Sinopec Oilfield Service Corporation

(a joint stock limited company established in the People's Republic of China)

(Stock code: 1033)

Announcement on Annual Results 2017

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 2017 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 2017.

1. COMPANY PROFILE

(1). **Legal name:**	Sinopec Oilfield Service Corporation 中石化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. Shen Zehong

Address: 9#, Jishikou Road,Chaoyang District, Beijing, P.R.China
The Office of the Board of Director

Telephone: 86-10-59965998

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(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 INFORMATIONAND FINANCIAL INDICATORS

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

Unit: RMB'000

	As at 31 December				
	2017	2016	2015	2014	2013
Total assets	61,942,629	74,493,166	85,307,777	81,295,708	92,736,669
Total liabilities	64,046,629	66,051,574	60,670,824	62,599,570	62,003,460
Equity attributable to owners of the Company	（2,102,628）	8,442,868	24,638,094	18,697,120	30,648,271
Net assets per share attributable to owners of the Company[3] (RMB)	（0.15）	0.60	1.74	1.46	2.39
Equity ratio of owners	（3.39%）	11.33%	28.88%	23.00%	33.05%
Return on net assets	（502.04%）	(191.89%)	(0.05%)	12.93%	4.78%
	For the year ended 31 December				
	2017	2016	2015	2014	2013
Revenue[1]	**48,485,788**	42,923,500	60,349,334	78,993,315	89,729,072
(Loss) / profit before income tax[1]	**（10,317,673）**	(15,887,181)	469,719	3,320,072	2,179,996
Income tax expense /(credit) [1]	**238,555**	311,196	481,421	900,930	687,350
(Loss)/profit attributable to owners of the Company					
Including: continuing operations[2]	**（10,556,132）**	(16,198,242)	(11,543)	2,416,928	1,464,987
discontinued operations[2]	**-**	-	-	(1,159,620)	(1,450,019)
Basic and diluted (loss)/ earnings per share(RMB)					
Including: continuing operations[2]	**（0.746）**	(1.145)	(0.001)	0.159	0.096
discontinued operations[2]	**-**	-	-	(0.076)	(0.095)

Notes:

1. Information of 2017, 2016, 2015, and 2014 included continuing operation only.

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

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

2.2Principal financial indicators

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

2.3Extraordinary gain and loss items and amounts

Unit: RMB'000

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

(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 2017	For the year ended 31 December2016	**As at 31 December 2017**	As at 31 December 2016
PRC ASBE	**-10,582,541**	-16,114,763	**-2,102,628**	8,442,868
IFRS	**-10,556,132**	-16,198,242	**-2,102,628**	8,442,868

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

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

(2)Information on shareholders

2.1 Number of shareholders

As at 31 December 2017, the number of shareholders of the Company was 163,687, including 163,338 holders of A shares and 339 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules on the HKSE.

As at 28 February 2018, the number of shareholders of the Company was 166,406, including 166,062 holders of A shares and 344 registered holders of H shares.

2.2 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[1] 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") [2]	Overseas legal person	385,000	2,086,835,496	14.76	0	0
CITIC Limited	State-owned legal person	0	1,035,000,000	7.32	0	0
Darry Asset Management (Hangzhou) Co., Ltd.	Others	0	133,333,333	0.94	0	133,333,300
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	Others	-52,597,750	71,409,910	0.50	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.47	0	Unknown
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	Others	0	13,333,300	0.09	0	Unknown
Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	Others	0	10,842,727	0.08	0	Unknown
China Galaxy Securities Co., Ltd.	Others	3,321,200	8,200,113	0.06	0	Unknown

Shareholdings of top ten shareholders of shares without selling restrictions		
Name of shareholders	**Number of shares without selling restrictions held at the end of the reporting period (shares)**	**Types of shares**
HKSCC (Nominees) Limited*	2,086,835,496	H Share
CITIC Limited	1,035,000,000	A Share
Darry Asset Management (Hangzhou) Co., Ltd	133,333,333	A Share
Beijing Harvest Yuanhe Investment Center (Limited Partnership)	71,409,910	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	66,666,666	A Share
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share

Caitong Fund-China Everbright Bank-China Galaxy Securities Co., Ltd.	10,842,727	A Share
China Galaxy Securities Co., Ltd.	8,200,113	A Share
Hu Xucang	6,200,189	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan" and "Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan" belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

Note1: As compared with the number of shares held as of December 2016.
Note 2: Agent for different clients.

(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 2017, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**").

Name of shareholder	**Number of share held** (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 2017, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited("**Listing Rules**") of the Company.

(4)The controlling shareholder

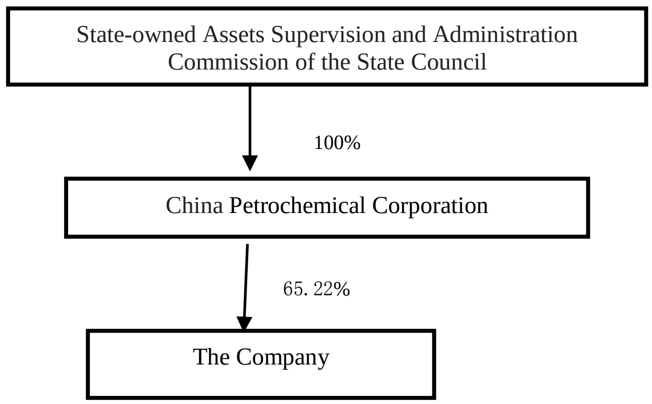
Name of the controlling shareholder: China Petrochemical Corporation, holding 65.22% of the Company's shares
Legal representative: Wang Yupu
Date of establishment: 14 September 1983
Registered capital: RMB 274.867 billion
Principal activities: Upon the reorganisation in 2000, China Petrochemical Corporation 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



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

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	55	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Sun Qingde	Vice Chairman	Male	56	6 June2016	7 February 2021	0	0	No Change	570,900	No
	General Manager			11 March 2016						
Chen Xikun	Director, Deputy General Manager	Male	53	8 February 2018	7 February 2021	0	0	No Change	243,150	No
	Former standing vice General manager			27 June 2017	8 February 2018					
Ye Guohua	Director	Male	49	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Lu Baoping	Director	Male	56	8 February 2018	7 February 2021	0	0	No Change	—	Yes
	Former Deputy Genearl Manager			30 August 2016	20 December 2017					
Fan Zhonghai	Director	Male	52	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Jiang Bo	Independent Non-Excutive Director	Female	62	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Zhang Huaqiao	Independent Non-Excutive Director	Male	54	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Pan Ying	Independent Non-Excutive Director	Male	48	16 December 2015	7 February 2021	0	0	No Change	200,000	No
Li Wei	Chairman of the Supervisory Board	Male	40	27 June 2017	7 February 2021	0	0	No Change	243,150	No
Zou Huiping	Supervisor	Male	57	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	53	16 June 2015	7 February 2021	0	0	No Change	—	Yes

Zhang Qin	Supervisor	Female	55	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Zhang Jianbo	Supervisor	Male	55	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Zhang Hongshan	Supervisor	Male	57	23 February 2017	7 February 2021	0	0	No Change	522,670	No
Huang Songwei	Supervisor Former Deputy General Manager	Male	53	27 June 2017 28 April 2015	7 February 2021 27 June 2017	0	0	No Change	503,300	No
Zhang Yongjie	Deputy General Manager	Male	54	9 February 2015	7 February 2021	0	0	No Change	603,000	No
Zuo Yaojiu	Deputy General Manager	Male	55	27 June 2017	7 February 2021	0	0	No Change	264,300	No
Zhang Jinhong	Deputy General Manager	Male	54	28 April 2015	7 February 2021	0	0	No Change	486,300	No
Li Tian	Chief Financial Manager	Male	43	29 August 2017	7 February 2021	0	0	No Change	162,100	No
Li Honghai	Secretary to the board	Male	54	9 February 2015	7 February 2021	0	0	No Change	387,100	No
Zhang Hong	Former Director	Male	59	16 June 2015	15 June 2017	0	0	No Change	—	Yes
Zhou Shiliang	Former Director, Former Deputy General Manager	Male	60	9 February 2015	8 February 2018	0	0	No Change	570,900	No
Li Lianwu	Former Director	Male	60	9 February 2015	8 February 2018	0	0	No Change	—	Yes
Hu Guoqiang	Former Chairman of Supervisory Committee	Male	53	28 April 2015	27 June 2017	0	0	No Change	243,150	No
Cong Peixin	Former Supervisor	Male	55	9 February 2015	27 June 2017	0	0	No Change	—	Yes
Du Guangyi	Former Supervisor	Male	52	9 February 2015	27 June 2017	0	0	No Change	274,950	No
Xu Weihua	Former	Male	54	9	22	0	0	No	104,500	No

	Supervisory			February 2015	February 2017			Change		
Liu Rushan	Former Deputy General Manager	Male	56	9 February 2015	27 June 2017	0	0	No Change	264,300	No
Wang Hongchen	Former Chief Financial Manager	Male	54	9 February 2015	29 August 2017	0	0	No Change	324,200	No

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

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

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

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

e. Mr. Zhang Hongshan has served on February 23, 2017 and received 10 months of salary in 2017.

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

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

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

(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 the beginning of 2017	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (yuan/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period(yuan /share)
Sun Qingde	Vice Chairman , General Manager	210,000	0	0	0	5.63	210,000	2.67
Lu Baoping	Director, Former Deputy General Manager	190,000	0	0	0	5.63	190,000	2.67

Huang Songwei	Supervisor	180,000	0	0	0	5.63	180,000	2.67
Zhang Yongjie	Deputy Manager	190,000	0	0	0	5.63	190,000	2.67
Liu Rushan	Deputy Party Secretary	190,000	0	0	0	5.63	190,000	2.67
Zuo Yaojiu	Deputy Manager	180,000	0	0	0	5.63	180,000	2.67
Zhang Jinhong	Deputy Manage	180,000	0	0	0	5.63	180,000	2.67
Li Honghai	Secretary to the Board	140,000	0	0	0	5.63	140,000	2.67
Zhou Shiliang	Former Director, Former Deputy Manger	210,000	0	0	0	5.63	210,000	2.67
Wang Hongchen	Former Chief Financial Manager	180,000	0	0	0	5.63	180,000	2.67
Total	/	1,850,000	0	0	0	/	1,850,000	/

(3) Changes in Directors, Supervisors and Senior Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 2017, 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

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

1.2 Operations Review

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

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

1.2.1 Geophysical service

In 2017, the Company's operation revenue in geophysical service was RMB 3,980,069,000, representing an increase of 10.4% than the same period of the previous year, for which the figure was RMB 3,605,915,000. The completed 2D seismic accumulated for 22,155 kilometers, an increase of 56.3% than the previous year; while the 3D seismic accumulated for 13,686 square kilometers, an increase of 8.3% than the previous year. The company broadly promoted the high-efficient vibroseis acquisition technology and significantly improved the quality of seismic data, with 2D and 3D records reaching quality rate of 100%. It also accelerated the movement to exploring the domestic market outside of

Sinopec and the overseas markets. For example, it won bid for 18 inland seismic projects of the China Geological Survey and Chinese Academy of Geological Sciences with contractual value of RMB 120 million. It also won 4 geophysical projects in Algeria with contractual value of USD 71.81 million and continue to maintain Algeria's position as the largest international geophysical contractor, while geophysical projects in Bangladesh and Myanmar were implemented efficiently. In Bangladesh, the expansion from beach to land has been achieved.

1.2.2 Drilling service

In 2017, the Company's operation revenue in drilling service was RMB 24,718,771,000, an increase of 27.6% than the same period of the previous year, for which the figure was RMB 19,368,752,000. Its completed drilling footage reached 7,360 kilometers, an increase of 33.6% than the previous year. SSC fully supported to ensure Sinopec Group to achieve its exploration and production tasks, and pushed ahead the exploration and production of the special ultra-deep oil and gas fields in Shunbei, the natural gas in Southwest China, and the tight oil and gas fields in Ordos, and pushed ahead the construction of key projects such as Fuling shale gas field Phase II and the Wen 23 gas storage facility. The hard-to-recover reserve cooperation pilot project jointly developed with Sinopec Group has achieved prominent results and contracted 15 hard-to-recover blocks, with additional crude oil production by approximately 7,000 tons throughout the year, and efficiently completed the geological exploration of shale gas requested by China Geological Survey in western Hubei. SSC continued to be the largest onshore drilling contractor of the Saudi Aramco, Kuwait Oil Company and Algeria National Oil Company.

1.2.3 Logging/ mud logging service

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

1.2.4 Downhole operation service

In 2017, the Company's operation revenue in downhole operation was RMB 4,189,002,000, an increase of 8.3% than the same period of the previous year, for which the figure was RMB 3,867,913,000. Its completed downhole operation for 5,144 wells, an increase of 17.0% than the previous year. In 2017, the Company continued to realize to the advantages of specialization and integration, pushed ahead the localization of technical equipment, horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high well testing, horizontal well workover, and high-pressure work and coiled tubing. The above technical service capabilities continued to enhance, so as the high-end business service capabilities and it contributed to Sinopec's efficient exploration, effective production, as well as development of natural gas.

1.2.5 Engineering and construction service

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

1.2.6 International business

In 2017, the Company's operation revenue in international business service was RMB 12,936,519,000, an increase of 1.8% than the same period of the previous year, for which the figure was RMB 12,702,961,000. The revenue contributed by the international business accounted for 26.7% of the whole revenue, with a year-on-year decrease of 2.9 percentage point. The Company is firmly committed to its internationalization strategy and established 5 large-scale markets in the Middle East, Africa, America, Central Asia & Mongolia, and the Southeast Asia. In 2017, the Company signed new contracts in overseas markets worth USD 1.9 billion, and the completed contracts worth USD 2.02 billion. The Company consolidated and expanded in the Middle East, it signed and renewed contracts for 19 drilling rigs in the Saudi market with contractual value of USD 470 million. In Kuwait, the Company renewed contracts for 26 drilling rigs with contractual value of USD 200 million, and achieved breakthrough in its African market. In Nigerian market, it successfully signed two offshore drilling platform daily rate projects with contractual value of USD 150 million. And in Ecuador, it successfully renewed the lump-sum ITT drilling project and increased the service volume of 35 wells with contractual value of USD 150 million, and it successfully signed the geothermal drilling projects in Turkey with contractual of USD 84.61 million.

1.2.7 Research and development

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

1.2.8 Internal reform and management

In 2017, the Company deepened its internal reform, reform measures were executed with speed and stableness. Remarkable results were achieved, both the organization and its staff became capable and efficient, and the major business was more highlighted. The operation vitality, development momentum, and effectiveness and efficiency of the Company has been continuously raised. It reinforced its effort in becoming leaner and healthier through streamlining the management levels and the organization; continued to deepen structure adjustments by orderly cut down extra crew of low productivity, in which

179 professional crews were cut down, a 9% year-on-year decrease); restructured and integrated its supplementary businesses to promote such business to develop towards specialization, and explore the possibility to establish a sub-contracting operation system in order to invigorate the supplementary businesses; put great effort into tapping potentialities and increase profits, achieving a RMB 1.51 billion cut in cost during the year; rapidly pushed forward its emerging businesses in underground pipe network detection and inspection, land right confirmation, hydrographic surveying and charting, etc., in which the value of new contracts reached RMB 0.11 billion, a year-on-year increase of 31%; actively expanded its business of energy conservation and environment protection in solid waste disposal, soil remediation, etc., in which the value of new contracts reached RMB 0.17 billion, a year-on-year increase of 133.0%

1.2.9 Capital expenditure

In 2017, the Company planned to allocate investment of RMB 2.5 billion, actually allocated investment of RMB 0.74 billion, in which RMB 0.5 billion was spent on non-installed equipment, RMB 0.07 billion on construction projects, RMB 0.04 billion on computer information projects, and RMB 0.04 billion on safety hazard treatment projects. It spent funds on strictly selected investment targets and reduced the annual investment by RMB 1.76 billion.

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

At 31 December 2017, total assets were RMB 61,942,629,000, representing a decrease of RMB 12,550,537,000 from that at the end of 2016, of which: Current assets were RMB 31,838,497,000, representing a decrease of RMB 8,316,994,000 from that at the end of 2016. The decrease was mainly due to a decrease of RMB 1,254,613,000 in amounts due from customer for contract works, a decrease of RMB 6,588,675,000 in notes receivable and trade receivable. Non-current assets were RMB 30,104,132,000, representing a decrease of RMB 4,233,543,000 from that at the end of 2016, which was mainly due to a decrease of RMB3,853,956,000 in property, plant and equipment and a decrease of RMB 983,210,000 in other non-current assets.

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

Total equity attributable to owners of the Company was RMB -2,102,628,000, a decrease of RMB 10,545,496,000 as compared with the end of 2016, mainly due to the net loss attributable to equity shareholders of the Company which was RMB10,556,132,000 in 2017.

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

1.3.2 Cash flow analysis

For the year ended 31 December 2017, the Group's net cash inflow from operating activities was RMB 419,456,000, representing an increase of cash inflow by RMB 419,456,000 as compared with last year.

This was mainly due to an decrease of the Group's pre-tax loss in 2017 by RMB5,569,508,000 as compared with last year.

For the year ended 31 December 2017, the Group's net cash outflow from investing activities was RMB 1,011,597,000, a increase of cash outflow by RMB775,641,000 as compared with last year. It was mainly due to the increase in cash inflows of RMB 951,000,000 in the entrustment loan recovery in 2016, there was no such occurrence in 2017.

For the year ended 31 December 2017, the Group's net cash inflow from financing activities was RMB748,034,000, representing an decrease of cash inflow by RMB 3,713,487,000 compared with last year. It was mainly due to the year-on-year decrease in cash received by the Group from borrowings of RMB 14,235,378,000 in 2017, while the cash paid for repayment of borrowings the year-on-year decreased by RMB 10,789,511,000.

1.3.3 Bank borrowings and loans from related companies

As at 31 December 2017, the Company's bank and affiliated company borrowings were RMB 17,966,656,000 (31 December 2016: RMB 18,000,349,000). These borrowings include the short-term borrowings in RMB 17,510,830,000, and the long-term borrowings due more than one year of RMB 455,826,000; the fixed-rate loans were RMB9,495,000,000 and the floating rate loans were RMB 8,471,656,000. Among the borrowings as of December 31, 2017, the balance of RMB borrowings accounted for approximately 52.8%, and the balance of US dollar borrowings accounted for 47.2%.

1.3.4 Assets pledge

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

1.3.5 Gearing ratio

As at 31 December 2017, the gearing ratio of the Group was 115.6% (2016: 64.9%). 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 2017 RMB'000	Operating cost for 2017 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	3,980,069	3,755,549	5.6	10.4	-10.8	Increased by 22.3 Percentage points
Drilling	24,718,771	26,506,528	-7.2	27.6	6.7	Increased by 21.1Percentage points
Logging/Mud logging	1,810,868	2,064,068	-14.0	17.8	0.6	Increased by 19.4 Percentage points
Downhole Operation	4,189,002	4,521,604	-7.9	8.3	-5.3	Increased by 15.6 Percentage p oints
Engineering and construction	11,740,711	12,392,692	-5.6	-8.5	-22.7	Increased by 19.3 Percentage points
Other	1,145,703	1,190,582	-3.9	6.3	5.0	Increased by 14.4Percentage points

Total	47,585,124	50,431,023	-6.0	12.5	-4.9	Increased by 19.4Percentage points

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

Region	Operating income for 2017 RMB'000	Operating cost for 2017 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	34,648,605	38,903,641	-12.3	17.1	0.2	Increased by 18.9 Percentage points
Hong Kong, Macau, Taiwan, and overseas	12,936,519	12,072,629	6.7	1.8	-15.1	Increased by 18.6 Percentage points

1.6 Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	7,615,774,000	Percent of total purchases	36%
Aggregate sales amounts to the top five largest customers	36,372,118,000	Percent of total sales	75%

(2) Prospects

2.1 Competitive Structure and Development Trend

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

2.2 Business Strategy

The Company will actively take opportunities of the recovery growth in oil field service sector, take reducing losses as the primary task, and leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and expand external markets outside Sinopec in order to make profits. It plans to sign new contract to reach a yearly value of RMB 57.8 billion, in which RMB 33.2 billion will be from Sinopec's internal market, RMB 10.0 billion from domestic external market, and RMB 14.6 billion from overseas market. It will continue to deepen reforms, become linear and healthier, and improve competitiveness. It will strengthen the cost control, tap potentialities and increase profits. And it will still focus on science and technology development and promote capabilities of innovation as well as making benefits to ensure a turn-around in its business. The Company puts emphasis on the following aspects:

2.2.1 Geophysical service

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

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 super deep oil and gas field in Shunbei, Southwest natural gas, Ordos tight oil and gas field, and Wen-23 gas storage. It will continue to launch the development cooperation for hard-to-recover reserves with Sinopec Group and to further expand the scale; to play out its advantage in proprietary technologies and services, to actively expand Sinopec’s share in the well-drilling market in Tarim, East Hebei and Changqing, to speed up the expansion of CNOOC and Yanchang oil field’s share in the market, and to further expand its share in local shale gas market. It will also continue to expand its share in overseas markets, further improve its presence in overseas markets, pay close attention to executing and renewing the ongoing projects in Saudi Arabia and Kuwait, strengthen the efficient operation of new drilling rigs in Algeria, and vigorously promote the integrated reservoir services project in Ecuador. The company plans to complete drilling footage accumulated for 8,500 kilometers in 2018, which is a 15.5% increase from the actual footage completed in 2017.

2.2.3 Logging/ Mud logging service

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

2.2.4 Downhole operation service

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

In 2018, the company plans to complete downhole operation service for 5,500 wells, which is a 6.9% increase from the actual completed number in 2017.

2.2.5 Engineering and construction service

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

2.2.6 International business

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

2.2.7 Technology development

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

2.2.8 Internal reform and management

In 2018, the Company will comprehensively deepen its reform, and move forward in structure optimization in all aspects. Under the general idea of perfecting and strengthening the main business, advancing in transition, effectively develop technology service business and emerging businesses, and isolating and vitalizing supplementary business, the Company will speed up the progress of significant measures including cutting down extra crew of low productivity, optimization and integration of technology service business, and the specialization of supplementary business, so as to improve the capability to survive and compete of each business sector. The Company will speed up the three items of system reform are centered on the remuneration allocation system. It will make full use of its asset equipment rental platform, human resources optimization platform, and R&D resources optimization sharing platform in order to directing its assets, talents and technology to innovation and improving the effectiveness of resource allocation. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2017, the reduced cost and fees are expected to be RMB 3.1 billion.

2.2.9 Capital expenditures

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

(3) Profit distribution plan.

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

6 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 2017 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	5,797,473	28.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	28,018,646	58.2
Receiving of community services	China Petrochemical Corporation and its subsidiaries	1,583,799	100
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	293,071	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	265,207	92.9
Rental expenses	China Petrochemical Corporation and its subsidiaries	117,136	25.0
Loan interest expenses	China Petrochemical Corporation and its subsidiaries	639,109	98.9
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	37,416,244	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	36,929,663	100
Safety and insurance fund expenses	China Petrochemical Corporation	79,326	100
Safety and insurance fund refund	China Petrochemical Corporation	87,111	100

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

(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	3
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The audit period for the overseas accounting firm	3
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

Note: Grant Thornton Hong Kong Limited provided the Company tax services on Hong Kong profit tax declaration in 2017, and the compensation was HKD 10,000.

The description for the appointment and dismissal of the auditor:
As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2017. The Proposal has been approved by the Shareholders at the annual general meeting of 2016 on 29 June 2017.

On 27 March 2018, the Board of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor of the Company for the year 2018. The proposal shall be subject to the approval by the shareholders at the Company's 2017 annual general meeting.

(8) The special undertakings by the Company and its shareholders with holdings of more than 5% and the implementation of commitments for the year ended31December 2017:

Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
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 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	Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

		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) Company's share option incentive plan and its respective effect.
a. The grant date and quantity
Grant date: 1 November 2016
Number of share options granted: 49,050,000
Number of participants: 477 persons

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

c. Information on share options granted to key business personnel holding core positions
The Proposed Grant covers 467 key business personnel holding core positions, and the total amount of share options granted to them was 47.20 million shares, accounting for 96.2% of the total amount of the share options in the Proposed Grant, and accounting for 0.3337% of the total shares of the Company. During the reporting period, none of the share options granted was exercised, and no share options were cancelled or lapsed.

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).

e. Validity Period and Exercise Arrangement under the Proposed Grant
Under the Scheme, Options under the Proposed Grant have a validity period of five years commencing from the Grant Date. The Exercise Period for the Options shall be three years after the expiry of the two-year vesting period after the Grant Date. There shall be three Exercise Periods (one year for each Exercise Period, same for the following) for each plan of grant under the Scheme. And during the 1st, 2nd and 3rd Exercise Period, there will be 30%, 30% and 40% respectively of the total options granted may be exercised upon fulfillment of the conditions for exercise of Share Options.

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

(10) Other major issues.
The resolutions of the first extraordinary general meeting of shareholders held in 2017 on November 16, 2017, the first A-share class shareholder meeting in 2017, and the first H-share class shareholder meeting in 2017, the improvement by China Securities Regulatory Commission’s license [2018] No. 142, the Company had issued 1,503,568,702 shares and 23,148,854 new A shares to the China Petrochemical Corporation and the Qi Xin GongYing Scheme. The non-public issuance of RMB ordinary shares (A shares) was issued at RMB 2.62 per share. As of January 19, 2018, the company had received RMB 3,987,867,324.96 in subscription payments (after deducting various issuance costs of RMB 12,132,671.76). The Grant Thornton Certified Public Accountants (Special General Partnership) carried out a capital verification of the above-mentioned raised funds, and on January 19, 2018, it issued the Capital Verification Report No. 110ZC0018. On January 25, 2018, the Company completed the registration and custody of the non-public issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

The resolutions of the first extraordinary general meeting of shareholders held in 2017 on November 16, 2017, the first A-share class shareholder meeting in 2017, and the first H-share class shareholder meeting in 2017, the improvement by China Securities Regulatory Commission’s license [2018] No. 130, the Company had issued 2,595,786,987 shares and 719,174,495 new H shares to Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund. The non-public issuance of overseas-listed foreign shares (H shares) was HK$1.35 per share, As of January 24, 2018, the company has received RMB4,464,700,300.49 in respect of the subscribed shares of the issue (after deducting various issuance costs of RMB. 8,650,000 RMB), equivalent to RMB 3,649,847,848.64. The Grant Thornton Certified Public Accountants (Special General Partnership) conducted a capital verification of the above-mentioned raised funds, and on January 30, 2018, it issued the Capital Verification Report No. 110ZC0039 of the "Comparative Verification" (2018).

7. FINANCIAL REPORT

7.1 Audit Opinion

The financial statements of the Group for the year ended 31 December 2017, 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 27 March 2018. Also, the financial statements of the Group for the year ended 31 December 2017, prepared in accordance with IFRS have been audited by Grant Thornton Hong Kong Limited, which has issued unqualified opinion on 27 March 2018.

7.2 Financial Statements prepared in accordance with IFRS

The following financial information were extracted from the audited consolidated financial statements of the Company and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2017, which were prepared in accordance with the IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	2	48,485,788	42,923,500
Cost of sales and business taxes		(51,332,737)	(54,001,774)
Gross loss		(2,846,949)	(11,078,274)
Selling expenses		(59,615)	(58,558)
General and administrative expenses		(4,134,373)	(3,756,029)
Finance (expenses)/income - net	4	(580,012)	(449,703)
Impairment losses on assets	5	(2,735,857)	(754,346)
Investment income	6	600	500
Share of (loss)/profit from joint ventures		(14,791)	572
Share of profit from associates		1,213	407
Operating loss		(10,369,784)	(16,095,431)
Other income	7	498,600	324,345
Other expenses	8	(446,489)	(116,095)
Loss before income tax	9	(10,317,673)	(15,887,181)
Income tax expense	10	(238,555)	(311,196)
Loss for the year		(10,556,228)	(16,198,377)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive expense for the year		(10,556,228)	(16,198,377)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2017

	Notes	2017	2016
		RMB'000	RMB'000
Total comprehensive expense for the year attributable to :			
Owners of the Company		**(10,556,132)**	(16,198,242)
Non-controlling interests		**(96)**	(135)
Total comprehensive expense for the year		**(10,556,228)**	(16,198,377)
		RMB	RMB
Loss per share for loss attributable to owners of the Company (presented in RMB per share)			
Basic and diluted	11	**(0.746)**	(1.145)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**25,820,147**	29,674,103
Other non-current assets		**3,065,771**	4,048,981
Long-term receivables		**233,061**	-
Prepaid land leases		**118,540**	108,178
Intangible assets		**162,994**	77,147
Interests in joint ventures		**194,465**	209,444
Interests in associates		**12,581**	11,885
Available-for-sale financial assets		**24,389**	24,389
Deferred income tax assets		**472,184**	183,548
Total non-current assets		**30,104,132**	34,337,675
Current assets			
Inventories		**1,193,039**	1,453,729
Notes and trade receivables	13	**18,171,083**	24,759,158
Prepayments and other receivables		**3,326,446**	3,628,021
Amounts due from customers for contract works		**6,610,035**	7,864,648
Restricted cash		**14,538**	3,012
Cash and cash equivalents		**2,523,356**	2,446,923
Total current assets		**31,838,497**	40,155,491
Total assets		**61,942,629**	74,493,166

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2017

	Notes	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Equity			
Share capital		**14,142,661**	14,142,661
Reserves		**(16,245,289)**	(5,699,793)
Equity attributable to owners of the Company		**(2,102,628)**	8,442,868
Non-controlling interests		**(1,372)**	(1,276)
(Capital deficiencies)/Total equity		**(2,104,000)**	8,441,592
Liabilities			
Non-current liabilities			
Long term borrowings		**508,863**	796,634
Deferred income		**136,312**	112,171
Deferred income tax liabilities		**23,879**	27,280
Total non-current liabilities		**669,054**	936,085
Current liabilities			
Notes and trade payables	14	**29,487,875**	30,310,227
Deposits received and other payables		**9,380,867**	8,473,882
Amounts due to customers for contract works		**6,765,375**	8,983,973
Short term borrowings		**17,539,674**	17,254,639
Current income tax payable		**203,784**	92,768
Total current liabilities		**63,377,575**	65,115,489
Total liabilities		**64,046,629**	66,051,574
Total equity and liabilities		**61,942,629**	74,493,166
Net current liabilities		**(31,539,078)**	(24,959,998)
Total assets less current liabilities		**(1,434,946)**	9,377,677

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1 General information, the Reorganisation and basis of presentation

1.1 General information and the Reorganisation

Sinopec Oilfield Service Corporation (the "Company") is a joint stock company with limited liability established in the People's Republic of China (the "PRC"). The registered office is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC and the headquarter address is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation ("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 2017, the Group had net current liabilities of approximately RMB 31,539,078,000 (2016: RMB 24,959,998,000) and capital commitments of approximately RMB 130 million; and it had a net loss of RMB10,556,228,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In November 2017 and March 2018, the Group obtained a line of credit of RMB12.3billion and USD1.45billion (Total: approximately RMB 21.77billion) from the Sinopec Group's subsidiaries, and line of credit promissory note of RMB 4 billion. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. In January 2018, the Group issued 1,526,717,556 A Shares and 3,314,961,482 H Shares by private placement respectively, raised funds at RMB7,637,715,000 in total, which enforces the liquidity. 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 27 March 2018.

2 REVENUE

The Group's revenue is as follows:

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

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.

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

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

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

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

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 2017 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017								
Segment revenue and results								
Revenue from external customers	3,980,166	24,821,489	1,823,517	4,193,964	11,811,950	1,854,702	-	48,485,788
Inter-segment income	5,179	181,418	614,795	211,021	217,396	179,601	(1,409,410)	-
Segment revenue	3,985,345	25,002,907	2,438,312	4,404,985	12,029,346	2,034,303	(1,409,410)	48,485,788
Reportable segment loss	(283,140)	(5,418,639)	(769,873)	(1,575,487)	(2,165,575)	(157,070)	-	(10,369,784)
Other income	29,727	238,152	8,153	45,848	99,577	77,143	-	498,600
Other expenses	(79,382)	(309,788)	(9,618)	(7,769)	(28,537)	(11,395)	-	(446,489)
Loss before income tax	(332,795)	(5,490,275)	(771,338)	(1,537,408)	(2,094,535)	(91,322)	-	(10,317,673)
Income tax expense								(238,555)
Loss for the year								(10,556,228)

3 SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2017 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	476,755	1,832,594	194,605	458,709	203,485	118,047	-	3,284,195
-- Other non-current assets	52,372	1,824,144	47,134	97,103	25,934	41,806	-	2,088,493
-- Prepaid land leases	-	427	417	1,805	446	-	-	3,095
-- Intangible assets	530	66,382	559	931	6,428	5,977	-	80,807
Capital expenditure								
-- Property, plant and equipment	142,746	653,396	42,150	61,983	55,412	74,973	-	1,030,660
-- Intangible assets	-	495	3,790	-	2,551	-	-	6,836
Impairment loss on trade receivables,net	38,509	92,645	20,696	811,349	196,887	4,222	-	1,164,308
Impairment loss on /(Reversal of) other receivables	2,058	4,555	(51)	2,618	103,834	(8,454)	-	104,560
Expected loss on contracts work-in-progress	-	-	-	-	245,039	-	-	245,039
Impairment loss on inventory	3,052	69,404	-	-	-	-	-	72,456
Impairment loss on property, plant and equipment	5,677	877,930	160,404	97,523	-	7,960	-	1,149,494
As at 31 December 2017								
Assets								
Segment assets	5,318,569	34,807,136	2,007,167	6,394,501	6,928,328	22,703,276	(16,216,348)	61,942,629
Liabilities	4,602,485	29,309,833	1,568,472	3,830,778	15,557,750	25,393,659	(16,216,348)	64,046,629

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:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016								
Segment revenue and results								
Revenue from external customers	3,605,962	19,405,525	1,538,534	3,879,024	12,878,284	1,616,171	-	42,923,500
Inter-segment income	-	175,157	63,994	46,439	69,728	514,970	(870,288)	-
Segment revenue	3,605,962	19,580,682	1,602,528	3,925,463	12,948,012	2,131,141	(870,288)	42,923,500
Reportable segment loss	(1,072,412)	(7,534,523)	(887,153)	(1,353,748)	(4,672,109)	(575,486)	-	(16,095,431)
Other income	18,280	145,860	9,613	33,270	41,470	75,852	-	(324,345)
Other expenses	(41,197)	(43,247)	(5,199)	(10,983)	(17,953)	2,484	-	(116,095)
Loss before income tax	(1,095,329)	(7,431,910)	(882,739)	(1,331,461)	(4,648,592)	(497,150)	-	(15,887,181)
Income tax expense								(311,196)
Loss for the year								(16,198,377)

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	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	499,132	1,781,430	197,607	452,362	213,706	159,859	-	3,304,096
-- Other non-current assets	115,577	1,849,565	70,326	108,614	28,251	12,955	-	2,185,288
-- Prepaid land leases	-	417	417	1,536	446	-	-	2,816
-- Intangible assets	651	27,779	956	1,046	5,948	3,519	-	39,899
Capital expenditure								
-- Property, plant and equipment	317,188	788,302	29,671	168,246	67,078	23,856	-	1,394,341
-- Prepaid land leases	-	-	-	6,040	-	-	-	6,040
-- Intangible assets	-	9,990	-	877	8,785	13,594	-	33,246
-- Long-term investment	-	-	-	-	-	4,000	-	4,000
Impairment loss on trade receivables, net	42,967	160,539	33,010	156,705	203,914	3,231	-	600,366
Impairment loss on /(Reversal of) other receivables	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)

(b) Geographical information

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

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

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

(c) Major customer

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

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

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

4 FINANCE (EXPENSES)/ INCOME - NET

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

Note:

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

5 Impairment loss on assets

	2017 RMB'000	2016 RMB'000
Impairment loss on trade and other receivables, net	1,268,868	726,585
Expected loss on contracts work-in-progress	245,039	11,656
Write-down inventory to net realizable value	72,456	-
Impairment loss on available-for-sales financial assets	-	16,105
Impairment loss on property, plant and equipment	1,149,494	-
	2,735,857	754,346

6 INVESTMENT INCOME

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

7 OTHER INCOME

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

8 OTHER EXPENSES

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

9 LOSS BEFORE INCOME TAX

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

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

10 INCOME TAX EXPENSE

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

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2017 and 2016 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the period, for the years ended 31 December 2017 and 2016, the majority of the companies of the Group are subject to 25% income tax rate.

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

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

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

11 LOSS PER SHARE

(a) Basic

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

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

(b) Diluted

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2017 and 2016, and therefore the diluted loss per share for the years ended 31 December 2017 and 2016 were the same as the basic loss per share.

12 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

13 NOTES AND TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables		
- Sinopec Group and its subsidiaries	9,082,346	14,464,757
- Joint ventures	14	13
- Sinopec Group and its associates and joint ventures	122,450	214,270
- Third parties	10,077,873	10,405,667
	19,282,683	25,084,707
Less: Provision for impairment	(2,320,747)	(1,177,173)
Trade receivables-net	16,961,936	23,907,534
Notes receivables	1,209,147	851,624
Notes and trade receivables-net	18,171,083	24,759,158

As at 31 December 2017 and 2016, the Group's notes and trade receivables were approximately their fair values.

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

As at 31 December 2017 and 2016, none of the Group's notes receivables were pledged as collateral or overdue.

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

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

	2017 RMB'000	2016 RMB'000
Within 1 year	13,428,767	20,558,241
1 to 2 years	3,631,272	3,135,366
2 to 3 years	821,310	804,418
Over 3 years	289,734	261,133
	18,171,083	24,759,158

13 NOTES AND TRADE RECEIVABLES (Continued)

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

	2017 RMB'000	2016 RMB'000
Not yet due	9,428,129	17,145,465
Overdue within 3 months	1,575,252	1,304,452
Overdue 3 months but within 6 months	1,184,238	1,286,422
Overdue 6 months but within 1 year	2,560,899	2,821,983
Overdue 1 year but within 2 years	2,681,927	1,958,365
Overdue over 2 years	740,638	242,471
	18,171,083	24,759,158

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

	2017 RMB'000	2016 RMB'000
At 1 January	1,177,173	577,791
Provisions	1,257,214	630,020
Reversal	(92,906)	(29,654)
Receivables write-off as uncollectible	(20,734)	(984)
At 31 December	2,320,747	1,177,173

14 NOTES AND TRADE PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables		
- Sinopec Group and its subsidiaries	1,150,292	1,979,856
- Joint ventures	49,643	85,043
- Sinopec Group and its associates and joint ventures	47,623	58,918
- Third parties	25,194,924	26,172,913
	26,442,482	28,296,730
Notes payables	3,045,393	2,013,497
	29,487,875	30,310,227

As at 31 December 2017 and 2016, the carrying amounts of the Group's notes and trade payables were approximately their fair values.

14 NOTES AND TRADE PAYABLES (Continued)

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

	2017	2016
	RMB'000	RMB'000
Within 1 year	**20,493,186**	21,027,583
1 to 2 years	**5,007,071**	5,221,330
2 to 3 years	**1,799,618**	2,201,443
Over 3 years	**2,188,000**	1,859,871
	29,487,875	30,310,227

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 December2017.

Consolidated Balance sheet

(Expressed in thousands of Renminbi Yuan)

Assets	2017	2016
Current assets:		
Cash at bank and on hand	2,537,894	2,449,935
Notes receivable	1,209,147	851,624
Accounts receivable	16,961,936	23,907,534
Advances to suppliers	424,731	352,972
Dividend receivable	188	23
Other receivables	1,999,912	2,822,409
Inventories	7,803,074	9,318,377
Non-current assets due within one year	-	-
Other current assets	885,473	416,676
Total current assets	31,822,355	40,119,550
Non-current assets:		
Available-for-sale financial assets	24,389	24,389
Long-term receivable	233,061	-
Long-term equity investments	207,046	221,329
Fixed assets	25,582,509	28,807,257
Construction in progress	237,638	866,846
Disposal of fixed assets	1,644	2,066
Intangible assets	281,534	185,325
Long-term prepaid expenses	3,080,269	4,082,856
Deferred tax assets	472,184	183,548
Total non-current assets	30,120,274	34,373,616
Total assets	61,942,629	74,493,166

Consolidated Balance sheets (continued)

(Expressed in thousands of renminbi yuan)

Liabilities and shareholders’ equity	2017	2016
Current liabilities:		
Short-term loans	17,510,830	17,033,731
Notes payable	3,045,393	2,013,497
Accounts payable	26,442,482	28,296,730
Advances from customers	8,538,959	10,673,978
Employee benefits payable	381,240	171,657
Taxes payable	1,033,201	1,050,339
Interest payable	10,927	73,627
Other payables	6,359,459	5,541,678
Non-current liabilities due within one year	28,844	220,908
Other current liabilities	11,744	15,267
Total current liabilities	63,363,079	65,091,412
Non-current liabilities:		
Long-term loans	455,826	763,070
Long-term payables	67,533	57,641
Special payables	-	-
Deferred income	136,312	112,171
Deferred income tax liabilities	23,879	27,280
Total non-current liabilities	683,550	960,162
Total liabilities	64,046,629	66,051,574
Shareholders’ equity:		
Share capital	14,142,661	14,142,661
Capital reserve	8,907,868	8,897,232
Specific reserve	202,477	176,068
Surplus reserve	200,383	200,383
Retained earnings	-25,556,017	-14,973,476
Equity attributable to the owners of the Company	-2,102,628	8,442,868
Minority interests	-1,372	-1,276
Total shareholders’ equity	-2,104,000	8,441,592
Total liabilities and shareholders’ equity	61,942,629	74,493,166

***Consolidated*Income statements**
(Expressed in thousands of RenminbiYuan)

	2017	2016
1.Revenue	48,485,788	42,923,500
2.Less:Cost of sales	50,976,270	53,516,744
Business taxes and surcharges	382,876	401,551
Selling and distribution expenses	59,615	58,558
General and administrative expenses	4,134,373	3,756,029
Financial costs	580,079	477,258
Impairment losses on assets	2,735,857	754,346
Add: Investment income (loss in "-")	-12,911	29,034
Including: Investment income from investment in association and joint venture	-13,578	979
Gains from disposal of non-current assets	-172,607	-68,312
Other income	372,433	
3.Operating profit (loss in "-")	-10,196,367	-16,080,264
Add: Non-operating income	126,167	319,556
Less: Non-operating expenses	273,882	42,994
4. Profit before income tax (loss in "-")	-10,344,082	-15,803,702
Less: Income tax expenses	238,555	311,196
5.Net profit for the year (loss in "-")	-10,582,637	-16,114,898
Classified by business sustainability:		
-Profit from continuing operations	-10,582,637	-16,114,898
-Profit from discontinued operations		
Classified by ownership :		
- The owners' of the Company	-10,582,541	-16,114,763
- Minority interests	-96	-135
6.Earnings per share:		
(1) Basic earnings per share (in RMB)	-0.748	-1.139
(2) Diluted earnings per share (in RMB)	-0.748	-1.139
7.Other comprehensive income for the year	-	-
8.Total comprehensive income for the year	-10,582,637	-16,114,898
Total comprehensive income for the year/period attributable to:		
- The owners' of the Company	-10,582,541	-16,114,763
- Minority shareholders	-96	-135

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

	Note	2017	2016
1. Cash flows from operating activities:			
Cash received from sale of goods		47,929,847	47,690,251
Refund of taxes		322,777	224,461
Cash received from other operating activities		3,265,506	3,307,468
Sub-total of cash inflow		51,518,130	51,222,180
Cash paid for goods and services		30,861,433	33,405,999
Cash paid to and for employees		13,336,997	13,858,573
Cash paid for all types of taxes		1,910,900	3,274,857
Cash paid relating to other operating activities		4,989,344	4,590,069
Sub-total of cash outflows		51,098,674	55,129,498
Net cash outflow from operating activities	(1)	419,456	-3,907,318
2. Cash flows from investing activities:			
Cash received from disposal of investment		-	951,000
Cash received from the investment income		1,178	28,055
Net cash received from disposal of fixed assets		162,626	17,146
Cash received relating to other investing activities		-	-
Sub-total of cash inflows		163,804	996,201
Cash paid for acquisition of fixed assets and intangible assets		1,175,401	1,228,157
Cash paid for investment in a joint venture		-	4,000
Cash paid for other investing activities		-	-
Sub-total of cash outflows		1,175,401	1,232,157
Net cash outflow from investing activities		-1,011,597	-235,956

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

	Note	2017	2016
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		-	-
Cash received from borrowings		37,253,867	52,017,245
Cash received for other financing activities		532,641	5,071
Sub-total of cash inflows		37,786,508	52,022,316
Cash paid for repayments of borrowings		36,256,236	47,074,937
Cash paid for distribution of dividend, profit or payments of interests		709,622	431,845
Cash paid for other financing activities		72,616	54,013
Sub-total of cash outflows		37,038,474	47,560,795
Net cash inflow from financing activities		748,034	4,461,521
4. Effect of foreign exchange rate changes on cash and cash equivalents		-79,460	135,467
5.Net decrease in cash and cash equivalents	(1)	76,433	453,714
Add: Cash and cash equivalents at the beginning of the year		2,446,923	1,993,209
6.Cash and cash equivalents at the end of the year		2,523,356	2,446,923

Notes to cash flow statements

(1) Supplement to cash flow statement

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

Item	2017	2016
Net losses	-10,582,637	-16,114,898
Add: Impairment provision for assets	2,735,857	754,346
Depreciation of fixed assets	3,284,195	3,304,096
Amortisation of intangible assets	83,902	42,715
Amortisation of long-term prepaid expenses	2,088,493	2,185,288
Net loss/(gains) on disposal of fixed assets	172,607	70,658
Losses/(gains)on retirement of fixed assets	55	1,017
Financial income	553,835	454,809
Investment income	12,911	-29,034
Decrease/(Increase) in deferred tax assets	-288,636	3,882
Increase/(Decrease) in deferred tax liabilities	-3,401	-3,971
Decrease in gross inventories	1,197,808	5,439,242
Increase in specific reserves	26,409	-83,479
Decrease in operating receivables	4,847,813	1,159,341
Increase in operating payables	-3,720,391	-1,094,346
Payment of unexercised share options	10,636	3,016
Net cash outflow from operating activities	419,456	-3,907,318

(b) Changes in cash and cash equivalents:

Item	2017	2016
Cash at the end of the year	2,523,356	2,446,923
Less: Cash at the beginning of the year	2,446,923	1,993,209
Net decrease in cash and cash equivalents	76,433	453,714

(2) Details of cash and cash equivalents

Item	2017	2016
Cash on hand	8,178	9,734
Bank deposits available on demand	2,478,544	2,383,630
Other monetary funds available on demand	36,634	53,559
Closing balance of cash	2,523,356	2,446,923
Add: Restricted cash	14,538	3,012
Closing balance of cash and cash equivalents	2,537,894	2,449,935

Statement of changes in shareholders' equity

(Expressed in thousands of Renminbi Yuan)

	2017							2016						
	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
1.Balance at the end of the last 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
Adjustment for the acquisition of the acquired group	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at the beginning 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
3Changes in equity for the year ("-" for decreases)		10,636	26,409		-10,582,541	-96	-10,545,592		3,016	-83,479		-16,114,763	-135	-16,195,361
(1) Total comprehensive income					-10,582,541	-96	-10,582,637					-16,114,763	-135	-16,114,898
(2) Increase or decrease of capital		10,636					10,636		3,016					3,016
(a) Contribution of capital		10,636					10,636		3,016					3,016
(b) Others														
Sub-total of (a) & (b)		10,636					10,636		3,016					3,016
(3) Appropriation of profits														
(a)Appropriation for surplus reserve														
(b)Distributions to shareholders														
Sub-total of (a) & (b)														
(4) Specific reserve			26,409				26,409			-83,479				-83,479
(a)Accrued			702,477				702,477			615,847				615,847
(b)Utilised			-676,068				-676,068			-699,326				-699,326
Sub-total of (a) & (b)			26,409				26,409			-83,479				-83,479
4. Balance at the end of the year	14,142,661	8,907,868	202,477	200,383	-25,556,017	-1,372	-2,104,000	14,142,661	8,897,232	176,068	200,383	-14,973,476	-1,276	8,441,592

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	
	2017	2016	2017	2016
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts under PRC ASBE	-10,582,541	-16,114,763	-2,102,628	8,442,868
Adjustments under IFRS:				
Specific reserve (a)	26,409	-83,479	-	-
Amounts under IFRS	-10,556,132	-16,198,242	-2,102,628	8,442,868

(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 2017 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 on31 December 2017, 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 cods as set out in the Model Code.

During the reporting period, the Audit Committee under the eighth term of the Board held six meetings and reviewed the Company's 2016 Financial Statements, Interim Report for 2017 and continuing connected transactions and formed its independent opinion.

The Audit Committee under the eighth term of the Board held the thirteenth meeting on 26 March 2018 and reviewed and passed the resolution regarding the 2017 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 2017, 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

27 March 2018, Beijing

As at the date of this announcement, the Board of Directors comprises Mr.Jiao Fangzheng+,Mr. Sun Qingde#, Mr. Chen Xikun#, Mr. Ye Guohua+, Mr. Lu Baoping+, Mr. Fan Zhonghai+,Ms. Jiang Bo*, Mr. Zhang Huaqiao* and Mr. Pan Ying*.

+Non-Executive Director
Executive Director
* Independent Non-Executive Director