	<u>2015</u>
1. Revenue	42,923,500	60,349,334
2. Less: Cost of sales	53,516,744	54,568,960
Business taxes and surcharges	401,551	712,093
Selling and distribution expenses	58,558	62,315
General and administrative expenses	3,756,029	4,043,145
Financial costs	477,258	657,090
Impairment losses on assets	754,346	171,376
Add: Investment income (loss in “-”)	29,034	-8,910
Including: Investment income from investment in association and joint venture	979	-11,958
3. Operating profit (loss in “-”)	-16,011,952	125,445
Add: Non-operating income	337,844	471,912
Including: Gains from disposal of non-current assets	18,288	28,751
Less: Non-operating expenses	129,594	91,617
Including: Losses from disposal of non-current assets	86,600	28,489
4. Profit before income tax (loss in “-”)	-15,803,702	505,740
Less: Income tax expenses	311,196	481,421
5. Net profit for the year (loss in “-”)	-16,114,898	24,319
Including: Profit from combined party before business combination under common control	-	-
Profit for the year/period attributable to:		
- The owners’ of the Company	-16,114,763	24,478
- Minority interests	-135	-159
6. Earnings per share :		
(1) Basic earnings per share (in RMB)	-1.139	0.002
(2) Diluted earnings per share (in RMB)	-1.139	0.002
7. Other comprehensive income for the year		
8. Total comprehensive income for the year	-16,114,898	24,319
Total comprehensive income for the year/period attributable to:		
- The owners’ of the Company	-16,114,763	24,478
- Minority shareholders	-135	-159

Consolidated Cash flow statement
(Expressed in thousands of renminbi yuan)

	Note	<u>2016</u>	<u>2015</u>
1. Cash flows from operating activities:			
Cash received from sale of goods		47,690,251	65,281,258
Refund of taxes		224,461	315,041
Cash received from other operating activities		<u>3,307,468</u>	<u>3,204,955</u>
Sub-total of cash inflow		<u>51,222,180</u>	<u>68,801,254</u>
Cash paid for goods and services		33,405,999	41,795,765
Cash paid to and for employees		13,858,573	15,761,606
Cash paid for all types of taxes		3,274,857	5,516,054
Cash paid relating to other operating activities		<u>4,590,069</u>	<u>3,151,900</u>
Sub-total of cash outflows		<u>55,129,498</u>	<u>66,225,325</u>
Net cash outflow from operating activities	(1)	<u>-3,907,318</u>	<u>6,746,135</u>
2. Cash flows from investing activities :			
Cash received from disposal of investment		951,000	
Cash received from the investment income		28,055	3,007
Net cash received from disposal of fixed assets		17,146	26,518
Cash received relating to other investing activities		<u> </u>	<u> </u>
Sub-total of cash inflows		<u>996,201</u>	<u>29,525</u>
Cash paid for acquisition of fixed assets and intangible assets		1,228,157	3,853,945
Cash paid for investment in a joint venture		4,000	1,217,392
Cash paid for other investing activities		<u> </u>	<u> </u>
Sub-total of cash outflows		<u>1,232,157</u>	<u>5,071,337</u>
Net cash outflow from investing activities		<u>-235,956</u>	<u>-5,041,812</u>

Consolidated Cash flow statement (continued)
(Expressed in thousands of renminbi yuan)

	Note	<u>2016</u>	<u>2015</u>
3. Cash flows from financing activities:			
Cash received from the acquisition of investments		-	5,954,000
Cash received from borrowings		52,017,245	55,567,800
Cash received for other financing activities		5,071	25,932
Sub-total of cash inflows		<u>52,022,316</u>	<u>61,547,732</u>
Cash paid for repayments of borrowings		47,074,937	56,227,818
Cash paid for distribution of dividend, profit or payments of interests		431,845	333,053
Cash paid for other financing activities		<u>54,013</u>	<u>1,793,139</u>
Sub-total of cash outflows		<u>47,560,795</u>	<u>58,354,010</u>
Net cash inflow from financing activities		<u>4,461,521</u>	<u>3,193,722</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>135,467</u>	<u>63,616</u>
5. Net decrease in cash and cash equivalents	(1)	453,714	791,455
Add: Cash and cash equivalents at the beginning of the year		<u>1,993,209</u>	<u>1,201,754</u>
6. Cash and cash equivalents at the end of the year		<u>2,446,923</u>	<u>1,993,209</u>

Notes to cash flow statements

(1) Supplement to cash flow statement

(a) Reconciliation of net loss to cash flows from operating activities:

<u>Item</u>	<u>2016</u>	<u>2015</u>
Net losses	-16,114,898	24,319
Add: Impairment provision for assets	754,346	171,376
Depreciation of fixed assets	3,304,096	3,922,511
Amortisation of intangible assets	42,715	18,937
Amortisation of long-term prepaid expenses	2,185,288	2,342,209
Net loss/(gains) on disposal of fixed assets	70,658	(262)
Losses/(gains) on retirement of fixed assets	1,017	9,375
Financial income	454,809	648,779
Investment income	-29,034	8,910
Decrease/(Increase) in deferred tax assets	3,882	(30,751)
Increase/(Decrease) in deferred tax liabilities	-3,971	(15,644)
Decrease in gross inventories	5,439,242	(2,833,004)
Increase in specific reserves	-83,479	(36,021)
Increase in operating receivables	1,159,341	1,296,286
(Decrease) in operating payables	-1,094,346	(2,951,091)
Payment of unexercised share options	3,016	-
Net cash outflow from operating activities	<u>-3,907,318</u>	<u>2,575,929</u>

(b) Changes in cash and cash equivalents:

<u>Item</u>	<u>2016</u>	<u>2015</u>
Cash at the end of the year	2,446,923	1,993,209
Less: Cash at the beginning of the year	<u>1,993,209</u>	<u>1,201,754</u>
Net decrease in cash and cash equivalents	<u>453,714</u>	<u>791,455</u>

(2) Details of cash and cash equivalents

<u>Item</u>	<u>2016</u>	<u>2015</u>
Cash on hand	9,734	9,221
Bank deposits available on demand	2,383,630	1,983,693
Other monetary funds available on demand	53,559	295
Closing balance of cash	<u>2,446,923</u>	<u>1,993,209</u>
Add: Restricted cash	<u>3,012</u>	<u>18,381</u>
Closing balance of cash and cash equivalents	<u>2,449,935</u>	<u>2,011,590</u>

Statement of changes in shareholders' equity
(Expressed in thousands of Renminbi Yuan)

	2016							2015						
	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
								12,809,328						
1. Balance at the end of the last year	14,142,661	8,894,216	259,547	200,383	1,141,287	-1,141	24,636,953		4,275,032	295,568	200,383	1,116,809	-982	18,696,138
Adjustment for the acquisition of the acquired group	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at the beginning of the year	14,142,661	8,894,216	259,547	200,383	1,141,287	-1,141	24,636,953	12,809,328	4,275,032	295,568	200,383	1,116,809	-982	18,696,138
3. Changes in equity for the year ("+" for increases, "-" for decreases)		3,016	-83,479		-16,114,763	-135	-16,195,361	1,333,333	4,619,184	-36,021		24,478	-159	5,940,815
(1) Total comprehensive income					-16,114,763	-135	-16,114,898					24,478	-159	24,319
(2) Increase or decrease of capital		3,016					3,016	1,333,333	4,619,184					5,952,517
(a) Contribution of capital		3,016					3,016	1,333,333	4,619,184					5,952,517
(b) Others														
Sub-total of (1) & (2)		3,016					3,016	1,333,333	4,619,184					5,952,517
(3) Appropriation of profits														
(a) Appropriation for surplus reserve														
(b) Distributions to shareholders														
Sub-total of (a) & (b)														
(4) Specific reserve			-83,479				-83,479			-36,021				-36,021
(a) Accrued			615,847				615,847			951,980				951,980
(b) Utilised			-699,326				-699,326			-988,001				-988,001
Sub-total of (a) & (b)			-83,479				-83,479			-36,021				-36,021
4. Balance at the end of the year	14,142,661	8,897,232	176,068	200,383	-14,973,476	-1,276	8,441,592	14,142,661	8,894,216	259,547	200,383	1,141,287	-1,141	24,636,953

7.4 Reconciliation statement of differences in the financial statements prepared under different financial reporting standards

The differences between and the financial statements prepared under IFRS and PRC ASBE are as follows:

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

(a) Specific reserve

Under PRC ASBE, accrued production safety fund is recognised as expense in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. As using production safety fund, if it is profit or loss related, the cost of expenditure is directly charged against the specific reserves. While if it is capital expenditure related, the cost of fixed asset is offset against the specific reserves and the same amount of accumulated depreciation is recognised, then the fixed asset is no longer depreciated in its useful life. Under IFRS, these expenses are recognised in profit or loss as and when incurred. Relevant capital expenditure are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

8. OTHER ITEMS

(1) Annual Report

The Company will dispatch the 2016 Annual Report to its H shareholders in due course.

(2) Compliance with the Code of Corporate Governance Practices and the Model Code

For the year ended on 31 December 2016, the Company has complied with all the code provisions under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that:

The Company has not set up a nomination committee as at the end of the reporting period. But the Articles of Association of the Company has stipulated clear rules for the nomination of the Director candidates. 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 1% of the issued shares of the Company. The candidates for other directors can be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than 3% of the issued shares of the Company. All Directors should be elected by the shareholders' general meeting of the Company.

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

During the reporting period, the Audit Committee under the eighth term of the Board held five meetings and reviewed the Company's 2015 Financial Statements, Interim Report for 2016 and continuing connected transactions and formed its independent opinion.

The Audit Committee under the eighth term of the Board held the thirteenth meeting on 27 March 2017 and reviewed and passed the resolution regarding the 2016 Financial Statements, proposed re-appointment of the auditors of the Company and performance report of the Audit Committee of the Company.

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

During the year ended at 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

(4) A detailed Annual Report of the Company containing all the information required by Paragraphs 6 to 36 of Appendix 16 to the Listing Rules will be published on the website of the HKSE in due course.

This announcement is published in both Chinese and English. Should there be any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

By Order of the Board
Li Honghai
Secretary to the board

28 March 2017, Beijing

As at the date of this announcement, the Board of Directors comprises Mr. Jiao Fangzheng+, Mr. Sun Qingde#, Mr. Zhou Shiliang#, Mr. Li Lianwu+, Mr. Zhang Hong+, Ms. Jiang Bo*, Mr. Zhang Huaqiao* and Mr. Pan Ying*.

+ Non-Executive Director

Executive Director

* Independent Non-Executive Director