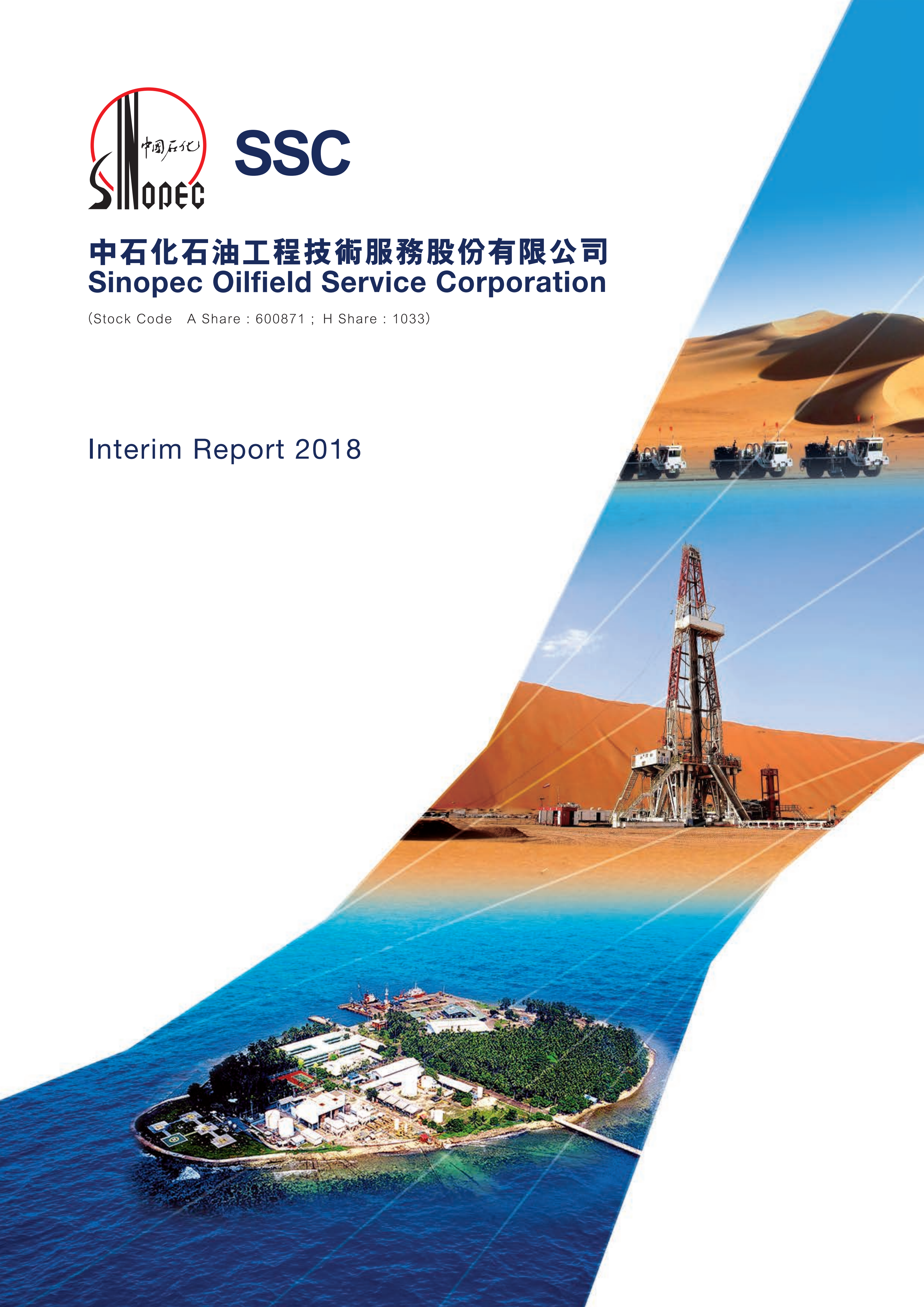
SSC

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

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

## Interim Report 2018



# IMPORTANT NOTE

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

2. The 2018 Interim Report has been approved at the fifth meeting of the ninth session of the Board. A total of 6 directors of the Company attended the meeting. Mr. Fan Zhonghai, Mr. Wei Ran and independent non-executive director Mr. Chen Weidong asked for absence on business and respectively entrusted director Mr. Chen Xikun, Mr. Sun Qingde and independent non-executive directors Mr. Dong Xiucheng to attend the meeting and exercise their rights.

3. The interim financial statements of the Company for 2018, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("**PRC ASBE**") and International Financial Report Standards ("**IFRS**"), are unaudited. But the interim financial statements of the Company for 2018, which have been prepared in accordance with IFRS has been reviewed by Grant Thornton Hong Kong Limited.

4. Mr. Sun Qingde, Vice Chairman and General Manager, Mr. Li Tian, Chief Financial Officer, and Mr. Pei Defang, Manager of the Accounting Department of the Company, hereby warranted the authenticity and completeness of the interim financial statements contained in the Interim Report.

5. According to the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2018, and no issue of bonus shares by way of capitalization of common reserves.

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Interim Report, the company can not make a substantive commitment to investors, the Company would ask investors to notice the investment risks.

7. There was no occupancy of non-operating funds by the controlling shareholder of the Company and its connected parties.

8. The Company did not provide external guarantees made in violation of required decision-making procedures.

# Contents

# Definitions

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

| | | |
|---|---|---|
| Company | Means | Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司), a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and listed H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033) |
| Group | Means | The Company and its subsidiaries |
| Board | Means | The board of Directors of the Company |
| Articles of Association | Means | The articles of association of the Company, as amended, modified or supplemented from time to time |
| CPC | Means | China Petrochemical Corporation, a wholly State-owned company established in the PRC and the holding company of Sinopec |
| Sinopec | Means | China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai, the subsidiary of CPC. |
| A Share | Means | Shares in the share capital of the Company of par value RMB 1.00 each which are listed on the SSE |
| H Share | Means | Overseas listed foreign Share(s) in the Share capital of the Company of par value at RMB1.00 each which is(are) listed on the Main Board of the Stock Exchange |
| SSE | Means | Shanghai Stock Exchange |
| HKSE | Means | The Stock Exchange of Hong Kong Limited |
| Listing Rules | Means | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| Model Code | Means | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| CSRC | Means | China Securities Regulatory Commission |
| Century Bright Company | Means | Sinopec Century Bright Capital Investment, Ltd., a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of CPC |
| China Structural Reform Fund | Means | China Structural Reform Fund Corporation Limited or its designated related party |
| Shengli Petroleum Engineering Company | Means | China Petrochemical Shengli Petroleum Engineering Company Limited, an indirect wholly-owned subsidiary of the Company |
| TSFL | Means | Taiping & Sinopec Financial Leasing Co. Ltd. |
| Qi Xin Gong Ying Scheme | Means | Qi Xin Gong Ying Scheme for the management of Sinopec Oilfield Service Corporation |
| Share Option Scheme | Means | A Share Option Incentive Scheme of the company |
| Grant | Means | The grant to the Participants no more than 50,850,000 Share Options pursuant to the Share Option Scheme by the Company |
| Geophysical exploration or geophysical | Means | A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration |
| Drilling | Means | The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole |
| Completion | Means | The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc. |
| Logging | Means | Acquiring, analyzing and interpreting the data related to the geological characteristics and hydrocarbon potential by using special tools or equipment and technology |
| Mud Logging | Means | Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information |
| Downhole Operation service | Means | During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc. |
| Two dimensional geophysical | Means | A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis |
| Three dimensional geophysical | Means | A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells |
| CNPC | Means | China National Petroleum Corporation |
| CNOOC | Means | China National Offshore Oil Corporation |
| Sinopec Star | Means | Sinopec Star Petroleum Company Limited |
| PRC | Means | People's Republic of China |

# Company Profile and Principal Financial Indicators

## 1. Company information

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

## 2. Contact Persons and Contact Information

| | Secretary to the board | Representative on Securities Matters |
|---|---|---|
| Name | Li Honghai | Shen Zehong |
| Address | Office of the board of directors, No.9 Jishikou Road, Chaoyang District, Beijing, PRC | |
| Telephone | 86-10-59965998 | |
| Fax | 86-10-59965997 | |
| E-mail | ir.ssc@sinopec.com | |

## 3. The Changes for the Company profile

| | |
|---|---|
| Registered address | No.22 Chaoyangmen North Street, Changyang District, Beijing, PRC |
| Post Code of Registered address | 100728 |
| Office address | No.9 Jishikou Road, Chaoyang District, Beijing, China. |
| Post Code of Office address | 100728 |
| Company Internet Website | http://ssc.sinopec.com |
| E-mail | ir.ssc@sinopec.com |
| Query index for the change during the reporting period | There was no change of the basic information of the Company during the reporting period |

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

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

## 5. Stock briefs

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

## 6. Other related information

| | |
|---|---|
| **Auditors** | |
| Domestic Auditor: | Grant Thornton (Special General Partnership) |
| Address: | 5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing |
| Overseas Auditor: | Grant Thornton Hong Kong Limited |
| Address: | 12th Floor, 28 Hennessy Road, Wanchai, Hong Kong |
| **Legal advisors** | |
| Hong Kong: | Herbert Smith Freehills LLP<br>23rd Floor, Gloucester Tower, 15 Queen's Road, Central, Hong Kong |
| PRC: | Beijing Haiwen & Partners<br>20th Floor, Fortune Financial Center, No.5 Dong San Huan Central Road, Chaoyang District, Beijing |
| **Share registrars and transfer office** | |
| H Share: | Hong Kong Registrars Limited<br>Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong |
| A Share: | China Securities Registration and Clearing Corporation Limited Shanghai Branch Company<br>36th Floor, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai |

## 7. Key financial data and financial indicators of the Company (extracted from the interim financial report prepared in accordance with the PRC ASBE and Unaudited)

### (1) Key financial data

| | **For the six months ended 30 June 2018** | For the six months ended 30 June 2017 | Increase/(Decrease) from corresponding period of last year |
|---|---|---|---|
| | **RMB'000** | RMB '000 | (%) |
| Operating income | **23,653,002** | 19,842,318 | 19.2 |
| Operating Profit ("-" for losses) | **403,678** | -2,149,212 | Not applicable |
| Profit before income tax("-" for losses) | **549,066** | -2,085,986 | Not applicable |
| Net profit attributable to equity shareholders of the Company ("-" for losses) | **400,949** | -2,285,324 | Not applicable |
| Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses) | **463** | -2,328,674 | Not applicable |
| Net cash inflow from operating activities ("-" for outflow) | **-3,515,042** | -1,988,314 | Not applicable |

| | **As at 30 June 2018** | As at 31 December 2017 | Increase/(Decrease) from last year |
|---|---|---|---|
| | **RMB '000** | RMB '000 | (%) |
| Total equity attributable to equity shareholders of the Company | **6,149,446** | -2,102,628 | Not applicable |
| Total assets | **60,153,882** | 61,942,629 | -2.9 |

### (2) Key financial indicators

| | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Increase/(Decrease) from corresponding period of last year |
|---|---|---|---|
| | | | (%) |
| Basic earnings per share (RMB) ("-" for losses) | 0.022 | -0.162 | Not applicable |
| Diluted earnings per share (RMB) ("-" for losses) | 0.022 | -0.162 | Not applicable |
| Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for losses) | — | -0.165 | Not applicable |
| Weighted average return on net assets | 8.99% | -31.30% | Increased by 40.29 percentage points |
| Weighted average return on net assets deducted extraordinary gain and loss | 0.01% | -31.90% | Increased by 31.91 percentage points |

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

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

| | Net profit attributable to equity shareholders of the Company ("-" for losses) | | Total equity attributable to equity shareholders of the Company | |
|---|---|---|---|---|
| | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | As at 30 June 2018 | As at 1 January 2018 |
| | RMB '000 | RMB '000 | RMB '000 | RMB '000 |
| PRC ASBE | 400,949 | -2,285,324 | 6,149,446 | -2,102,628 |
| Adjustment of items and amount in accordance with the IFRS: | | | | |
| Specific reserve (a) | 214,782 | 153,176 | — | — |
| IFRS | 615,731 | -2,132,148 | 6,149,446 | -2,102,628 |

### Explanations for the related differences

#### (a) Specific reserve

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

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

| Extraordinary gain and loss items | Amount (RMB'000) |
|---|---|
| Disposal of non-current assets | 895 |
| Government grants recognized in profit or loss during the current period | 384,519 |
| Gain or loss on debt restructuring | 147,330 |
| Other non-operating income and expenses excluding the aforesaid items | -1,941 |
| Effect of income tax | 130,317 |
| Total | 400,486 |

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

| | **As at 30 June 2018** | As at 31 December 2017 | Increase/(Decrease) from last year |
|---|---|---|---|
| | **RMB '000** | RMB '000 | (%) |
| Total assets | **60,153,882** | 61,942,629 | (2.9) |
| Total Liabilities | **54,004,436** | 64,046,629 | (15.7) |
| Total equity attributable to equity shareholders of the Company | **6,149,446** | (2,102,628) | Not applicable |
| Net assets per share attributable to equity shareholders of the Company (RMB) | **0.32** | (0.15) | Not applicable |

| | **For the six months ended 30 June 2018** | For the six months ended 30 June 2017 | Increase/(Decrease) From corresponding period of last year |
|---|---|---|---|
| | **RMB '000** | RMB '000 | (%) |
| Profit/(loss) attributable to equity shareholders of the Company | **615,731** | (2,132,148) | Not applicable |
| Basic and diluted earnings/(loss) per share | **RMB 0.034** | RMB (0.151) | Not applicable |
| Net cash used in operating activities | **(3,515,042)** | (1,988,314) | Not applicable |
| Return on net assets | **10.01%** | (33.73%) | increased by 43.74 percent |
| Net cash used in operating activities per share | **RMB (0.185)** | RMB (0.141) | Not applicable |

# Company Business Summary

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

With more than 50 years of business operation and rich experience in project execution, the Group is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. As at 30 June 2018, the Group provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with 319 projects execute in 34 countries and regions.

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

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

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

During the reporting period, there are no significant changes of the main business.

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

On June 30, 2018, according to the PRC Accounting Standards for Business Enterprises, the Group's total assets were RMB 60,153,882,000, a decrease of 2.9% from the end of the previous year, of which foreign assets were RMB 17,187,417,000, accounting for 28.6% of total assets; The net assets attributable to equity shareholders of the Company was RMB 6,149,446, 000, an increase of RMB 8,252,074,000 from the end of the previous year, mainly due to the a total net proceeds of RMB 7.64 billion raised by the non-public placement of A shares and H shares in January 2018 and business accumulation in the first half of the year; asset-liability ratio was 89.8%, a decrease of 13.6 percentage points from the end of the previous year.

## 3. Analysis on core competitiveness in the reporting period

The Group has service capabilities covering the entire oilfield service industry chain. As at 30 June 2018, the Group has 644 onshore drilling rigs, 15 offshore drilling platforms, 68 sets of seismic acquisition equipment and 110 sets of imaging logging tools, 394 sets of comprehensive logging instruments, 150 sets of Model 2500 and Model 3000 fracturing trucks and 50 sets of 750 HP and above workover rigs.

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

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

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

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

During the reporting period, there are no significant changes of core technical team and key technicians.

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

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

### Interim results

For the six months ended 30 June 2018, the Company's consolidated revenue was RMB 23,653,002,000, representing an increase of 19.2% compared to 19,842,318,000 in the same period last year. Net profit attributable to shareholders of the Company is RMB 400,949,000, and basic earnings per share was RMB 0.022. For the first half of 2017, net loss attributable to shareholders of the Company was RMB 2,285,324,000 and basic loss per share was RMB 0.162.

For the first half of 2018, the Company's operating results turned losses into profits, mainly benefiting from: With a rebound in international oil prices, domestic and foreign oil companies significantly increased upstream capital expenditure for oilfield exploration and development. The operating conditions of the oilfield service industry continued to improve, with a significant year-on-year increase in the workload in connection with major specialized tasks and revenue. The effects of deepening reforms, strengthening management and tapping internal potential appeared simultaneously. For the first half of the year, the gross profit margin of the Company's major business was 5.9%.

### Market review

In the first half of 2018, international crude oil prices trended upwards amidst fluctuations. The average price level was significantly higher than that for the same period last year. The average Europe Brent Spot Price was USD 71.16 per barrel, representing a year-on-year increase of 35.1%. The increase in international crude oil prices encouraged domestic and foreign oil companies to increase upstream capital expenditure for oilfield exploration and development. The upstream capital expenditure for oilfield exploration and development of Sinopec, the largest customer of the Company, for the first half of 2018 was RMB 10.76 billion, a year-on-year increase of 56.6%. Affected by this, the oilfield service industry showed a gradual improvement. The oilfield service business was active and the business volume of the oilfield service market increased substantially.

### Operation Review

In the first half of 2018, The Company seized favorable opportunities such as a rebound in crude oil prices and increase upstream capital expenditure for oilfield exploration, and expand market development. The newly signed contracts amounted to RMB 35.1 billion, representing a year-on-year increase of 58%. The completed contract amounted to RMB 23.7 billion, representing a year-on-year increase of 29%. Meanwhile, internal reform was deepened and meticulous management was enhanced, greatly reducing costs. In the first half of the year, the volume of work in connection with major specialized tasks increased on a year-on-year basis. The revenue increased by 19.2% on a year-on-year basis while the operating costs increased by 12.0% on a year-on-year basis. The increase in operating cost is lower than the increase in revenue by 7.2 percentage points. The operating result continued to improve, bringing a turn-around in its business.

#### A. Geophysical service

The Company's revenue in geophysical service was RMB 2,552,178,000 in the first half of 2018, representing an increase of 31.0% from RMB 1,948,440,000 in the corresponding period of the previous year. The completed 2D seismic have accumulated for 12,843 kilometers, increased by 89.8% from the corresponding period last year; while the 3D seismic for 7,269 square kilometers, representing an increase of 9.7% over the corresponding period last year. Both the data record of qualified rates in 2D seismic and 3D seismic are 100%. The Company has made great effort to meet the demand of oilfield exploration and production of Sinopec Group. By increasing the application of vibroseis, we maintained sustainable increases in work efficiency of seismic engineering as well as materials quality. We actively expanded external markets such as China Geological Survey and Yanchang Group with an aggregate signed contract value of approximately RMB110 million. For overseas market, we effectively completed the 2D acquisition projects in Bolivia, Myanmar and Chad, 3D acquisition projects in Algeria and Nigeria, and 2D acquisition project in Panama.

#### B. Drilling service

The Company's operation revenue in the first half of 2018 was RMB 12,360,125,000, representing an increase of 6.5% from RMB 11,609,081,000 over the period of the previous year. Its completed drilling footage reached 3,850 kilometers, representing a year-on-year increase of 5.8%. SSC actively facilitated the exploration and development of Sinopec Group and fully supported the capacity building at Fuling Shale Gas Phase II, Shunbei oil and gas field, Weirong shale gas field and mature oil fields in Eastern oilfield. We strengthened our technological research, improved the structure of well and the quality of well cementation and the wen-23 gas storage progressed effectively. Grasping the opportunities of recovery in traditional markets such as CNPC, CNOOC, Yanchang Petroleum Group and China Geological Survey, the Company actively planned for the domestic external markets such as tight oil and gas, shale gas and coal bed methane. The newly signed contract for the domestic external market amounted to RMB 3.88 billion in the first half of the year, representing a year-on-year increase of 177.1%.

# Discussion and Analysis of operation

**C. Logging/mud logging service**

The Company's operation revenue in logging/mud logging service was RMB 690,604,000 in the first half of 2018, an increase of 5.5% from RMB 654,752,000 in the corresponding period of the previous year. Our completed logging projects have accumulated for 97,510,000 standard meters in the first half of 2018, representing an increase of 3.6% compared with the corresponding period of the previous year. Our completed mud logging projects have accumulated for 3,170,000 meters in the first half of 2018, representing an increase of 0.9% compared with the corresponding period of the previous year. The Company seized the favourable opportunity of market recovery and captured working opportunities with capable of providing safe, high quality and efficient services. Gaocan 1 achieving multiple indicators, including the single logging/mud logging with the highest contract amount and most comprehensive in external market. It created the domestic record of cable logging with the depth of 8,433 meters. Various quality and technical indicators remained positive. Technologies such as super high temperature and super high pressure logging continued to improve, providing effective support for exploration and security of key market.

**D. Downhole operation service**

The Company's operation revenue in downhole operation was RMB 2,040,928,000 in the first half of 2018, with a year-on-year increase of 33.5% from RMB 1,529,318,000. It has completed downhole operation for 2,863 wells, with a year-on-year increase of 16.2%. With Shunbei (super) deep, Sichuan basin deep shale gas, increase in production of tight gas in the north of Hubei Province and mature oil fields in eastern China and fully realized the advantages of specialization and integration, pushed ahead the localization of technical equipment, and strengthen the technical service capabilities of horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing, horizontal well repairment, high-pressure work and coiled tubing. The domestic record of 44 stages of fracturing in a single well of shale gas was created and contributed to the development of shale gas domestically.

**E. Engineering and construction service**

The Company's operation revenue in engineering and construction service was RMB 5,254,504,000 in the first half of 2018, with a year-on-year increase of 54.6% from RMB 3,398,822,000 at the corresponding period of the previous year. It has completed contracts valued of RMB 5.42 billion in the first half of 2018, representing a year-on-year increase of 65.2%. Its newly signed contracts were valued at RMB 10.15 billion, with a year-on-year increase of 53.3%. The Company fully implemented the key project for the construction of the natural gas pipeline from Qianjiang to Shaoguan. Meanwhile, the Company vigorously developed markets. It won bids for six tenders of the phases of the Rizhao-Puyang-Luoyang crude oil pipeline project, with a contract value of RMB 450 million, and six out of the eight tenders of the phases of Erdos-Anping-Cangzhou gas pipeline project, with a contract value of RMB 1.22 billion.

**F. International business service**

The Company's operation revenue in international business service was RMB 6,138,476,000 in the first half of 2018, representing a year-on-year decrease of 1.0% from RMB 6,200,004,000 at the corresponding period last year and accounted for 26.0% of the total revenue of the first half of 2018. The Company's newly signed contracts in the overseas markets valued USD 1.76 billion, representing a year-on-year increase of 134.7%. Contracts valued at USD 950 million were completed, representing a year-on-year decrease of 5.4%. In the first half of 2018, the Company enhanced unified management of the international business, optimized the market layout, strictly controlled all types of risks and constantly enhanced the capability of benefit creation of projects. The key large-scale markets were operating steadily. In the Kuwait market, the Company won the bid for the project contract of 20 drills with the Kuwait National Petroleum Company, amounting to USD 1.06 billion. In the Ecuador market, I-L-Y oilfield integrated service project and the ITT rig lump-sum projects are operating steadily. In the Nigeria market, the Shall jack-up shallow water rig service and NewcrossEP marsh rig daily fee project started successfully.

**G. Research & development**

In the first half of 2018, the Company continued its construction of technology center. Shale gas technology center was established. The Company had strategic collaboration with renowned oil institutions in China with jointly researching of key projects and sharing of key laboratories. The R&D system continued to improve. During the first half of the year, new application for 262 patents were made locally and overseas, 151 patents were granted. "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 2017. "A drilling tool reversing shock" was awarded the National Patent Excellence Award 2017. The research on applied technology was strengthened, providing stronger support to key areas such as deep shale gas and ultra deep oil and gas and the exploration of key projects. National research topic No. 863 "the natural gas hydrate drilling and coring prototype and ancillary technology" was successfully accepted by the office for national marine technology, which is taking the lead in global technology level. The technologies related to optimized drilling of horizontal well, drilling fluid and well cementation in Fuling region were fully promoted and applied. The research on the application of the key technology of accelerating the drilling of Shunbei super deep oil and gas field made substantial results with the well depth in 8,450 standard meters.

**H. Internal reforms and management**

In the first half of 2018, the Company made progress as it continued to deepen the internal reform, strictly implement the deepened framework proposal for reform and strengthened its guidance. Excess production capacity was squeezed or reduced for further trimming, the number of team members, equipment and organizations were cut down, with the gradual deployment of excess personal. The Company integrated and optimized internal resources. It optimized resources by allocation to main business and technology service business, carried out the contracting and operation of ancillary business, promoted and enhanced major business and fostered ancillary business. Cost target management for all staff was strengthened to create a low-cost advantage. Mainly through reducing purchasing costs, production operation costs and organization operation costs, the costs were reduced by RMB 1.61 billion. Meticulous management was promoted comprehensively. Tasks such as internal control management and entire process management of contract were strengthened. Inspection and handling of risks in key areas began, which facilitated compliance with laws and regulations in corporate governance.

**9. Capital Expenditures**

During the first half of 2018, actual investment arrangements amounted to RMB 291 million, including non-installed equipment of RMB 220 million, construction project of RMB 20 million, safety hazard treatment projects of RMB 1 million and computer information and others of RMB 50 million. During the first half of 2018, the Company adhered to optimizing investment portfolio, to utilize excess and revitalize inventors level inventories by controlling investments strictly, centralizing resources and prioritizing in resources for market development.

## (1) Main business analysis of the Company

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

| | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Change |
|---|---|---|---|
| | RMB '000 | RMB '000 | (%) |
| Operating income | 23,653,002 | 19,842,318 | 19.2 |
| Operating costs | 22,258,048 | 19,868,364 | 12.0 |
| Selling and distribution expenses | 23,531 | 21,370 | 10.1 |
| General and administrative expenses | 1,082,012 | 1,433,923 | -24.5 |
| Net financial expense ("-" for income) | 163,624 | 247,983 | -34.0 |
| Net cash inflow from operating activities ("-" for outflow) | -3,515,042 | -1,988,314 | Not applicable |
| Net cash inflow from investing activities ("-" for outflow) | -277,827 | -208,677 | Not applicable |
| Net cash inflow from financing activities ("-" for outflow) | 3,314,234 | 1,794,566 | 84.7 |
| Research and development expenditure | 240,196 | 51,138 | 369.7 |

Reasons for the changes:

(a) The change in general and administrative expenses was mainly due to the year-on-year decrease in comprehensive service fees in the first half of 2018.

(b) The change in financial expenses was mainly due to the year-on-year increase in net foreign exchange gains of the Company in the first half of 2018.

(c) The change in net cash flow from operating activities was mainly due to the increase in the net occupation of operations in the first half of 2018 due to the increase in workload.

(d) The change in net cash flow from investment activities was mainly due to the increase in cash paid for the purchase of fixed assets and other long-term assets in the first half of 2018.

(e) The change in net cash flow from financing activities was mainly due to the completion of the non-public placement of A shares and H shares in January 2018, which resulted in a net proceeds of RMB 7.64 billion.

(6) The reason for the change in R&D expenditure was mainly due to the increase in the deployment of science and technology projects in the first half of 2018, and the increase in expenditures.

**B. other**

a. The specific information about the change of Company's profit structure or its profit resource

☐ applicable √ not applicable

b. Other

☐ applicable √ not applicable

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

☐ Applicable √ Not Applicable

### (3). Statement of assets and liabilities analysis

**A. Assets and liabilities**

| Item | Amount at 30 June 2018 RMB'000 | Percentage of amount at 30 June 2018 in total assets (%) | Amount at 31 December 2017 RMB'000 | Percentage of amount at 31 December, 2017 in total assets (%) | Changes from the end of the preceding year to the end of the reporting period |
|---|---|---|---|---|---|
| Cash at bank and on hand | **2,223,739** | **3.7** | 2,537,894 | 4.1 | -12.4 |
| Notes receivables & Accounts receivable | **14,722,033** | **24.5** | 18,171,083 | 29.3 | -19.0 |
| Inventories | **2,236,451** | **3.7** | 1,344,434 | 2.2 | 66.3 |
| Contract assets | **8,581,574** | **14.3** | 6,458,640 | 10.4 | 32.9 |
| Other current assets | **1,263,733** | **2.1** | 885,473 | 1.4 | 42.7 |
| Long-term equity investments | **204,077** | **0.3** | 207,046 | 0.3 | -1.4 |
| Fixed assets | **24,090,620** | **40.0** | 25,584,153 | 41.3 | -5.8 |
| Construction in progress | **264,595** | **0.4** | 237,638 | 0.4 | 11.3 |
| Intangible assets | **249,808** | **0.4** | 281,534 | 0.5 | -11.3 |
| Short-term borrowings | **16,717,778** | **27.8** | 17,510,830 | 28.3 | -4.5 |
| Bill payable & Accounts payable | **25,315,123** | **42.1** | 29,487,875 | 47.6 | -14.2 |
| Contract liabilities | **6,466,922** | **10.8** | 8,538,959 | 13.8 | -24.3 |
| Other payables | **2,399,428** | **4.0** | 6,370,386 | 10.3 | -62.3 |
| Non-current liabilities due within one year | **153,259** | **0.3** | 28,844 | — | 431.3 |
| long-term borrowings | **503,788** | **0.8** | 455,826 | 0.7 | 10.5 |
| Long-term payable | **950,527** | **1.6** | 67,533 | 0.1 | 1,307.5 |
| Deferred income | **122,310** | **0.2** | 136,312 | 0.2 | -10.3 |

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

√ Applicable ☐ Not Applicable

On 30 June 2018, the Company's funds with restricted use such as margin deposit, etc. was RMB 11,534,000 (On 31 December 2017: RMB 14,538, 000).

**C. Note:**

(1) Notes receivable and accounts receivable decreased by RMB 3,449,050,000 year-on-year, mainly due to the acceleration of customer arrears collection in the first half of 2018.

(2) Inventories increased by RMB 892,017,000 year-on-year, mainly due to the increase in newly opened projects in the first half of 2018.

(3) Contract assets increased by RMB 2,122,934,000 year-on-year, mainly due to the fact that the settlement progress of newly opened projects lagged behind the construction progress confirmed by the owners in the first half of 2018.

(4) Other current assets increased by RMB 378,260,000 year-on-year, mainly due to the increase in VAT deductible tax.

(5) Contract liabilities decreased by RMB 2,072,037,000 year-on-year, which was mainly due to the decrease of income carried forward resulted from the completion of some projects in the first half of 2018.

(6) Other payables decreased by RMB 3,970,958,000 year-on-year, mainly due to the repayment of debts in the first half of 2018.

(7) Non-current liabilities due within one year increased by RMB 124,415,000 year-on-year, mainly due to the increase in financing lease payments due within one year.

(8) Long-term payables increased by RMB 882,994,000 year-on-year, mainly due to the increase in finance lease payables.

### (4) . Analysis of investments

**A. Significant equity investment**

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

**B. Significant non-equity investment**

☐ Applicable √ Not Applicable

**C. Information of financial assets measured at fair value**

☐ Applicable √ Not Applicable

### (5) Sales of major assets and equity

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

### (6) Information on the Company's subsidiaries and shareholding companies

| Name of company | Registered capital | Shareholding percentage % | Amount of total assets RMB'000 | Amount of total liabilities RMB'000 | Amount of total net assets RMB'000 | Amount of net profit RMB'000 | Main Business |
|---|---|---|---|---|---|---|---|
| Sinopec Oilfield Service Company Limited | RMB 4,000,000,000 | 100 | 60,069,233 | 58,314,853 | 1,754,380 | 363,801 | Petroleum engineering technical service |
| Sinopec Shengli Oil Engineering Company Limited * | RMB 700,000,000 | 100 | 11,112,645 | 12,692,894 | -1,580,249 | -13,896 | Petroleum engineering technical service |
| Sinopec Zhongyuan Oil Engineering Company Limited * | RMB 450,000,000 | 100 | 9,921,174 | 10,899,008 | -977,834 | 57,283 | Petroleum engineering technical service |
| Sinopec Jianghan Oil Engineering Company Limited * | RMB 250,000,000 | 100 | 4,855,747 | 3,803,526 | 1,052,221 | 70,160 | Petroleum engineering technical service |
| Sinopec East China Oil Engineering Company Limited * | RMB 860,000,000 | 100 | 2,543,088 | 3,220,965 | -677,877 | -102,727 | Petroleum engineering technical service |
| Sinopec North China Oil Engineering Company Limited * | RMB 890,000,000 | 100 | 4,226,859 | 2,196,694 | 2,030,165 | 30,563 | Petroleum engineering technical service |
| Sinopec Southwest Oil Engineering Company Limited * | RMB 300,000,000 | 100 | 5,415,324 | 2,192,346 | 3,222,978 | 39,937 | Petroleum engineering technical service |
| Sinopec Oil Engineering Geophysical Company Limited * | RMB 300,000,000 | 100 | 3,331,818 | 3,130,635 | 201,183 | 85,249 | Geophysical exploration |
| Sinopec Oil Engineering and Construction Corporation * | RMB 500,000,000 | 100 | 13,384,072 | 20,959,286 | -7,575,214 | 306,926 | Construction |
| Sinopec Shanghai Offshore Oil Engineering Company Limited * | RMB 2,000,000,000 | 100 | 5,243,414 | 1,558,804 | 3,684,610 | -86,346 | Offshore Oil Engineering Technology Service |
| Sinopec International Petroleum Service Corporation * | RMB 700,000,000 | 100 | 3,749,774 | 2,774,424 | 975,350 | 34,236 | Petroleum engineering technical service |
| SinoFTS Petroleum Services LTD. * | USD55 million | 55 | 347,254 | 41,559 | 305,695 | -2,463 | Oil & Gas Stimulation technology |
| Zhong Wei Energy Services Co.LTD* | RMB 305 million | 50 | 35,474 | 15,968 | 19,506 | -4,144 | Oilfield Service |

# Discussion and Analysis of operation

| Name of company | Revenue RMB'000 | Operating profit RMB'000 |
|---|---|---|
| Sinopec Oilfield Service Company Limited | 23,653,002 | 366,530 |
| Sinopec Shengli Oil Engineering Company Limited* | 4,861,042 | 17,236 |
| Sinopec Zhongyuan Oil Engineering Company Limited * | 4,193,849 | 64,565 |
| Sinopec Jianghan Oil Engineering Company Limited * | 1,837,864 | 74,461 |
| Sinopec East China Oil Engineering Company Limited * | 870,463 | -124,793 |
| Sinopec North China Oil Engineering Company Limited* | 1,719,802 | 57,629 |
| Sinopec Southwest Oil Engineering Company Limited * | 1,418,531 | 40,559 |
| Sinopec Oil Engineering Geophysical Company Limited * | 2,461,966 | 88,780 |
| Sinopec Oil Engineering and Construction Corporation * | 5,394,323 | 250,091 |
| Sinopec Shanghai Offshore Oil Engineering Company Limited * | 423,818 | -90,554 |
| Sinopec International Petroleum Service Corporation * | 562,983 | 46,138 |

* Note: The Company holds shares though SOSC.

Description of the operation of Sinopec Oil Engineering and Construction Corporation.

In the first half of 2018, net profit of Sinopec Oil Engineering and Construction Corporation was RMB 310 million, an increase of RMB 640 million from the same period of the previous year. The main reasons are as follows: firstly, the workload increased in the first half of the year, the income increased by RMB 1.84 billion year-on-year; secondly, the receipt of government subsidies for employee resettlement of RMB 350 million; thirdly, the debt restructuring of RMB 110 million.

### (7) The structured entity controlled by the Company

□ Applicable √ Not Applicable

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

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

| Industry | Operating Income for the first half of 2018 RMB '000 | Operating cost for the first half of 2018 RMB '000 | Gross Profit Margin (%) | Increase/(decrease) in operating income as compared with last year (%) | Increase/(decrease) in operating cost as compared with last year (%) | Gross profit margin compared with last year |
|---|---|---|---|---|---|---|
| Geophysical | 2,552,178 | 2,409,469 | 5.6 | 31.0 | 29.8 | Increased by 0.9 percentage points |
| Drilling | 12,360,125 | 11,656,744 | 5.7 | 6.5 | -0.9 | Increased by 7.0 percentage points |
| Logging/Mud logging | 690,604 | 672,991 | 2.6 | 5.5 | 0.6 | Increased by 4.7 percentage points |
| Downhole operation | 2,040,928 | 1,945,560 | 4.7 | 33.5 | 15.4 | Increased by 15.0 percentage points |
| Engineering and Construction | 5,254,504 | 4,841,671 | 7.9 | 54.6 | 52.3 | Increased by 1.5 percentage points |
| Other | 427,068 | 432,307 | -1.2 | -12.5 | -18.9 | Decreased by 7.9 percentage points |
| Total | 23,325,407 | 21,958,742 | 5.9 | 18.8 | 11.6 | Increased by 6.2 percentage points |

**B. Statement of operation by regions**

| Region | Operating income for the first half of 2018 RMB '000 | Increase/(decrease) as compared with the corresponding period of last year (%) |
|---|---|---|
| Mainland China | 17,186,931 | 28.0 |
| Hong Kong, Macau, Taiwan and overseas | 6,138,476 | -1.0 |

## 2. Market prospects and operation arrangements in the second half of 2018

### (1). Market prospects in the second half of 2018

Looking ahead in the second half of 2018, there is higher uncertainty for the continuous recovery of the world economy while the PRC economy will remain stable overall and maintain the momentum of improving steadily. The demand and supply in the global crude oil market will be tightened. It is expected that international oil prices will keep rising amidst fluctuations. The supply side structural reform of energy in China will be further deepened. The trend of "reducing coal, increasing use of oil and developing the use of gas" will become more obvious. Under such influence, capital expenditure for upstream exploration and development in domestic and overseas oil companies will continue to grow and bring constant improvement to the operating environment of the oilfield service industry.

### (2). Operation arrangements in the second half of 2018

In the second half of 2018, the Company will seize the favourable opportunities as the oilfield service market recovers and continue to focus on enhancing the quality and efficiency of developments, streamlining management levels and organizations, reinforcing technological innovations and applications, further strengthening management and control on costs and expenses, and striving to achieve better operating results.

**A. Geophysical service**

In the second half of 2018, the Company will continue to implement efficient exploration with project management as its core to serve the exploration and development of domestic and overseas oil companies, broaden the service scope of seismic exploration and capture more workload. Active expansion for business markets in new areas, such as non-seismic, mapping and survey areas, will be pursued to nurture growth spots in operations. Continuous expansion in overseas land and ocean markets will be pursued in Africa, Middle East, Latin America and East Asia to secure more quality geophysical projects. In the second half of the year, we plan to complete the 2D seismic data collection for 4,480 km and 3D seismic data collection for 7,300 sq.km.

**B. Drilling service**

In the second half of 2018, the Company will coordinate our resources such as teams, equipment and technology to serve Sinopec's upstream highly efficient exploration and productive development and actively promote the conversion of investment plans into contract workload. We will leverage the advantages of industrial chain integration to strengthen productive cooperation with Sinopec in reserve blocks with usage difficulties and projects on resumption of production capacities in long-term closure wells. Efforts will be dedicated to the construction of key projects, such as Wen-23 gas storage bank, Shunbei oil field, tight gas fields in North China, marine facies gas fields in western Sichuan areas and Fuling shale gas phase II. By bringing into play the advantages of unconventional oil and gas technology, we will continue to expand unconventional markets such as shale gas, coalbed methane and saline-alkali ore, and will continue to expand domestic and international markets such as CNPC and CNOOC. Key overseas markets such as the Middle East, Africa, and the Americas will be operated safely and steadily, and market shares will be continuously expanded. We plan to complete a drilling progress of 4.66 million meters in the second half of the year.

**C. Logging/Mud Logging Services**

In the second half of 2018, the Company will continue to leverage the comprehensive technical service advantages such as equipment, technology and experience in the field of logging/mud logging, expand the new technical applications of logging/mud logging, and actively developed the overseas business of logging/mud logging services. The Company will continue to enhance the promotion and application of horizontal well multi-stage perforation technology and integrated geosteering for logging/mud logging as well as directional well drilling, etc., and actively develop the unconventional oil and gas market. As for overseas, the Group will accelerate the expansion of large-scale efficient markets based on existing markets such as Central Asia and the Middle East, especially the Middle East. The Company plans to complete logging with accumulated for 137,500,000 standard meters and mud logging footage with 4,350,000 meters in the second half of the year.

**D. Downhole operation service**

In the second half of 2018, the Company will continue to enhance its exploration and development service support capabilities, continuously improve the downhole operation engineering technology system, and continue to build a professional technical service team. Continued efforts will be made in exploring conventional and unconventional oil and gas markets. We will develop new businesses such as non-hydraulic fracturing and intelligent well completion, and perfect and strengthen its high end businesses in high pressure operation and intelligent coiled tubing to further expand integrated high-end technical service markets such as China Geological Survey. We will continue to expand and strengthen the workover market in the Middle East and Central Asia such as Kuwait, and continue to expand the scale of the international market. In the second half of the year, the Company plans to complete downhole operation service for 3,300 wells.

**E. Engineering and construction service**

In the first half of 2018, the Company will promote the construction of key projects under construction such as Qianjiang to Shaoguan gas transmission pipeline construction project, Ordos-Anping-Cangzhou natural gas pipeline, Rizhao-Puyang-Luoyang crude oil pipeline and Chongqing natural gas pipeline EPC project and Sichuan natural gas pipeline EPC project in an efficient manner. We will complete bidding for key projects such as Shandong LNG phase II and Sichuan-to-East gas pipeline phase II. We will strengthen the management of and control over subcontractors and project subcontracting, ensure project progress and efficiency, and actively develop projects such as overseas pipelines, station projects and roads and bridges. In the second half year, the Company plans to sign new contracts valued at RMB 5 billion and complete contracts valued at RMB 8.6 billion.

**F. International business service**

In the second half of 2018, the Company, as always, will vigorously implement the operation strategy of “internationalization”. First, the Company will deepen the unified management of overseas operations, improve the division of labor and cooperation mechanism, and fully leverage the overall competitive advantages. Second, we will step up efforts in market development, continuously expand total business volume and market size, and ensure sustainable development. The Company will focus its drilling business on bidding for the Aramco oil and gas well drilling and workover project in Saudi Arabia and the initiation of the project of 20 drilling and workover rigs in Kuwait. Geophysical business. For the geophysical business, the focus will be put on the Saudi Aramco 3D acquisition project and project bidding in markets such as Algeria, Bolivia and Pakistan. For the engineering and construction business, we will closely track markets along “One Belt, One Road”, with the focus put on product oil pipelines in Thailand and road and bridge projects in Saudi Arabia and Uganda. For the reservoir business, we will focus on promoting the integrated comprehensive service project in Kuwait. Third, we will further strengthen project implementation supervision, overseas public security and HSE supervision, and continuously enhance the capability of projects to create benefits. In the second half year, the Company plans to sign new contracts valued at RMB 500 million and complete contracts valued at RMB 1.05 billion.

**G. Research & development**

In the second half of 2018, the Company will closely focus on key exploration and development projects such as Shunbei extra-deep oil and gas reservoir capacity construction, Weirong shale gas development and hard-to-recover reserve cooperation in eastern China, strengthen the research of adaptive technologies, increase the integration of low-cost engineering technologies, and promote revenue generation, quality improvement and efficiency enhancement through technologies. First, we will conduct research on the integrity of Weirong shale gas wellbore and research on low-cost, optimal and fast drilling technology, to ensure the productive development of Weirong shale gas. Second, we will continue to tackle critical points in 185 ° C, 204 ° C measuring while drilling instruments and small wellbore electric imaging logging instruments to meet the requirements of extra-deep oil and gas data acquisition. Third, we will speed up the upgrading and promotion of logging/mud logging instruments with independent intellectual property rights, and complete the tasks for technology promotion and product release to help develop the international market. Fourth, we will promote open innovation, jointly tackle critical points in drilling rotary guide tools, complete downhole tests, and achieve substantial application progress. Fifth, we will step up efforts in the commercialization of mature technologies, promote and apply broadband acceleration detector, mid-deep marine construction design, CCUS (carbon capture, utilization and storage) full-process commercialized application, equipment and tools such as rig automatic pipe column processing device, and improve the capability of technologies to generate revenue and create benefits. Sixth, we will continue to improve the R&D system, speed up the construction of the technology center, and commence the operation of the tight oil and gas technology center and the acidic gas operation technology center.

**H. Internal Reform and Management**

In the second half of 2018, the Company will continue to deepen the internal reform, further improve the reform of three systems comprising personnel, labor and distribution, accelerate organizational implementation, strengthen performance appraisal, and strive to improve the Company’s operational vitality, development momentum and management efficiency. We will continue to optimize the business structure, promote ancillary business to be geared to the needs of the society and move towards the market, in accordance with the development positioning of developing medium to high end business, withdrawing from low-end business, and controlling and shrinking the scale, and refine and enhance major business. We will continue to improve the informalization, automation, and intelligence level of equipment, reduce labor intensity, reduce labor and improve production efficiency; continue to promote mechanism optimization and integration, comprehensively strengthen the building of duty performance capacity, and improve the efficiency of organizational operation; continue to carry forward system and regime construction with project management as the core, implement project management system and process management and control, and effectively prevent project losses; and continue to push forward full-staff cost target management, seize the key aspects and key areas, strictly control non-productive expenses and ensure the successful accomplishment of cost and expense reduction objective set at the beginning of the year.

**I. Capital Expenditure**

In the second half of 2018, centering on economic benefits and taking serving exploration and development as its own responsibility, the Company will step up efforts in resource integration and coordination and adjustment, focus on the urgent need for production, the upgrading of technical service capabilities, the upgrading of equipment with hidden safety and environmental protection dangers hazards, and the adaptive transformation of equipment of the “going out” projects won, strictly control new capacity projects and non-productive projects, and vigorously improve investment efficiency. We will further promote a change in the development mode and market restructuring through investment, and foster core competitiveness.

## 3. Other matters of disclosure

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

□ Applicable √ Not applicable

### (2) Potential risks

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

**A. Risks in fluctuation of international crude oil prices**

Increasing uncertainty of the trend of international crude oil prices In the first half of 2018, due to the overall tightening supply and demand in the global crude oil market, international crude oil prices have risen from the lows of last two years. However, since the beginning of this year, global trade friction has escalated. Geopolitical conflicts have been more frequent. The uncertainty of the sustained recovery of the world economy has increased significantly, and the output of major oil-producing countries has increased. The uncertainty of global crude oil supply and demand balance has been increasing, and the uncertainty of the international oil price trend has increased, thereby leading to an increase in uncertainties of a sustained pick-up in the oil service industry.

**B. Market competition risk**

At present, the bidding activities of the oilfield service industry have been active with a rebound in international oil prices. However, since the oversupply situation in the oilfield service industry has not been fundamentally improved, the Company is still facing competitive pressure from the oilfield service industry. Coupled with political, economic and other factors, the international oil price trend is still uncertain and there may be some countries or regions protecting the local oilfield service industry market. Market competition has remained intense.

**C. Environmental damage, hidden hazards and force majeure risk**

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

**D. Overseas operation risk**

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

**E. Exchange rate risk**

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

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

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

**A. Assets, liabilities and shareholders' equity analysis**

| | As to 30 June 2018 | As to 31 December 2017 | The change |
|---|---|---|---|
| | RMB '000 | RMB '000 | RMB '000 |
| **Total assets** | **60,153,882** | 61,942,629 | (1,788,747) |
| Current assets | **31,990,818** | 31,838,497 | 152,321 |
| Non-current assets | **28,163,064** | 30,104,132 | (1,941,068) |
| **Total liabilities** | **54,004,436** | 64,046,629 | (10,042,193) |
| Current liabilities | **52,441,849** | 63,377,575 | (10,935,726) |
| Non-current liabilities | **1,562,587** | 669,054 | 893,533 |
| **Total equity attributable to equity shareholders of the Company** | **6,149,446** | (2,102,628) | 8,252,074 |

As at 30 June 2018, the Group's total assets were RMB 60,153,882,000 and total liabilities were RMB 54,004,436,000. The total equity attributable to shareholders of the Company was RMB 6,149,446,000. Compared with the consolidated statement of financial position as of 31 December, 2017 ("Compared with that at the end of last year"), the change and its main reasons were as follow:

Total assets were RMB 60,153,882,000, decreased by RMB 1,788,747,000 compared with that at the end of last year, of which (i) current assets were RMB 31,990,818,000, increased by RMB 152,321,000 compared with that at the end of last year, mainly due to comprehensive impact of the reclassification of the items in condensed consolidated statement of financial position in the implementation of the new accounting standards in the first half of the year, resulting in an increase in contract assets of RMB 9,567,447,000, and a decrease of RMB 6,610,035,000 in amounts due from customers for contract works, and a decrease of RMB 3,449,050,000 in notes and trade receivables. (ii) non-current assets were RMB 28,163,064,000, decreased by RMB 1,941,068,000 compared with that at the end of last year, mainly due to the decrease of property, plant and equipment and other non-current assets by RMB 1,673,312,000 as the Group had recognised the depreciation expenses and amortisation of fixed assets and petroleum engineering special tools.

The total liabilities were RMB 54,004,436,000, decreased by RMB 10,042,193,000 compared with that at the end of last year, including that (i) current liabilities were RMB 52,441,849,000, decreased by RMB 10,935,726,000 compared with that at the end of last year, mainly due to comprehensive impact of a decrease of RMB 5,747,156,000 of receipt in advance and other payables, a decrease of RMB 4,172,752,000 in notes and trade payables, the implementation of the new accounting standards for the reclassification of items in condensed consolidated statement of financial position resulted in a decrease amount of RMB 6,765,375,000 in amounts due to customers for contract works and an increase of RMB 6,466,922,000 of contract liabilities. (ii) Non-current liabilities were RMB 1,562,587,000, increased by RMB 893,533,000 compared with that at the end of last year mainly due to the increase of finance lease liabilities under long-term borrowing by RMB860,569,000.

Total equity attributable to shareholders of the Company was RMB 6,149,446,000, increased by RMB 8,252,074,000 compared with that at the end of last year mainly due to the non-public placement of A shares and H shares in January 2018, the corresponding increase in share capital and reserves totaled RMB 7,637,715,000, and the profit attributable to shareholders of the Company for the first half of 2018 was RMB 615,731,000.

As at 30 June 2018, the ratio of total liabilities to total assets were 89.8%, comparing with 103.4% as at 31 December 2017.

**B. Cash flow analysis**

The main items of cash flow of the Company in the first half of 2018 and the first half of 2017 showed in the following table.

| Main items of cash flow | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB '000** | RMB '000 |
| Net cash outflow from operating activities | **(3,515,042)** | (1,988,314) |
| Net cash outflow from investing activities | **(277,827)** | (208,677) |
| Net cash inflow from financing activities | **3,314,234** | 1,794,566 |
| Decrease in cash and cash equivalents | **(478,635)** | (402,425) |
| Cash and cash equivalents at the beginning of the year | **2,523,356** | 2,446,923 |
| Exchange gains/(loss) in Cash and cash equivalents | **167,484** | (29,983) |
| Cash and cash equivalents at the end of the period | **2,212,205** | 2,014,515 |

In the first half of 2018, the Group's net cash outflow from operating activities was RMB 3,515,042,000, representing a increase of cash outflow by RMB 1,526,728,000 as compared with the corresponding period of last year. This was mainly due to the increase in the usage of cash resulted from the increase of business volume the first half of 2018.

In first half of 2018, the Group's net cash outflow from investing activities was RMB 277,827,000, an increase of cash outflow by RMB 69,150,000 as compared with the corresponding period of last year. It was mainly due to the increase cash paid for the acquisition of non-current assets such as property, plant and equipment in the first half of 2018.

In the first half of 2018, the Group's net cash inflow from financing activities was RMB 3,314,234,000, increase of cash inflow by RMB 1,519,668,000 compared with the corresponding period of last year. It was mainly due to the net proceeds of RMB 7,637,715,000 raised by the non-public placement of A shares and H shares in January 2018.

**C. Borrowings from Bank and Related Companies**

As at 30 June 2018, the Company's related company borrowings were RMB 17,221,566,000 (as at 31 December 2017: RMB 17,966,656,000). These borrowings include the short-term borrowings of RMB 16,717,778,000 and the long-term borrowings due more than one year of RMB 503,788,000. Among the borrowings as at 30 June 2018, the balance of RMB borrowings accounted for approximately 74.9% (as at 31 December 2017: 52.8%) and the balance of US dollar borrowings accounted for approximately 25.1% (as at 31 December 2017: 47.2%).

**D. Gearing ratio**

As at 30 June 2018, the gearing ratio of the Group was 72.3 % (as at 31 December 2017: 115.6%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

**E. Assets pledge**

For the year ended 30 June 2018, there was no pledge on the Group's assets.

**F. Foreign Exchange Risk Management**

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

# Significant Events

## 1. Summary of Shareholders' Meetings

During the reporting period, the Company held the annual general meeting for the year 2017 on 20 June 2018 and the first extraordinary general meeting for the year 2018 on 8 February 2018. Details are as follows:

| Name of meeting | Date of meeting | Website designated for searching the resolutions | Disclosure date of resolutions |
|---|---|---|---|
| The first extraordinary general meeting for the year 2018 | 8 February 2018 | www.sse.com.cn www.hkexnews.hk | 9 February 2018 |
| The annual general meeting for the year 2017 | 20 June 2018 | www.sse.com.cn www.hkexnews.hk | 21 June 2018 |

## 2. Profit distribution plan or plan for capitalization of surplus reserves

### (1) Interim cash dividends for 2018 and proposal on issue of shares by capitalizing the common reserves

In accordance with the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2018, and no issue of bonus shares by way of capitalization of common reserves.

## 3. Performance of undertaking

The special undertakings made by the Company and its shareholders holdings more than 5%and the performance of the undertakings as of 30 June 2017:

| Undertaking Background | Undertaking Type | Undertaking party | Undertaking | Undertaking date and period | Is there deadline for performance of undertaking | Whether or not strictly and timely fulfill the undertaking |
|---|---|---|---|---|---|---|
| Undertakings regarding the material assets reorganization | To solve horizontal competition | CPC | The Non-Competition Undertaking 1.China Petrochemical Corporation undertook that it would not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through exercise of its shareholder rights. 2. After the material assets reorganization, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. Within 5 years of the material assets reorganization, China Petrochemical Corporation will find appropriate opportunity to sell the petroleum service business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the material assets reorganization, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment. | Undertaking date: September 12 2014 Period: long term | Yes | During the reporting period, China Petrochemical Corporation did not act contrary to the promise. |

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

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

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

As such, proposed by the second meeting of the ninth term Board of Directors of the Company and approved by the shareholders at 2017 annual general meeting to further appoint Grant Thornton (special general partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2018, and further appoint Grant Thornton (special general partnership) as the Company's auditor regarding internal control for 2018.

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

☐ Applicable √ Not applicable

Explanation of the Company on non-standard opinion of financial report for 2017 given by the auditors

☐ Applicable √ Not applicable

## 5. Insolvency and restructuring

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

## 6. Material litigation and arbitration

√ Applicable During the reporting period, there were material litigations, and arbitrations.

☐ Not applicable During the reporting period, there were not material litigations, and arbitrations.

The litigation and arbitration have been disclosed in the announcement and there is no subsequent progress

China National Chemical Engineering No. 11 Construction Co., Ltd. (中國化學工程第十一建設有限公 司) (the"Applicant") entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project (《沙特延布-麥迪那第三期管線項目C包施工工程合同》)" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay RMB 456,810,240 for the project fee and the accrued interest, RMB 145,968,410.5 for the loss due to stoppage of work and the accrued interest, RMB 38,018,100 for the advance payment under the letter of guarantee and the accrued interest, and RMB 500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the "Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhongjing Zi No. 048223)".

As the hearing of the case has not yet proceeded, it is currently impossible to determine its impact on the current or future profits of the Company. The Company will make active response and safeguard the legitimate rights and interests of the Company.

For details, please refer to 《Announcement on a wholly-owned subsidiary involving arbitration》 disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn and www.hkexnews.hk on 26 June, 2018.

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

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

## 8. Credibility for the Company, controlling shareholders and defacto controller

☐ Applicable √ Not applicable

## 9. Stock option incentive scheme and its effect

### (1) Date and number of the Grant

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

### (2) Share Options Granted to Directors, Senior Management or Major Shareholders

The Company granted a total of 1.67 million shares of A-share options to nine persons, including Vice Chairman and General Manager Mr. Sun Qingde, director Mr. Lu Baoping, supervisor Mr. Huang Songwei, Deputy Manager Mr. Zhang Yongjie, Deputy Secretary of CPC Committee Mr. Liu Rushan, Deputy Manager Zuo Yaojiu, Deputy Manager Mr. Zhang Jinhong, Secretary to the board Mr. Li Honghai and former Executive Director and Deputy Manager Mr. Zhou Shiliang, accounting for 3.4% of the total amount of share options in the Proposed Grant, and accounting for 0.0118% of the total shares of the Company.

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

The Company granted a total of 47,380,000 A shares share options to 468 key business personnel, accounting for 96.6% of the total amount of the share options in the Proposed Grant, and accounting for 0.335% of the total shares of the Company. During the reporting period, none of the share options granted was exercised, and no share options were cancelled or lapsed.

### (4) Exercise price of the Grant

According to the determining principal of exercise price, the exercise price of the Grant is RMB 5.63 per share (If, during the Validity Period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares or any other events takes place, an adjustment to the number of Share Options shall be made accordingly).

### (5) Validity Period and Exercise Arrangement under the Grant

The validity period of the share options shall be five years commencing from the grant date, but is subject to the following exercise arrangements. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same hereinafter) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 30%, 30% and 40% of the total share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

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

## 10. Information on connected transactions

The Company's material connected transactions for the six months ended 30 June 2018 are as follows:

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

| The nature of the transaction classification | Connected parties | Amount of transaction RMB '000 | Proportion of the same type of transaction (%) |
|---|---|---|---|
| Purchase of materials and equipment | China Petrochemical Corporation and its subsidiaries | 2,029,979 | 37.9 |
| Sales of products | China Petrochemical Corporation and its subsidiaries | 7,798 | 5.8 |
| Rendering Engineering services | China Petrochemical Corporation and its subsidiaries | 13,265,680 | 56.4 |
| Receiving of community services | China Petrochemical Corporation and its subsidiaries | 464,445 | 100 |
| Rental expenses | China Petrochemical Corporation and its subsidiaries | 12,907 | 9.1 |
| Loan interest expenses | China Petrochemical Corporation's subsidiaries | 275,566 | 98.8 |
| Borrowings obtained | China Petrochemical Corporation's subsidiaries | 16,559,753 | 100 |
| Borrowings repaid | China Petrochemical Corporation's subsidiaries | 17,343,880 | 100 |
| Safety and insurance fund expenses | China Petrochemical Corporation | 41,550 | 100 |

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

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

(3) During the reporting period, no material connected transactions of joint external investment material connected transactions of joint external investment of the company occurred.

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

Unit: RMB '000

| Connected parties | Connected relation | Funds provided to connected party | | | Funds provided to the Company by connected party | | |
|---|---|---|---|---|---|---|---|
| | | Opening balance | Occurrence amount | Closing balance | Opening balance | Occurrence amount | Closing balance |
| China Petrochemical Corporation and its subsidiaries | Controlling shareholders and its subsidiaries | 9,449,943 | -2,776,672 | 6,673,271 | 13,662,161 | -8,874,181 | 4,787,980 |
| Sinopec Finance Company Limited | Subsidiary companies of the controlling shareholders | — | — | — | 6,995,000 | 3,405,000 | 10,400,000 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary companies of the controlling shareholders | — | — | — | 8,471,656 | -4,150,090 | 4,321,566 |
| Total | | 9,449,943 | -2,776,672 | 6,673,271 | 29,128,817 | -9,619,271 | 19,509,546 |
| Causes of connected claims and debts | | | | | | | Normal production and operation |
| Influence of connected claims and debts on the Company's performance and financial situation | | | | | | | No material adverse effects |

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

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

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

### (5) Connected transactions related to finance leases

On 11 January 2018, the Company's indirect wholly-owned subsidiary, China Petrochemical Shengli Petroleum Engineering Company Limited (Shengli Petroleum Engineering Company), as the Lessee, entered into the Finance Leasing Agreement with Taiping & Sinopec Financial Leasing Co. Ltd. (TSFL), as the Lessor. Pursuant to the Finance Leasing Agreement, (i) the Lessor agreed to purchase Leasing Assets such as machines and equipment used for drilling and downhole operations from the Lessee, at a consideration of RMB1,000,000,000, and (ii) the Lessor agreed to lease back the Leasing Assets with a leasing principal of RMB1,000,000,000 to the Lessee. The leasing interest is approximately RMB174,159,722.23 (tax included) and the total rent (leasing principal plus leasing interest) is approximately RMB1,174,159,722.23. The financial leasing contract was approved by the first extraordinary general meeting for 2018 of the Company held on 8 February 2018.

The Board considered that undergoing financing with existing production facilities of Shengli Petroleum Engineering Company under the Finance Leasing Agreement will (i) improve the operating capital of Shengli Petroleum Engineering Company; (ii) improve the asset and liability structure of the Group, increase its long-term finance percentage, liquidise the assets of the Company and practically ease its liquidity pressure; and (iii) lower the capital cost and expand the financing channels of the Group. It is expected that the Finance Leasing Agreement and transactions contemplated thereunder will have no material impact on the Group's operation.

For details of the finance lease, please refer to the website of the Shanghai Stock Exchange (http://www.sse.com.cn), China Securities, Shanghai Securities News and Securities Times on 12 January, 2018. "Notice on the Financial Leasing Business and Related Transactions in Taiping & Sinopec Financial Leasing Co. Ltd." (P.2018-006) and the disclosure< DISCLOSABLE AND CONNECTED TRANSACTION FINANCE LEASING AGREEMENT> dated on January 11, 2018, at www.hkexnews.hk and the relevant shareholder circular sent on 22 January, 2018.

## 11. Material contracts and performance

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

☐ Applicable √ Not applicable

B. Leasing Matters

√ Applicable ☐ Not applicable

| Lessor | Lessee | Leased Assets | The amount of money involved | Lease commencement date | Lease termination date | Rental Income | The basis for determining the rental income | The impact of leasing proceeds on the company | Is it a connected transaction? | Connected relation |
|---|---|---|---|---|---|---|---|---|---|---|
| TSFL | Shengli Petroleum Engineering Company | machines and equipment used for drilling and downhole operations | RMB 1 billion | 8 February 2018 | 8 February 2026 | RMB – 174 million | Calculated based on a fixed annual interest rate of 4% | No significant impact | 是 | YSFL is a joint venture company of the controlling shareholder of the company. |

### (2) Guarantee

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

### (3) Other material contracts

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

## 12. Improvement of corporate governance

During the reporting period, the Company was able to regulate its operations in accordance with domestic and overseas regulatory requirements. The corporate governance of the Company had nothing inconsistent with the regulatory requirements on corporate governance of listed companies laid down by the CSRC. In order to further improve corporate governance, combined with the company's actual situation and needs of business management and shareholders' recommendations, and with the completion of the non-public placement of A shares and H shares, the amendment of company's Articles of Association was approved by the 2017 AGM.

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

## 13. Poverty alleviation program launched by the Company

☐ Applicable √ Not applicable

## 14. Convertible Bonds

☐ Applicable √ Not applicable

## 15. Environmental Protection

### (1) Description of the environmental protection of listed companies and their subsidiaries that belong to heavily polluting industries stipulated by the national environmental protection department

☐ Applicable √ Not applicable

### (2) Description of the environmental protection of listed companies and their subsidiaries other than heavily polluting industries stipulated by the national environmental protection department

√ Applicable ☐ Not applicable

The Company adhered to the value of safety, environmental protection, green and low carbon development. The Company established relevant systems such as the Measures for the Management on Safety and Environmental Protection Supervision of Sinopec Oilfield Service Corporation and the Management Rules on Pollution Prevention of Sinopec Oilfield Service Corporation, it strictly implemented environmental laws and regulations, as well as the effluent standards of project host countries and international conventions, while the hazardous waste is delivered to units with disposition qualification for recovery.

At present, the company's pollutants mainly include tail gas, domestic sewage, solid waste and oil-based cuttings. The tail gas includes diesel ail gas and gas-powered ail gas, and the emission index meets the requirements of the local standard; domestic sewage includes domestic sewage in the fixed place and in the mobile construction site, and the domestic sewage in the fixed production site is disposed of by the municipal pipe network, and the domestic sewage in the mobile construction site is recirculated after on-site disposal; solid waste mainly are drilling waste mud and cuttings, according to the owner's request, after being disposed by the owner or disposed after decontamination, after on-site solid-liquid separation, and after decontamination Comprehensive utilization and other methods for disposal, domestic garbage are disposed of by professional institutions; oil-based cuttings, according to the owner's requirements, handed over to the owner's organization for disposal or use thermal analysis for harmless disposal and comprehensive utilization. In the first half of 2018, the company handled 211,000 tons of solid waste of 15,000 tons of oil-based cuttings in accordance with the law.

In 2018, the Company carried out clean production and focused on the transformation and application of new technologies and equipment. Based on the work targets of "energy conservation, consumption reduction, pollution reduction and efficiency enhancement", the Company actively promoted advanced technologies such as grid powered drilling machines, dual-fuel engines, energy-saving variable frequency motors and environmental degradable mud, thereby reducing energy consumption and pollutant emission. Moreover, the Company established a long-term effective mechanism by putting duties of various departments into place, such that clean production examination is carried out on schedule, and inspection and acceptance of clean production is reported.

The Company also strongly promoted the application of treatment technology "waste drilling mud being integrated with the drill instead of on the ground", such technology was seriously pushed forward after specifying the direction and techniques through organizing technology project discussion and onsite testing. At present, various units of the Company have equipped with 38 sets of equipment for the treatment of waste drilling mud being in the drill instead of on the ground, while the whole work area in Northern China used the simplified technology for such treatment.

The Company established an environmental emergency management system, improved the environmental emergency network, and prepared a contingency plan according to the risk evaluation results, amended it in a timely manner and made filings as required. Established an emergency rescue team and carried out regular training and drills based on the contingency plan.

### (3) Explanation of the follow-up progress or changes in the disclosure of information during the reporting period

☐ Applicable √ Not applicable

## 16. Compliance with the Corporate Governance Code

For the six months ended 30 June 2018, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that:

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

## 17. Compliance with the Mode Code

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

## 18. Other significant events

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

√ Applicable ☐ Not Applicable

In the first half of 2018, changes in significant accounting policies of the Company are as follows:

1. Pursuant to the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the categories of financial assets have changed from the current "four categories" to "three categories", with a decrease in the categories of financial assets. The Group's financial assets are classified into three categories, namely financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. The determination of the provision for impairment of financial assets has been changed from the "incurred loss method" to the "expected loss method".

   The above-mentioned changes in accounting policies require retrospective adjustments. The changes in accounting policies have no significant impact on the Company's financial position, operating results and cash flows.

2. Pursuant to the Accounting Standards for Business Enterprises No. 14 – Revenue, The Group adopts a unified revenue recognition model to calculate contract revenues with customers. The standard for the recognition of revenue has been changed from the current recognition of revenue "when the major risks and rewards of goods are transferred to customers" to recognition of revenue "when the customer obtains control of goods (or services)". On the contract commencement date, the Group assesses the contract, identifies each of the performance obligations in the contract, and ensures whether each of the performance obligations is to be fulfilled over time or at a certain point in time, and subsequently recognizes the revenue accordingly upon the complete fulfilment of each of the performance obligations.

The above changes in accounting policies require retrospective adjustment of the relevant projects in the opening financial statements. The changes in accounting policies have no significant impact on the Company's operating results and cash flows. The Group presents contract assets or contract liabilities in the balance sheet based on the relationship between the fulfillment of performance obligations and customer payment. The impact of applying the new revenue standard on items in the statements is as follows:

Unit: RMB '000

| | Amount shown in previous years | Amount adjusted in accordance with the new standard | Restated amounts |
|---|---|---|---|
| Balance sheet: | | | |
| Inventory | 7,803,074 | -6,458,640 | 1,344,434 |
| Contract assets | — | 6,458,640 | 6,458,640 |
| Prepayments | 8,538,959 | -8,538,959 | — |
| Contract liabilities | — | 8,538,959 | 8,538,959 |
| Total: | 16,342,033 | — | 16,342,033 |

3. Pursuant to the "Announcement of the revision of general enterprises financial statement format (Cai Kuai [2018] No. 15) of the Ministry of Finance, the Group revised the financial statement format. The revision of the financial statement format has no impact on the Group's total assets, total liabilities, net profit and other comprehensive income.

For details of the changes in accounting policies, please refer to Note III.35 of the financial statements.

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

☐ Applicable √ Not Applicable

## 1. Changes in share capital

### (1) Changes in share capital

| | Before change | | Increase/(decrease) (+/-) | | | | | After change | |
|---|---|---|---|---|---|---|---|---|---|
| | Numbers of shares | Per cent (%) | New issue | Stock dividends | Conversion from Reserve | Others | Sub-total | Numbers of shares | Percent (%) |
| I. Shares with selling restrictions: | 9,224,327,662 | 65.2 | +4,122,504,543 | — | — | -9,224,327,662 | -5,101,823,119 | 4,122,504,543 | 21.7 |
| 1. State-owned shares | — | — | — | — | — | — | — | — | — |
| 2. Shares held by state-owned companies | 9,224,327,662 | 65.2 | +1,503,568,702 | — | — | -9,224,327,662 | -7,720,758,960 | 1,503,568,702 | 7.9 |
| 3. Shares held by other domestic investors | — | — | +23,148,854 | — | — | — | +23,148,854 | 23,148,854 | 0.1 |
| 4. Shares held by foreign investors | — | — | +2,595,786,987 | — | — | — | +2,595,786,987 | 2,595,786,987 | 13.7 |
| II. Shares without selling restrictions | 4,918,333,333 | 34.8 | +719,174,495 | — | — | +9,224,327,662 | +9,943,502,157 | 14,861,835,490 | 78.3 |
| 1. RMB-denominated ordinary shares | 2,818,333,333 | 20.0 | — | — | — | +9,224,327,662 | +9,224,327,662 | 12,042,660,995 | 63.4 |
| 2. Shares traded in non-RMB currencies and listed domestically | — | — | — | — | — | — | — | — | — |
| 3. Shares listed overseas | 2,100,000,000 | 14.8 | +719,174,495 | — | — | — | +719,174,495 | 2,819,174,495 | 14.9 |
| 4. Others | — | — | — | — | — | — | — | — | — |
| III. Total shares | 14,142,660,995 | 100.0 | +4,841,679,038 | — | — | — | +4,841,679,038 | 18,984,340,033 | 100.0 |

Notes for changes in shares:

During the reporting period, the Company's total number of shares and its share capital structure have been changed. The main changes are: On January 2, 2018, the restricted period for the sale of 9,224,327,662 restricted-sale A-shares held by China Petrochemical Corporation (CPC) was completed and listed and circulated; On January 24, 2018, the Company non-publicly issued 2,595,786,987 restricted-sale H-shares and 719,174,495 unrestricted-sale H shares to Sinopec Century Bright Capital Investment, Ltd(Century Bright Company) and China Structural Reform Fund Corporation Limited or its designated related party (China Structural Reform Fund) respectively; on January 25, 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively, and completed the registration and custody of the nonpublic issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. After accomplishment of the above non-public placement, the total number of shares issued by the company increased from 14,142,660,995 shares to 18,984,340,033 shares.

### (2) Changes in Shares with Selling Restrictions

√Applicable □Not Applicable

| Names of shareholders | Number of share with selling restrictions at the beginning of period | Number of share with selling restrictions released during the reporting period | Number of share with selling restriction increased during the reporting period | Number of share with selling restriction at the end of period | Reasons of selling restrictions | Date of release of selling restrictions |
|---|---|---|---|---|---|---|
| **China Petrochemical Corporation** | 9,224,327,662 | 9,224,327,662 | 1,503,568,702 | 1,503,568,702 | Non-public placement, not transferable within 36 months from 25 January, 2018 | 2 January, 2018 |
| **Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees)** [1] | 0 | 0 | 2,595,786,987 | 2,595,786,987 | Non-public placement, not transferable within 36 months from 24 January, 2018 | — |
| **Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund** [2] | 0 | 0 | 23,148,854 | 23,148,854 | Non-public placement, not transferable within 36 months from 25 January, 2018 | — |
| **Total** | 9,224,327,662 | 9,224,327,662 | 4,122,504,543 | 4,122,504,543 | — | — |

1. HKSCC (Nominees) Limited acts as an agent to hold H shares of the company on behalf of Sinopec Century Bright Capital Investment.
2. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

## 2. Information of Shareholders

### (1) Number of shareholders

As at 30 June 2018, the number of shareholders of the Company was 144,151, including 143,890 holders of A shares and 342 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules on the HKSE.

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

| Shareholdings of the top ten shareholders<br>Names of shareholders | Nature of shareholders | Changes of shareholdings[1] (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[2] | State-owned legal person | 1,503,568,702 | 10,727,896,364 | 56.51 | 1,503,568,702 | 0 |
| Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")[3] | Overseas legal person | 3,315,102,482 | 5,401,937,978 | 28.45 | 2,595,786,987 | 0 |
| CITIC Limited | State-owned legal person | 0 | 1,035,000,000 | 5.45 | 0 | 0 |
| Darry Asset Management (Hangzhou) Co., Ltd. | Others | 0 | 133,333,333 | 0.70 | 0 | 133,333,300 |
| Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan | Others | 0 | 66,666,666 | 0.35 | 0 | 0 |
| Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan | Others | 0 | 66,666,666 | 0.35 | 0 | 0 |
| Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund[4] | Others | 23,148,854 | 23,148,854 | 0.12 | 23,148,854 | 0 |
| Huaan Fund- Industrial Bank –China Foreign Economy & Trade Co.Ltd | Others | 0 | 13,333,300 | 0.07 | 0 | 0 |
| Shenzhen Yongtai Investment Co., Ltd. | Domestic legal person | 10,000,000 | 10,000,000 | 0.05 | 0 | 0 |
| China Construction Bank Corporation –Huaxia Xinghua Mixed Securities Investment Fund | Others | 9,168,500 | 9,168,500 | 0.05 | 0 | 0 |

| Shareholdings of top ten shareholders of shares without selling restrictions<br>Name of shareholders | Number of shares without selling restrictions held at the end of the reporting period (shares) | Types of shares |
|---|---|---|
| China Petrochemical Corporation | 9,224,327,662 | A Share |
| Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") | 2,806,150,991 | H Share |
| CITIC Limited | 1,035,000,000 | A Share |
| Darry Asset Management (Hangzhou) Co., Ltd. | 133,333,333 | 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- Industrial Bank –China Foreign Economy & Trade Co.Ltd | 13,333,300 | A Share |
| Shenzhen Yongtai Investment Co., Ltd. | 10,000,000 | A Share |
| China Construction Bank Corporation–Huaxia Xinghua Mixed Securities Investment Fund | 9,168,500 | A Share |
| Cai Xilian | 6,680,000 | A Share |
| Statement on the connected relationship or activities in concert among the above-mentioned shareholders | Except that Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan and Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan belong to Donghai Fund Management Limited Company, the Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders. | |

Note
1. As compared with the number of shares held as of 31 December 2017.
2. 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 its wholly-owned subsidiary Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.
3. "HKSCC (Nominees) Limited" is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the company on behalf of other companies or individual shareholders.
4. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

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

Unit: share

| Names of shareholders with selling restrictions | Number of shares with selling restrictions | Date when the shares could be traded through listing | Number of additional shares could be traded through listing | Selling restriction |
|---|---|---|---|---|
| China Petrochemical Corporation | 1,503,568,702 | 24 January, 2021 | 1,503,568,702 | 3 years |
| Hong Kong Securities Clearing Company (Nominees) Limited | 2,595,786,987 | 23 January, 2021 | 2,595,786,987 | 3 years |
| Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund | 23,148,854 | 24 January, 2021 | 23,148,854 | 3 years |
| Statement on the connected relationship or activities in concert among the above-mentioned shareholders | Hong Kong Securities Clearing Company (Nominees) Limited holds 2,595,786,987 shares of H share with selling restrictions on behalf of Sinopec Century Bright, Sinopec Century Bright Capital Investment, Ltd. is a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of China Petrochemical Corporation. | | | |

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

As far as known to the Directors, as at 30 June 2018, the following persons had an interest or short positions in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

| Name of shareholder | Number of share held | Per cent of shareholding in the Company's total issued share capital | Per cent of shareholding in the Company's total issued domestic shares | Per cent of shareholding in the Company's total issued H shares | Short position |
|---|---|---|---|---|---|
| | | (%) | (%) | (%) | (shares) |
| China Petrochemical Corporation | 10,727,896,364 (A share) | 56.51 | 79.06 | Not Applicable | — |
| | 2,595,786,987 (H share)[1] | 13.67 | Not Applicable | 47.94 | — |
| CITIC Limited | 1,035,000,000 (A share) | 5.45 | 7.63 | Not Applicable | — |

Note: 1. China Petrochemical Corporation held 2,595,786,987 H shares of the Company through its wholly-owned subsidiary Sinopec Century Bright Capital Investment, Ltd.. China Petrochemical Corporation is deemed to have H shares held by Sinopec Century Bright Capital Investment, Ltd..

Save as disclosed above, as at 30 June 2018, as far as known to the Directors, no other person (other than Director, Supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which would as recorded in the register kept by the Company under Section 336 of the SFO.

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

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

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

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

## 1. The Change of equity interests in the Company

### (1) Shareholdings of the current Directors, Supervisors and Senior Management and those resigned during the reporting period

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

| Name | Title | Number of shares held at the beginning of the reporting period | Number of shares held at the end of the reporting period | Changes during the reporting period | Reason for change |
|---|---|---|---|---|---|
| Sun Qingde | Vice Chairman, General Manager | 0 | 0 | 0 | No Change |
| Chen Xikun | Director, Deputy General Manager | 0 | 0 | 0 | No Change |
| Ye Guohua | Former Director | 0 | 0 | 0 | No Change |
| Lu Baoping | Director | 0 | 0 | 0 | No Change |
| Fan Zhonghai | Director | 0 | 0 | 0 | No Change |
| Wei Ran | Director | 0 | 0 | 0 | No Change |
| Jiang Bo | Independent Non-Executive Director | 0 | 0 | 0 | No Change |
| Pan Ying | Independent Non-Executive Director | 0 | 0 | 0 | No Change |
| Chen Weidong | Independent Non-Executive Director | 0 | 0 | 0 | No Change |
| Dong Xiucheng | Independent Non-Executive Director | 0 | 0 | 0 | No Change |
| Li Wei | Chairman of Supervisory Committee | 0 | 0 | 0 | No Change |
| Zou Huiping | Supervisor | 0 | 0 | 0 | No Change |
| Du Jiangbo | Supervisor | 0 | 0 | 0 | No Change |
| Zhang Qin | Supervisor | 0 | 0 | 0 | No Change |
| Zhang Jianbo | Supervisor | 0 | 0 | 0 | No Change |
| Zhang Hongshan | Supervisor | 0 | 0 | 0 | No Change |
| Huang Songwei | Supervisor | 0 | 0 | 0 | No Change |
| Zhang Yongjie | Deputy General Manager | 0 | 0 | 0 | No Change |
| Zuo Yaojiu | Deputy General Manager | 0 | 0 | 0 | No Change |
| Zhang Jinhong | Deputy General Manager | 0 | 0 | 0 | No Change |
| Li Tian | Chief Financial Officer | 0 | 0 | 0 | No Change |
| Li Honghai | Secretary to the board | 0 | 0 | 0 | No Change |
| Jiao Fangzheng | Former Chairman, | 0 | 0 | 0 | No Change |
| Zhou Shiliang | Former Director, Deputy General Manager | 0 | 0 | 0 | No Change |
| Li Lianwu | Former Director | 0 | 0 | 0 | No Change |
| Zhang Huaqiao | Former Independent Non-Executive Director | 0 | 0 | 0 | No Change |

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

At 30 June, 2018, except the stock option incentive and Qi Xin Gong Ying Scheme disclosed below, none of the Directors or Supervisors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the registry by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

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

| Name | Position | Number of share options held at the beginning of 2017 | Number of share options newly granted during the reporting period | Exercisible share options during the reporting period | Share options exercised during the reporting period | Number of share options by the end of reporting period |
|---|---|---|---|---|---|---|
| Sun Qingde | Vice Chairman, General Manager | 210,000 | 0 | 0 | 0 | 210,000 |
| Lu Baoping | Director | 190,000 | 0 | 0 | 0 | 190,000 |
| Huang Songwei | Supervisor | 180,000 | 0 | 0 | 0 | 180,000 |
| Zhang Yongjie | Deputy Manager | 190,000 | 0 | 0 | 0 | 190,000 |
| Liu Rushan | Deputy Secretary of CPC Committee | 190,000 | 0 | 0 | 0 | 190,000 |
| Zuo Yaojiu | Deputy Manage | 180,000 | 0 | 0 | 0 | 180,000 |
| Zhang Jinhong | Deputy Manage | 180,000 | 0 | 0 | 0 | 180,000 |
| Li Honghai | Secretary to the Board | 140,000 | 0 | 0 | 0 | 140,000 |
| Zhou Shiliang | Former Director, Deputy Manger | 210,000 | 0 | 0 | 0 | 210,000 |
| Total | / | 1,670,000 | 0 | 0 | 0 | 1,670,000 |

#### (3) Directors, Supervisors and Senior Management Participate in Qi Xin Gong Ying Scheme

On 25 January, 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 share of restricted-sale A shares in private to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension, and its shares shall be subscribed by the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB 60.65million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB 1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January, 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

In Qi Xin Gong Ying Scheme, directors, supervisors and chief executives of the Group have subscribed 3.55 million scheme shares in total, accounting for approximately 5.9% of the total scheme shares of Qi Xin Gong Ying Scheme. There are 10 directors, supervisors and chief executives of the Company in total who have subscribed for Qi Xin Gong Ying Scheme, the subscription by the directors, supervisors and chief executives of the Company under Qi Xin Gong Ying Scheme are as follows:

| Name | Position | Subscription amount under Qi Xin Gong Ying Scheme (RMB thousand) | Subscription scheme shares under Qi Xin Gong Ying Scheme ('000 shares) | Subscription Price (RMB/A Share) | Subscription of A share (share) |
|---|---|---|---|---|---|
| Sun Qingde | Vice Chairman, General Manager | 400,000 | 400,000 | 2.62 | 152,671 |
| Chen Xikun | Director, Deputy Manager | 400,000 | 400,000 | 2.62 | 152,671 |
| Li Wei | Chairman of Supervisory Committee | 350,000 | 350,000 | 2.62 | 133,587 |
| Zhang Hongshan | supervisors | 350,000 | 350,000 | 2.62 | 133,587 |
| Huang Songwei | supervisors | 350,000 | 350,000 | 2.62 | 133,587 |
| Zhang Yongjie | Deputy Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| ZuoYaojiu | Deputy Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| Zhang Jinhong | Deputy Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| Li Tian | CFO | 350,000 | 350,000 | 2.62 | 133,587 |
| Li Honghai | Secretary to the Board | 300,000 | 300,000 | 2.62 | 114,503 |
| total | / | 3,550,000 | 3,550,000 | — | 1,354,954 |

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

| Name | Position held | Change | Reason for change |
|---|---|---|---|
| Chen Xikun | Director, Deputy Manager | Elected | Elected by General Meeting of Shareholders and appointed by the Board of Directors |
| Ye Guohua | Director | Elected | Elected by General Meeting of Shareholders |
| Lu Baoping | Director | Elected | Elected by General Meeting of Shareholders |
| Fan Zhonghai | Director | Elected | Elected by General Meeting of Shareholders |
| Zhang Jianbo | Supervisor | Elected | Elected by General Meeting of Shareholders |
| Zhou Shiliang | Director, Deputy Manager | Resigned | Legal Retirement Age |
| Li Lianwu | Director | Resigned | Expiration of Term of Appointment |
| Jiao Fangzheng | Chairman | Resigned | Adjustment of Work |
| Zhang Huaqiao | Independent Non-Executive Director | Resigned | Personal Reasons |
| Wei Ran | Director | Elected | Elected by General Meeting of Shareholders |
| Chen Weidong | Independent Non-Executive Director | Elected | Elected by General Meeting of Shareholders |
| Dong Xiucheng | Independent Non-Executive Director | Elected | Elected by General Meeting of Shareholders |
| Ye Guohua | Director | Resigned | Adjustment of work |

The first extraordinary general meeting for 2018 of the Company was held on 8 February 2018, Mr. Chen Xikun, Mr. Ye Guohua, Mr. Lu Baoping and Mr. Fan Zhonghai were elected as directors of the 9th Session of the Board of Directors of the Company. Mr. Jiao Fangzheng, Mr. Sun Qingde, Ms. Jiang Bo, Mr. Pan Ying and Mr. Zhang Huaqiao were re-elected as directors of the 9th Session of the Board of Directors. Mr. Zhang Jianbo was elected as supervisor of the 9th Session of the Supervisory Committee. Mr. Zou Huiping, Mr. Du Jiangbo and Ms. Zhang Qin were re-elected as supervisors of the 9th Session of the Supervisory Committee. The Company held the employee's representative meeting on 1 February 2018, Mr. Li Wei, Mr. Zhang Hongshan and Mr. Huang Songwei were re-elected as the employee representative supervisors of the 9th Session of the Supervisory Committee.

Mr. Zhou Shiliang and Mr. Li Lianwu, directors of the Company, ceased to be directors of the Company since 8 February, 2018 due to the expiration of their term of appointment and their legal retirement age. Mr. Jiao Fangzheng, Chairman of the Board, due to the adjustment of his work, ceased to serve as the Chairman of the Board, non-executive Director and Chairman of the Strategy Committee of the board since June 7, 2018. Mr. Zhang Huaqiao, an Independent Non-executive Director of the Company, ceased to be an INED of the 9th Session of the Board due to the heavy workload on Mr. Zhang's positions as directors or independent non-executive directors in several domestic and international listed companies, with effect from 20 June, 2018.

The Company would like to express its gratitude to Mr. Jiao Fangzheng, Mr. Zhou Shiliang, Mr. Li Lianwu and Mr. Zhang Huaqiao for their hard working and outstanding contribution to the Company.

The 2017 Annual General Meeting of the Company was held on 20 June 2018, Mr. Wei Ran, Mr. Chen Weidong and Mr. Dong Xiucheng were elected as the directors of the 9th Session of the Board of Directors of the Company, among which Mr. Chen Weidong and Mr. Dong Xiucheng were elected as the independent non-executive directors of the Company.

Mr. Ye Guohua resigned his position as Non-executive Director and member of Audit Committee of the Board of the Company due to new working arrangement on 23 August 2018.

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

As at 30 June 2018, the Company has four independent non-executive directors, one of whom is professional in the accounting field and has experience in financial management.

The Audit Committee of the Board of the Company has been founded. The members of the Audit Committee include Ms. Jiang Bo, Mr. Pan Ying and Mr. Ye Guohua. The main responsibilities of the Audit Committee are to review and supervise the Company's financial reporting procedures and internal control system, and to provide advice to the Board. The Audit Committee has reviewed and confirmed the interim results for the six-months ended on 30 June 2018.

# Financial Reports

## Prepared in accordance with PRC Accounting Standards for Business Enterprises

## CONSOLIDATED BALANCE SHEETS

Expressed in RMB thousand

| Items | Notes | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| Current assets: | | | |
| Cash at bank and on hand | V.1 | 2,223,739 | 2,537,894 |
| Financial assets held for trading | | — | — |
| Bills receivable and accounts receivable | V.2 | 14,722,033 | 18,171,083 |
| Prepayments | V.3 | 628,379 | 424,731 |
| Other receivables | V.4 | 2,315,178 | 2,000,100 |
| Inventories | V.5 | 2,236,451 | 1,344,434 |
| Contract assets | V.6 | 8,581,574 | 6,458,640 |
| Assets classified as held for sale | | — | — |
| Non-current assets due within one year | V.7 | 157,329 | — |
| Other current assets | V.8 | 1,263,733 | 885,473 |
| Total current assets | | 32,128,416 | 31,822,355 |
| Non-current assets: | | | |
| Debt investments | | — | — |
| Other debt investments | | — | — |
| Available-for-sale financial assets | | — | 24,389 |
| Long-term receivables | V.9 | — | 233,061 |
| Long-term equity investments | V.10 | 204,077 | 207,046 |
| Other equity instrument investments | V.11 | 24,389 | — |
| Other non-current financial assets | | — | — |
| Investment property | | — | — |
| Fixed assets | V.12 | 24,090,620 | 25,584,153 |
| Construction in progress | V.13 | 264,595 | 237,638 |
| Biological assets | | — | — |
| Oil and gas assets | | — | — |
| Intangible assets | V.14 | 249,808 | 281,534 |
| Research and development expenditure | | — | — |
| Goodwill | | — | — |
| Long-term deferred expenses | V.15 | 2,719,793 | 3,080,269 |
| Deferred income tax assets | V.16 | 472,184 | 472,184 |
| Other non-current assets | | — | — |
| Total non-current assets | | 28,025,466 | 30,120,274 |
| Total assets | | 60,153,882 | 61,942,629 |

# CONSOLIDATED BALANCE SHEETS (Continued)

Expressed in RMB thousand

| Items | Notes | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term loans | V.17 | 16,717,778 | 17,510,830 |
| Financial liabilities at fair value through profit or loss | | — | — |
| Bills payable and accounts payable | V.18 | 25,315,123 | 29,487,875 |
| Advances from customers | | — | — |
| Contract liabilities | V.19 | 6,466,922 | 8,538,959 |
| Employee benefits payable | V.20 | 425,066 | 381,240 |
| Taxes payable | V.21 | 883,170 | 1,033,201 |
| Other payables | V.22 | 2,399,428 | 6,370,386 |
| Liabilities classified as held for sale | | — | — |
| Non-current liabilities due within one year | V.23 | 153,259 | 28,844 |
| Other current liabilities | V.24 | 44,182 | 11,744 |
| Total current liabilities | | 52,404,928 | 63,363,079 |
| Non-current liabilities: | | | |
| Long-term loans | V.25 | 503,788 | 455,826 |
| Bonds payables | | — | — |
| Long-term payables | V.26 | 950,527 | 67,533 |
| Provisions | | — | — |
| Deferred income | V.27 | 122,310 | 136,312 |
| Deferred income tax liabilities | V.16 | 22,883 | 23,879 |
| Other non-current liabilities | | — | — |
| Total non-current liabilities | | 1,599,508 | 683,550 |
| Total liabilities | | 54,004,436 | 64,046,629 |
| Share capital | V.28 | 18,984,340 | 14,142,661 |
| Capital reserve | V.29 | 11,702,532 | 8,907,868 |
| Less: treasury stock | | — | — |
| Other comprehensive income | | — | — |
| Special reserve | V.30 | 417,259 | 202,477 |
| Surplus reserve | V.31 | 200,383 | 200,383 |
| Retained earnings | V.32 | -25,155,068 | -25,556,017 |
| Equity attributable to the parent company | | 6,149,446 | -2,102,628 |
| Minority interests | | — | -1,372 |
| Total equity | | 6,149,446 | -2,104,000 |
| Total liabilities and equity | | 60,153,882 | 61,942,629 |

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

*Vice Chairman of the Board,General Manager:* **Sun Qingde**

*Chief Financial Officer:* **Li Tian**

*Manager of Accounting Department:* **Pei Defang**

# BALANCE SHEETS

Expressed in RMB thousand

| Items | Notes | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| Current assets: | | | |
| Cash at bank and on hand | | 84,626 | 236,745 |
| Financial assets held for trading | | — | — |
| Bills receivable and accounts receivable | | — | — |
| Prepayments | | — | — |
| Other receivables | XV.1 | 4,344,306 | 5,313,186 |
| Inventories | | — | — |
| Contract assets | | — | — |
| Assets classified as held for sale | | — | — |
| Non-current assets due within one year | | — | — |
| Other current assets | | 23 | — |
| Total current assets | | 4,428,955 | 5,549,931 |
| Non-current assets: | | | |
| Debt investments | | — | — |
| Other debt investments | | — | — |
| Long-term receivables | | — | — |
| Long-term equity investments | XV.2 | 27,891,662 | 20,215,327 |
| Other equity instrument investments | | — | — |
| Other non-current financial assets | | — | — |
| Investment property | | — | — |
| Fixed assets | | — | — |
| Construction in progress | | — | — |
| Biological assets | | — | — |
| Oil and gas assets | | — | — |
| Intangible assets | | — | — |
| Research and development expenditure | | — | — |
| Goodwill | | — | — |
| Long-term deferred expenses | | — | — |
| Deferred income tax assets | | — | — |
| Other non-current assets | | — | — |
| Total non-current assets | | 27,891,662 | 20,215,327 |
| Total assets | | 32,320,617 | 25,765,258 |

# BALANCE SHEETS (Continued)

Expressed in RMB thousand

| Items | Notes | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term loans | | — | — |
| Financial liabilities at fair value through profit or loss | | — | — |
| Bills payable and accounts payable | | 140 | — |
| Advances from customers | | — | — |
| Contract liabilities | | — | — |
| Employee benefits payable | | — | — |
| Taxes payable | | 26,290 | 26,231 |
| Other payables | | 7,460 | 1,127,163 |
| Liabilities classified as held for sale | | — | — |
| Non-current liabilities due within one year | | — | — |
| Other current liabilities | | — | — |
| Total current liabilities | | 33,890 | 1,153,394 |
| Non-current liabilities: | | | |
| Long-term loans | | — | — |
| Bonds payables | | — | — |
| Long-term payables | | — | — |
| Provisions | | — | — |
| Deferred income | | — | — |
| Deferred income tax liabilities | | — | — |
| Other non-current liabilities | | — | — |
| Total non-current liabilities | | — | — |
| Total liabilities | | 33,890 | 1,153,394 |
| Share capital | | 18,984,340 | 14,142,661 |
| Capital reserve | | 14,561,006 | 11,764,970 |
| Less: treasury stock | | — | — |
| Other comprehensive income | | — | — |
| Special reserve | | — | — |
| Surplus reserve | | 200,383 | 200,383 |
| Retained earnings | | -1,459,002 | -1,496,150 |
| Equity attributable to the parent company | | 32,286,727 | 24,611,864 |
| Minority interests | | — | — |
| Total equity | | 32,286,727 | 24,611,864 |
| Total liabilities and equity | | 32,320,617 | 25,765,258 |

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

*Vice Chairman of the Board,General Manager:*
**Sun Qingde**

*Chief Financial Officer:*
**Li Tian**

*Manager of Accounting Department:*
**Pei Defang**

# CONSOLIDATED INCOME STATEMENTS

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| 1. Revenue | V.33 | 23,653,002 | 19,842,318 |
| Less: Cost of sales | V.33 | 22,258,048 | 19,868,364 |
| Business taxes and surcharges | V.34 | 117,568 | 171,547 |
| Selling expenses | V.35 | 23,531 | 21,370 |
| General and administrative expenses | V.36 | 1,082,012 | 1,433,923 |
| Research and development expenses | V.37 | 240,196 | 51,138 |
| Finance costs | V.38 | 163,624 | 247,983 |
| Including: Interest expenses | V.38 | 283,464 | 278,906 |
| Interest income | V.38 | 35,114 | 8,393 |
| Credit impairment losses | V.39 | -121,880 | 284,193 |
| Add: Other income | V.40 | 515,849 | 132,840 |
| Investment income (loss in "-") | V.41 | -2,969 | -12,878 |
| Including: Investment income from investments in associates and joint ventures | V.41 | -2,969 | -12,945 |
| Gains/(losses) from changes in fair value (loss in "-") | — | — | — |
| Asset disposal income (loss in "-") | V.42 | 895 | -32,974 |
| 2. Operating profits (loss in "-") | | 403,678 | -2,149,212 |
| Add: Non-operating income | V.43 | 166,712 | 88,700 |
| Less: Non-operating expenses | V.44 | 21,324 | 25,474 |
| 3. Profit before income tax (loss in "-") | | 549,066 | -2,085,986 |
| Less: Income tax expense | V.45 | 148,117 | 199,370 |
| 4. Profit for the year/period (loss in "-") | | 400,949 | -2,285,356 |
| Classification by going concern: | | | |
| – Continuous operating net profit | | 400,949 | -2,285,356 |
| – Termination of net profit | | — | — |
| Classification by ownership | | | |
| Profit for the year/period attributable to: | | | |
| – Minority interests | | — | -32 |
| – The owners' of parent company | | 400,949 | -2,285,324 |
| 5. Other comprehensive income after tax | | — | — |
| Other comprehensive income after tax for the year/period attributable to: | | | |
| – The owners' of parent company | | — | — |
| – other comprehensive income that can not be classified into profit or loss. | | — | — |
| – other comprehensive income that will be classified into profit and loss. | | — | — |
| – Minority shareholders | | — | — |
| 6. Total comprehensive income | | 400,949 | -2,285,356 |
| Total comprehensive income for the year/period attributable to: | | | |
| – The owners' of parent company | | 400,949 | -2,285,324 |
| – Minority shareholders | | — | -32 |
| 7. Earnings per share | | | |
| – Basic earnings per share (RMB/share) | | 0.02 | -0.16 |
| – Diluted earnings per share (RMB/share) | | 0.02 | -0.16 |

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

*Vice Chairman of the Board,General Manager:* **Sun Qingde**

*Chief Financial Officer:* **Li Tian**

*Manager of Accounting Department:* **Pei Defang**

# INCOME STATEMENTS

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| 1. Revenue | | — | — |
| Less: Cost of sales | | — | — |
| Business taxes and surcharges | | — | — |
| Selling expenses | | — | — |
| General and administrative expenses | | 2,428 | 22,499 |
| Research and development expenses | | — | — |
| Finance costs | | -39,576 | -3,036 |
| Including: Interest expenses | | — | — |
| Interest income | | 39,576 | 3,038 |
| Credit impairment losses | | — | — |
| Add: Other income | | — | — |
| Investment income (loss in "-") | | — | — |
| Including: Investment income from investments in associates and joint ventures | | — | — |
| Gains/(losses) from changes in fair value (loss in "-") | | — | — |
| Asset disposal income (loss in "-") | | — | — |
| 2. Operating profits (loss in "-") | | 37,148 | -19,463 |
| Add: Non-operating income | | — | — |
| Less: Non-operating expenses | | — | — |
| 3. Profit before income tax (loss in "-") | | 37,148 | -19,463 |
| Less: Income tax expense | | | |
| 4. Profit for the year/period (loss in "-") | | 37,148 | -19,463 |
| Classification by going concern: | | | |
| – Continuous operating net profit | | 37,148 | -19,463 |
| – Termination of net profit | | — | — |
| Classification by ownership | | | |
| Profit for the year/period attributable to: | | | |
| – Minority interests | | — | — |
| – The owners' of parent company | | — | — |
| 5. Other comprehensive income after tax | | | |
| Other comprehensive income after tax for the year/period attributable to: | | | |
| – The owners' of parent company | | — | — |
| – other comprehensive income that can not be classified into profit or loss. | | — | — |
| – other comprehensive income that will be classified into profit and loss. | | — | — |
| – Minority shareholders | | | |
| 6. Total comprehensive income | | 37,148 | -19,463 |
| Total comprehensive income for the year/period attributable to: | | | |
| – The owners' of parent company | | — | — |
| – Minority shareholders | | — | — |
| 7. Earnings per share | | | |
| – Basic earnings per share (RMB/share) | | — | — |
| – Diluted earnings per share (RMB/share) | | — | — |

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

*Vice Chairman of the Board, General Manager:*
**Sun Qingde**

*Chief Financial Officer:*
**Li Tian**

*Manager of Accounting Department:*
**Pei Defang**

# CONSOLIDATED CASH FLOW STATEMENTS

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| 1. Cash flows from operating activities: | | | |
| Cash received from the sales of goods and provision of services | | 20,161,035 | 21,243,506 |
| Tax refund received | | 82,209 | 133,703 |
| Cash received from other operating activities | V.46 | 1,202,578 | 727,661 |
| Subtotal of cash inflow from operating activities | | 21,445,822 | 22,104,870 |
| Cash paid for the purchases of goods and receiving of services | | 16,466,696 | 15,740,923 |
| Cash paid for employees and on behalf of employees | | 5,948,147 | 5,526,507 |
| Taxes paid | | 724,656 | 1,004,765 |
| Cash paid for other operating activities | V.46 | 1,821,365 | 1,820,989 |
| Subtotal of cash outflow from operating activities | | 24,960,864 | 24,093,184 |
| Net cash flow from operating activities | V.47 | -3,515,042 | -1,988,314 |
| 2. Cash flows from investing activities: | | | |
| Cash received from the investments | | — | — |
| Cash received from the investment income | | — | 367 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 30,708 | 5,722 |
| Net cash received from disposal of subsidiaries and other business units | | — | — |
| Cash received from other investing activities | | — | — |
| Subtotal of cash inflow from investing activities | | 30,708 | 6,089 |
| Cash paid for purchases of fixed assets, intangible assets and other long-term assets | | 308,535 | 214,766 |
| Cash paid for the investments | | — | — |
| Net cash paid for acquisition of subsidiaries and other business units | | — | — |
| Cash paid for other investing activities | | — | — |
| Subtotal of cash outflow from investing activities | | 308,535 | 214,766 |
| Net cash flow from investing activities | | -277,827 | -208,677 |

# CONSOLIDATED CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| 3. Cash flows from financing activities: | | | |
| Cash received from the acquisition of investments | | 7,639,698 | — |
| Including: Cash received from the acquisition of minority interests of subsidiaries | | — | — |
| Cash received from borrowings | | 16,559,753 | 29,010,835 |
| Cash received from issuance of bonds | | — | — |
| Cash received for other financing activities | V.46 | 500,176 | 3,038 |
| Subtotal of cash inflow from financing activities | | 24,699,627 | 29,013,873 |
| Cash paid for repayments of borrowings | | 17,343,880 | 26,837,186 |
| Cash paid for distribution of dividend, profit or payments of interests | | 280,230 | 352,785 |
| Including: Cash paid for the dividend to minority shareholders of subsidiaries | | — | — |
| Cash paid for other financing activities | V.46 | 3,761,283 | 29,336 |
| Including:Cash paid to minority shareholders by capital reduction of subsidiaries | | — | — |
| Subtotal of cash outflow from financing activities | | 21,385,393 | 27,219,307 |
| Net cash flow from financing activities | | 3,314,234 | 1,794,566 |
| 4. Effect of exchange rate changes on cash and cash equivalents | | 167,484 | -29,983 |
| 5. Net changes in cash and cash equivalents | V.47 | -311,151 | -432,408 |
| Add: Cash and cash equivalents at beginning of year/period | V.47 | 2,523,356 | 2,446,923 |
| 6. Cash and cash equivalents at end of year/period | V.47 | 2,212,205 | 2,014,515 |

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

*Vice Chairman of the Board,General Manager:* **Sun Qingde**

*Chief Financial Officer:* **Li Tian**

*Manager of Accounting Department:* **Pei Defang**

# CASH FLOW STATEMENTS

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| 1. Cash flows from operating activities: | | | |
| Cash received from the sales of goods and provision of services | | — | — |
| Tax refund received | | — | — |
| Cash received from other operating activities | | 1,120,373 | — |
| Subtotal of cash inflow from operating activities | | 1,120,373 | — |
| Cash paid for the purchases of goods and receiving of services | | — | — |
| Cash paid for employees and on behalf of employees | | — | — |
| Taxes paid | | — | — |
| Cash paid for other operating activities | | 153,759 | 131,053 |
| Subtotal of cash outflow from operating activities | | 153,759 | 131,053 |
| Net cash flow from operating activities | | 966,614 | -131,053 |
| 2. Cash flows from investing activities: | | | |
| Cash received from the investments | | — | — |
| Cash received from the investment income | | — | — |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | — | — |
| Net cash received from disposal of subsidiaries and other business units | | — | — |
| Cash received from other investing activities | | — | — |
| Subtotal of cash inflow from investing activities | | — | — |
| Cash paid for purchases of fixed assets, intangible assets and other long-term assets | | | |
| Cash paid for the investments | | 7,719,955 | — |
| Net cash paid for acquisition of subsidiaries and other business units | | — | — |
| Cash paid for other investing activities | | | |
| Subtotal of cash outflow from investing activities | | 7,719,955 | — |
| Net cash flow from investing activities | | -7,719,955 | — |

# CASH FLOW STATEMENTS (Continued)

Expressed in RMB thousand

| Items | Notes | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|---|
| **3. Cash flows from financing activities:** | | | |
| Cash received from the acquisition of investments | | 7,639,698 | — |
| Including: Cash received from the acquisition of minority interests of subsidiaries | | | |
| Cash received from borrowings | | — | — |
| Cash received from issuance of bonds | | — | — |
| Cash received for other financing activities | | 176 | 3,038 |
| Subtotal of cash inflow from financing activities | | 7,639,874 | 3,038 |
| Cash paid for repayments of borrowings | | — | — |
| Cash paid for distribution of dividend, profit or payments of interests | | — | — |
| Including: Cash paid for the dividend to minority shareholders of subsidiaries | | — | — |
| Cash paid for other financing activities | | 1,120,892 | — |
| Including: Cash paid to minority shareholders by capital reduction of subsidiaries | | | |
| Subtotal of cash outflow from financing activities | | 1,120,892 | — |
| **Net cash flow from financing activities** | | 6,518,982 | 3,038 |
| **4. Effect of exchange rate changes on cash and cash equivalents** | | 82,240 | — |
| **5. Net changes in cash and cash equivalents** | | -152,119 | -128,015 |
| **Add: Cash and cash equivalents at beginning of year/period** | | 236,745 | 382,997 |
| **6. Cash and cash equivalents at end of year/period** | | 84,626 | 254,982 |

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

*Vice Chairman of the Board,General Manager:*
**Sun Qingde**

*Chief Financial Officer:*
**Li Tian**

*Manager of Accounting Department:*
**Pei Defang**

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB thousand

| Items | Amount of this period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the the parent company | | | | | | | | |
| | Share capital | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Retained earnings | Minority interests | Total equity |
| Balance at 31 December 2017 | 14,142,661 | 8,907,868 | — | — | 202,477 | 200,383 | -25,556,017 | -1,372 | -2,104,000 |
| Add:Changes in accounting policies | — | — | — | — | — | — | — | — | — |
| Correction of errors | — | — | — | — | — | — | — | — | — |
| Business combination under common control | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — |
| Balance at 1 January 2018 | 14,142,661 | 8,907,868 | — | — | 202,477 | 200,383 | -25,556,017 | -1,372 | -2,104,000 |
| Changes during the period (decrease in "-") | 4,841,679 | 2,794,664 | — | — | 214,782 | — | 400,949 | 1,372 | 8,253,446 |
| I. Total comprehensive income | — | — | — | — | — | — | 400,949 | | 400,949 |
| II. Increase or decrease of capital | 4,841,679 | 2,794,664 | — | — | — | — | — | 1,372 | 7,637,715 |
| 1. Contribution of capital | 4,841,679 | 2,796,036 | — | — | — | — | — | — | 7,637,715 |
| 2. Share payments recognised in equity | — | — | — | — | — | — | — | — | — |
| 3. Others | — | -1,372 | — | — | — | — | — | 1,372 | — |
| III. Distribution of profits | — | — | — | — | — | — | — | — | — |
| 1. Provision of surplus reserve | — | — | — | — | — | — | — | — | — |
| 2. Distribution to (from) shareholders | — | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — | — |
| IV. Transfer of equity | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to paid up capital | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to paid up capital | — | — | — | — | — | — | — | — | — |
| 3. Offset of surplus reserve with losses | — | — | — | — | — | — | — | — | — |
| 4. Transfer of change amount of defined benefit plans to retained earnings | — | — | — | — | — | — | — | — | — |
| 5.Transfer of other comprehensive income to retained earnings | — | — | — | — | — | — | — | — | — |
| 6. Others | — | — | — | — | — | — | — | — | — |
| V. Special reserve | — | — | — | — | 214,782 | — | — | — | 214,782 |
| 1. Provided during the period | — | — | — | — | 347,266 | — | — | — | 347,266 |
| 2. Used during the period (expressed in "-") | — | — | — | — | -132,484 | — | — | — | -132,484 |
| VI. Others | — | — | — | — | — | — | — | — | — |
| Balance at 30 June 2018 | 18,984,340 | 11,702,532 | — | — | 417,259 | 200,383 | -25,155,068 | — | 6,149,446 |

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

*Vice Chairman of the Board,General Manager:* **Sun Qingde**

*Chief Financial Officer:* **Li Tian**

*Manager of Accounting Department:* **Pei Defang**

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

| Items | Amount of previous period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the the parent company | | | | | | | | |
| | Share capital | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Retained earnings | Minority interests | Total equity |
| Balance at 31 December 2016 | 14,142,661 | 8,897,232 | — | — | 176,068 | 200,383 | -14,973,476 | -1,276 | 8,441,592 |
| Add:Changes in accounting policies | — | — | — | — | — | — | — | — | — |
| Correction of errors | — | — | — | — | — | — | — | — | — |
| Business combination under common control | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — |
| Balance at 1 January 2017 | 14,142,661 | 8,897,232 | — | — | 176,068 | 200,383 | -14,973,476 | -1,276 | 8,441,592 |
| Changes during the period (decrease in "-") | — | 9,048 | — | — | 153,176 | — | -2,285,324 | -32 | -2,123,132 |
| I. Total comprehensive income | — | — | — | — | — | — | -2,285,324 | -32 | -2,285,356 |
| II. Increase or decrease of capital | — | 9,048 | — | — | — | — | — | — | 9,048 |
| 1. Contribution of capital | — | — | — | — | — | — | — | — | — |
| 2. Share payments recognised in equity | — | 9,048 | — | — | — | — | — | — | 9,048 |
| 3. Others | — | — | — | — | — | — | — | — | — |
| III. Distribution of profits | — | — | — | — | — | — | — | — | — |
| 1. Provision of surplus reserve | — | — | — | — | — | — | — | — | — |
| 2. Distribution to (from) shareholders | — | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — | — |
| IV. Transfer of equity | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to paid up capital | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to paid up capital | — | — | — | — | — | — | — | — | — |
| 3. Offset of surplus reserve with losses | — | — | — | — | — | — | — | — | — |
| 4. Transfer of change amount of defined benefit plans to retained earnings | — | — | — | — | — | — | — | — | — |
| 5. Transfer of other comprehensive income to retained earnings | — | — | — | — | — | — | — | — | — |
| 6. Others | — | — | — | — | — | — | — | — | — |
| V. Special reserve | — | — | — | — | 153,176 | — | — | — | 153,176 |
| 1. Provided during the period | — | — | — | — | 284,906 | — | — | — | 284,906 |
| 2. Used during the period (expressed in "-") | — | — | — | — | -131,730 | — | — | — | -131,730 |
| VI. Others | — | — | — | — | — | — | — | — | — |
| Balance at 30 June 2017 | 14,142,661 | 8,906,280 | — | — | 329,244 | 200,383 | -17,258,800 | -1,308 | 6,318,460 |

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

*Vice Chairman of the Board,General Manager:* **Sun Qingde**

*Chief Financial Officer:* **Li Tian**

*Manager of Accounting Department:* **Pei Defang**

# STATEMENTS OF CHANGES IN EQUITY

Expressed in RMB thousand

| Items | Amount of this period | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the the parent company | | | | | | | |
| | Share capital | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Retained earnings | Total equity |
| Balance at 31 December 2017 | 14,142,661 | 11,764,970 | — | — | — | 200,383 | -1,496,150 | 24,611,864 |
| Add:Changes in accounting policies | — | — | — | — | — | — | — | — |
| Correction of errors | — | — | — | — | — | — | — | — |
| Business combination under common control | — | — | — | — | — | — | — | — |
| Balance at 1 January 2018 | 14,142,661 | 11,764,970 | — | — | — | 200,383 | -1,496,150 | 24,611,864 |
| Changes during the period (decrease in "-") | 4,841,679 | 2,796,036 | — | — | — | — | 37,148 | 7,674,863 |
| I. Total comprehensive income | — | — | — | — | — | — | 37,148 | 37,148 |
| II. Increase or decrease of capital | 4,841,679 | 2,796,036 | — | — | — | — | — | 7,637,715 |
| 1. Contribution of capital | 4,841,679 | 2,796,036 | — | — | — | — | — | 7,637,715 |
| 2. Share payments recognised in equity | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — |
| III. Distribution of profits | — | — | — | — | — | — | — | — |
| 1. Provision of surplus reserve | — | — | — | — | — | — | — | — |
| 2. Distribution to (from) shareholders | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — |
| IV. Transfer of equity | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to paid up capital | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to paid up capital | — | — | — | — | — | — | — | — |
| 3. Offset of surplus reserve with losses | — | — | — | — | — | — | — | — |
| 4. Transfer of change amount of defined benefit plans to retained earnings | — | — | — | — | — | — | — | — |
| 5. Transfer of other comprehensive income to retained earnings | — | — | — | — | — | — | — | — |
| 6. Others | — | — | — | — | — | — | — | — |
| V. Special reserve | — | — | — | — | — | — | — | — |
| 1. Provided during the period | — | — | — | — | — | — | — | — |
| 2. Used during the period (expressed in "-") | — | — | — | — | — | — | — | — |
| VI. Others | — | — | — | — | — | — | — | — |
| Balance at 30 June 2018 | 18,984,340 | 14,561,006 | — | — | — | 200,383 | -1,459,002 | 32,286,727 |

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

*Vice Chairman of the Board,General Manager:*
**Sun Qingde**

*Chief Financial Officer:*
**Li Tian**

*Manager of Accounting Department:*
**Pei Defang**

# STATEMENTS OF CHANGES IN EQUITY (Continued)

Expressed in RMB thousand

| Items | Amount of previous period | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the the parent company | | | | | | | |
| | Share capital | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Retained earnings | Total equity |
| Balance at 31 December 2016 | 14,142,661 | 11,754,334 | — | — | — | 200,383 | -1,439,418 | 24,657,960 |
| Add:Changes in accounting policies | — | — | — | — | — | — | — | — |
| Correction of errors | — | — | — | — | — | — | — | — |
| Business combination under common control | — | — | — | — | — | — | — | — |
| Balance at 1 January 2017 | 14,142,661 | 11,754,334 | — | — | — | 200,383 | -1,439,418 | 24,657,960 |
| Changes during the period (decrease in "-") | — | 9,048 | — | — | — | — | -19,463 | -10,415 |
| I. Total comprehensive income | — | — | — | — | — | — | -19,463 | -19,463 |
| II. Increase or decrease of capital | — | 9,048 | — | — | — | — | — | 9,048 |
| 1. Contribution of capital | — | — | — | — | — | — | — | — |
| 2. Share payments recognised in equity | — | 9,048 | — | — | — | — | — | 9,048 |
| 3. Others | — | — | — | — | — | — | — | — |
| III. Distribution of profits | — | — | — | — | — | — | — | — |
| 1. Provision of surplus reserve | — | — | — | — | — | — | — | — |
| 2. Distribution to (from) shareholders | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — |
| IV. Transfer of equity | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to paid up capital | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to paid up capital | — | — | — | — | — | — | — | — |
| 3. Offset of surplus reserve with losses | — | — | — | — | — | — | — | — |
| 4. Transfer of change amount of defined benefit plans to retained earnings | — | — | — | — | — | — | — | — |
| 5. Transfer of other comprehensive income to retained earnings | — | — | — | — | — | — | — | — |
| 6. Others | — | — | — | — | — | — | — | — |
| V. Special reserve | — | — | — | — | — | — | — | — |
| 1. Provided during the period | — | — | — | — | — | — | — | — |
| 2. Used during the period (expressed in "-") | — | — | — | — | — | — | — | — |
| VI. Others | — | — | — | — | — | — | — | — |
| Balance at 30 June 2017 | 14,142,661 | 11,763,382 | — | — | — | 200,383 | -1,458,881 | 24,647,545 |

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

*Vice Chairman of the Board,General Manager:*
**Sun Qingde**

*Chief Financial Officer:*
**Li Tian**

*Manager of Accounting Department:*
**Pei Defang**

# NOTES TO THE FINANCIAL INFORMATION

## I. COMPANY GENERAL INFORMATION

### 1. Company Profile

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

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

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

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

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

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

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

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

Approved by China Securities Regulatory Commission's license [2018] No. 142, "The Approval of Sinopec Oilfield Service Corporation issuing non-public shares", the company had issues 1,526,717,556 shares to China Petrochemical Corporation and the Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund. The non-public issuance of ordinary shares (A shares) was issued at RMB 2.62 per share. Approved by China Securities Regulatory Commission's license [2018] No. 130, "The Approval of Sinopec Oilfield Service Corporation issuing overseas-listed foreign shares", the company had issued 3,314,961,482 H shares to Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund Co., Ltd.

# I. COMPANY GENERAL INFORMATION (Continued)

## 1. Company Profile (Continued)

The business scope of the Group was changed from:

"Production of chemical fibre, chemical products and its raw materials, ancillary raw materials and textile machinery, research and development in textile technology and technological services, instalment and maintenance of equipment and facilities, power generation, computer and software service; and services of accommodation, catering, culture and entertainment (limited to branches)".

to:

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

These financial statements and financial information notes have been approved for issue by the fifth meeting of the ninth term Board of Directors of the Company on 28 August 2018.

## 2. The Scope of Consolidated Financial Statements

The scope of the Group's consolidated financial statements includes the Company and all its subsidiaries. Compared with the previous year, the scope has no change, the details refer to note VI Changes in scope of consolidation and note VII Interests in other entities.

# II. Basis of preparation

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

The financial statements are prepared on a going concern basis. The Group's accumulated loss is RMB 25,138,963 thousand, current liabilities exceed current assets of approximately RMB20,276,512 thousand as at 30 June 2018 (Current liabilities exceed current assets of RMB31,540,724 thousand in 2017), committed capital expenditures are approximately RMB73 million. The directors of the Company has assessed that the Group is expected to be continued during the next twelve months. As the Group's borrowings are mainly from Sinopec Group and its subsidiaries which have maintained its long-term good relations with the Group, the Group can obtain adequate financial supports from those institutions. In June 2018, the company obtained a credit line of RMB15 billion and an equivalent value of USD0.9 billion from subsidiaries of Sinopec Group, and line of credit promissory note of RMB4 billion. After the reorganization, the Company will further broaden the financing channel, develop good relations with the public and state-owned financial institutions in order to obtain a more adequate line of credit. The directors of the Company consider the measures sufficient to meet the Group's debt repayment and capital commitment required. Consequently, the Company prepared the financial statements on a going concern basis.

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

# III. Summary of significant accounting policies and accounting estimates

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

## 1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE,which gives a true view of the entire company's and consolidated financial position at 30th June 2018 and the Company's and the consolidated operating results at 30th June 2018.

## 2. Accounting period

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

## 3. Operating cycle

The operating cycle of the Group is 12 months.

## 4. Functional currency

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

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

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

## 5. Business combinations

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

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

*Business combinations involving enterprises under common control and achieved in stages*

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

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

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

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

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

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

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

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

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

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

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

## 6. Method of preparing consolidated financial statements

### (1) Scope of consolidation

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

### (2) Method of preparing of consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

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

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

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

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

The difference between the long-term equity investments costs acquired by the purchase of minority interests and the share of the net assets that the subsidiaries have to continue to calculate from the date of purchase or the date of consolidation in proportion to the new shareholding ratio is adjusted to the capital reserve, if the capital reserve is not sufficient, any excess is adjusted to retained earning. The difference between the disposal of the equity investment without losing control over its subsidiary and the disposal of the long-term equity investment corresponding to the share of the net assets of the subsidiaries from the date of purchase or the date of consolidation is as well.

### (4) Treatment of loss of control of subsidiaries

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

Other comprehensive income related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

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

## 6. Method of preparing consolidated financial statements (Continued)

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

The clauses, conditions and economic impact of step disposal until the loss of control of subsidiaries satisfies one or more criteria, the Group will consider these transactions as package transactions for the accounting treatment:

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

2) These transactions can only achieve one complete business results;

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

4) A transaction alone is not the economical; however, it becomes economical to consider together with other transactions.

In the separate financial statements, the difference between the related long term equity investment for each disposal of equity interest and received consideration are recognized in the profit or loss in the current period.The difference between the disposal before the loss of control and the carrying amount of the long-term equity investment is recognized as other comprehensive income, and shall be transferred to the profit or loss for the current period when the entity loses the control.

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

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

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

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

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

### (1) Joint operation

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

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

A、 its assets, including its share of any assets held jointly;

B、 its liabilities, including its share of any liabilities incurred jointly;

C、 its revenue from the sale of its share of the output arising from the joint operation;

D、 its share of the revenue from the sale of the output by the joint operation;

E、 its expenses, including its share of any expenses incurred jointly.

### (2) Joint ventures

A joint venture is a joint arrangement whereby the group that have joint control of the arrangement have rights to the net assets of the arrangement.

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

## 8. Standard of determining cash and cash equivalents

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

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

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

### (1) Foreign currency transactions

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

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

### (2) Translation of foreign currency information

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

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

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

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

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

## 10. Financial instruments

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

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

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

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

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

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

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

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

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

## 10. Financial instruments (Continued)

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

Financial assets are, upon initial recognition, classified into the following three categories: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets at fair value through profit or loss ("FVTPL" financial assets). The classification of financial assets is based on both: the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

When, and only when, the group changes its business model for managing financial assets it shall reclassify the debt instrument.

At initial recognition, the Group measures a financial asset at its fair value. For financial assets measured at fair value through profit or loss or other comprehensive income, relevant transaction costs should be directly recognized in profit or loss for the current period; for other types of financial assets, related transaction costs should be included in the initial recognition amount.

***1) Debt instruments***

The subsequent measurement of the debt instrument depends on the business model for managing the asset and the cash flow characteristics of the asset. The Group classifies debt instruments according to the following three measurement methods:

① Amortised cost: Assets held for the collection of contractual cash flows and whose cash flows are only paid for principal and interest are classified as financial assets measured at amortized cost. For such financial assets, the effective interest method is used for subsequent measurement according to the amortized cost, and the gain or loss arising from the derecognition, impairment or amortization is recognised in profit or loss.

② Fair value through other comprehensive income: Assets held for the purpose of collecting contractual cash flows and selling the financial assets, and whose cash flows are only paid for principal and interest, are classified as financial assets measured at fair value through other comprehensive income. The changes in the carrying amount of financial assets other than impairment losses, interest income and exchange gains and losses are recognised in other comprehensive income. When the financial assets are derecognised, the accumulated gains or losses previously recognised in other comprehensive income should be transferred from other comprehensive income and recognised in profit or loss.

③ Fair value through profit or loss: Assets that are not measured at amortised cost or measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. Subsequent income or loss arising from debt investment that is measured at fair value through profit or loss and not included in hedge accounting is recognised in profit or loss.

***2) Equity instruments***

All of the Group's equity instruments are subsequently measured at fair value. If the management of the Group designates equity instrument that are not held for trading as financial assets at fair value through other comprehensive income, the gain or loss from changes in fair value is included in other comprehensive income. When derecognized, the cumulative gain or loss previously recognised in other comprehensive income transfer to retained earning.

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

The Group's financial liabilities are classified as financial liabilities measured at amortised cost in addition to the following:

1) Financial liabilities at FVTPL include transaction financial liabilities and financial liabilities designated as at fair value through profit or loss.

2) The financial liabilities formed by continuing involvement of transferred financial assets or the transfer does not qualify for derecognition.

3) Part of the financial guarantee contract, and the loan commitments that are not at fair value and whose changes are included in the current profit and loss of the financial liabilities at a lower interest rate.

The Group performs subsequent measurement of financial liabilities in accordance with the following principles:

1) For financial liabilities that are subsequently measured at fair value, gains or losses arising from the changes in fair value except for related to hedge accounting should be recognised in profit or loss.

2) Gains or losses arising from financial liabilities that are measured at amortized cost and are unrelated to hedge accounting are recognised in profit or loss at the time of derecognition.

The distinction between financial liabilities and equity instruments:

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

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

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

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

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

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

## 10. Financial instruments (Continued)

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

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

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

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

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

The Group's derivative financial instruments include forward foreign exchange contracts, currency exchange rate contracts, interest rate swap contracts, foreign exchange option contracts, etc. Initially measured at fair value on the date of the derivative contract signed and are subsequently measured at fair value. A derivative with positive fair value shall be recognized as an asset, otherwise that with negative fair value shall be recognized as a liability. Any profit or loss arising from changes of fair value and not compliance with the accounting provision of hedge shall be recognized as profit or loss for current period.

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

### (5) Fair value of financial instruments

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

### (6) Impairment of financial assets

On the basis of expected credit losses, the Group performs impairment assessment on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, lease receivables and contract assets.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages. Financial assets that have been credit-depleted which are purchased by the Group shall be discounted according to the actual interest rate adjusted by the financial assets.

For receivables that do not contain significant financing components, contract assets and lease receivables, the Group measures loss allowance at an amount equal to lifetime expected credit losses with a simplified measurement method. The Group considers reasonable and evidenced information about past events, current conditions and forecasts of future economic conditions, and calculates and confirms expected credit losses.

In addition to the above-mentioned financial assets measured with simplified measurement method, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition on each balance sheet date, and separately measures the loss provision and confirms the expected credit losses according to the following circumstances.

1) The Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom is recognised as an impairment loss or gain in the current profit or loss.

2) If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. Regardless of whether the Group's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom is recognised as an impairment loss or gain in the current profit or loss.

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

## 10. Financial instruments (Continued)

### (7) Transfer of financial assets

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

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

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

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

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

## 11. Fair value measurement

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

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

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

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

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

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

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

## 12. Contract assets and contract liabilities

Contract assets are the rights of the Group to consideration in exchange for goods or services that the Group has transferred to a customer when those rights are conditioned on something other than the passage of time. Contract liabilities refer to the obligation of the Group to transfer goods or services to a customer for which the Group has received consideration from the customer.

Accounts receivable are recognised only when the Group has an unconditional right to receive consideration from customers. If the Group recognizes the relevant income before it has the right to unconditionally receive the consideration from the customer, the right to receive the consideration is classified as contract assets. Before the Group confirms the relevant income, the customer has paid the consideration, or if the consideration is due according to the contract and the payment of the consideration has expired, the contract liability shall be confirmed. For a single contract with a customer, it should be reported as net contract assets or net contract liabilities. For multiple contracts with customers, the contract assets and contract liabilities of unrelated contracts cannot be reported in net amount.

For the impairment of contract assets, the Group measures loss allowance at an amount equal to lifetime expected credit losses.

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

## 13. Inventories

### (1) Category of inventory

Inventories include raw materials, work in progress, finished goods, turnover materials, costs to fulfil a contract, etc.

### (2) Determination of cost

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

Costs to fulfill a contract are measured at actual cost comprising the direct and indirect cost incurred from the date of contract signing to the date of contract fulfilling and relative to the contract. The amortization of costs to fulfil a contract according to the output method based on the proportion of completed work volume to the estimated workload should be included in the current profit and loss.

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

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

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

If the book value of the cost to fulfill a contract is higher than the difference between the remaining consideration that can be obtained from the uncompleted performance obligation of the contract and the estimated cost of completing the performance obligation, the excess should be accrued for impairment provision. If the difference between the remaining consideration that is expected to be obtained from the uncompleted performance obligation of the contract and the estimated cost of completing the performance obligation get higher than the book value of the cost to fulfill a contract due to the changes of factors of impairment during previous period, the provision for impairment should be recovered and included in the current profit and loss. After recover the provision, the book value of the assets should not exceed the book value of the cost to fulfill a contract on the reversal date under the assumption of no provision for impairment.

### (4) Inventory system

The Group adopts perpetual inventory system.

## 14. Assets Held for sale and discontinued operations

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

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

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

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

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

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

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

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

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

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

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

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

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

② its recoverable amount.

### (2) Discontinued operation

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

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

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

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

### (3) Disclosure

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

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

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

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

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

## 15. Long-term equity investment

The group's long-term equity investments include equity investments in subsidiaries, joint ventures and associates. Joint ventures are the investees over which the Company is able to exercise joint control together with other venturers.

### (1) Recognition of initial investment cost

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

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

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

For the investment in subsidiaries, the long-term equity investment is accounted for using the cost method unless the investment meets the conditions for holding for sale; where the Group has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

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

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

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

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

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

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

If the shareholding ratio of the Company is reduced due to the increase of capital of other investors, and thus the control is lost, but the joint control or significant influence can be exerted on the invested entity, the company should recognize net asset according to the new shareholding ratio. The difference between the original book value of the long-term equity investment corresponding to the decrease in the shareholding ratio should be included in the current profit and loss; then, according to the new shareholding ratio, the equity method is used to adjust the investment.

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

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

## 15. Long-term equity investment (Continued)

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

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

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

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

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

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

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

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

### (5) Impairment test and Impairment provision

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

## 16. Fixed asset

### (1) Conditions for confirmation of fixed assets

Fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services and for operation and administrative purposes with useful life over one year.

Fixed assets are recognized when it is probable that the related economic benefits will flow to the Company and the costs can be reliably measured.

The Group's fixed assets are initially measured at the actual cost at the time of acquisition.

### (2) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. Fixed assets start to be depreciated from the day the assets to the expected conditions for use and stop to be depreciated when the assets are derecognized and are divided into hold-for-sale as non-current assets. For those property, plant and equipment without considering impairment provision, the Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

| Category | Useful years (year) | Residual rate % | Annual depreciation rate % |
|---|---|---|---|
| Buildings | 12-50 | 3 | 2.43-4.9 |
| Oil engineering equipment and others | 4-30 | 3 | 3.2-24.3 |

The fixed assets that have been withdrawn for impairment provision shall also be deducted from the accumulative amount of the provision for impairment of fixed assets that have been accrued.

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

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

## 16. Fixed asset (Continued)

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

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

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

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

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

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

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

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

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

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

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

### (6) Overhaul costs

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

## 17. Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises necessary project expenditure incurred during construction, borrowing cost that are eligible for capitalization and other necessary cost incurred to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use.

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

### (1) Construction materials

The Group's construction materials refer to various materials prepared for construction in progress, including engineering materials, equipment not yet installed, and tools for production.

The purchased construction materials are measured at cost, and the planning construction materials are transferred to the construction in progress. After the completion of the project, the remaining construction materials are transferred to inventory.

For provision for impairment of construction materials, refer to note III, 21.

The ending balance of construction materials is presented as "Construction in Construction" project in the balance sheet.

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

## 18. Borrowing costs

### (1) Recognition principle of capitalization of borrowing costs

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

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

2) Borrowing costs incurred; and

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

### (2) Capitalization period of borrowing costs

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

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

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

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

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

## 19. Intangible assets

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

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

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

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

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

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

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

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

## 20. Research and development expenditure

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

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

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

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

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

## 21. Impairment of assets

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

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

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

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

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

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

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

## 22. Long-term deferred expenses

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

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

## 23. Employee benefits

### (1) The scope of employee benefits

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

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

### (2) Short-term employee benefits

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

### (3) Post-employment benefits

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

*1) The basic pension insurance*

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

*2) Pension plan*

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

During the accounting period in which the employees render services, the group should recognize the amount of pension insurance calculated with defined contribution plans as a liability, and profit or loss or assets associated costs.

### (4) Termination benefits

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

For the implementation of the internal retirement plan for employees, the economic compensation before the official retirement date is a termination benefit. From the date when the employee stops providing the service to the normal retirement date, the wages of the internally retired employees and the social insurance premiums to be paid are included in the current period's profit or loss. Economic compensation after the official retirement date (such as normal pension) should be treated as post-employment benefits.

### (5) Other long-term employee benefits

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

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

## 24. Provisions

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

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

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

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

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

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

## 25. Share-based payment and equity instruments

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

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

### (2) Fair value of equity instrument

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

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

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

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

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

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

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

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

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

## 26. Revenue

### (1) General principle

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

Revenue is recognized then the customer gains control of the relevant goods and services. Whether the control of related goods and services is transferred over time or at a certain time is depending on the terms of the contract and the legal provisions applicable to the contract. If the Group meets the following conditions, the control of the assets will be transferred over time:

1) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or

2) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

3) The Group's performance does not create an asset with an alternative use and the Group has the right to receive payments for the portion of the performance that has been completed throughout the contract period.

If the control of the relevant goods and services is transferred over time, the Group recognises revenue based on the progress of the performance obligations that have been fulfilled throughout the contract period. Otherwise, the revenue is recognized at a certain point in time when the customer gains control of the relevant goods and services.

At the reporting date, the Group recognises revenue from contracts that belong to the type of recognizing revenue over time based on the progress of the fulfillment of the performance obligation. Depending on the difference between the nature of goods and services, the progress of the fulfillment of the performance obligation is measured by the value of the input to fulfill the performance obligation or the value of goods and services that have been transferred to the customer.

For sales contracts that transfer control of goods at a certain time, revenue is recognized when the customer acquires physical ownership and the group has obtained the current collection rights and is likely to recover the consideration.

In determining the contract transaction price, if the financing component is significant, the Group will adjust the contract commitment price according to the financing component of the contract.

### (2) The specific methods for the Group's revenue recognition are as follows:

The relevant revenue is recognized when the consideration for the transfer of goods to the customer is likely to be recovered, and the relevant revenue can be reliably measured and the specific revenue recognition criteria for the following business activities are met:

***1) Provide drilling engineering, geophysical exploration services and construction services***

Drilling engineering service revenue, geophysical exploration service revenue and construction service revenue are recognised on the reporting date based on the progress of the completed performance obligations. The progress of the fulfillment of the performance obligation is determined by the Group's inputs or outputs for fulfilling its performance obligations. The Group's engineering construction business determines the rate of progress for contract performance based on the proportion of executed projects to the total contract value or the proportion of incurred costs to the estimated total cost of the contract. The drilling and geophysical exploration business determines the stage of contract performance based on the actual measured progress.

Revenue associated with daily rate contract is recognized when the services are provided.

When the progress of the performance obligation cannot be reasonably measured, if the cost incurred is expected to be recovered, the revenue shall be recognized according to the amount of cost incurred, until the progress can be reasonably determined.

***2) Engineering services such as special down-hole operations, logging and mud logging and cementing***

Revenue from engineering services such as special down-hole operations and logging, cementing, etc. shall be recognized during the accounting period in which the services are provided and the related receivables are settled.

***3) Sale of goods***

Revenue should be recognized when the customer obtains control of goods.

Revenue should be recognized at the point that the ownership and accompanying risk and payment of goods have been transferred to the customer. Meanwhile, the customer has accepted the goods and obtained the current receiving right.

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

## 27. Government grants

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

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value, when fair value is not reliably determinable, the item is measured at RMB 1 of nominal amount.

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

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

The government grant related to assets is recognized as deferred income and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and then recognized in profit or loss over the periods in which the costs are recognized. Government grants measured at nominal amounts are directly recognized in through profit or loss. The Group adopts a consistent approach to the same or similar government grants' operations.

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

When recognized government grants need to be returned, the book value of the relevant assets should be adjusted if the assets' book value is written off at the initial recognition.If there is a balance of related deferred income, the book value of deferred income should be offset first and the excess is recognized in profit or loss for the current period. In other cases, it is directly recognized in profit or loss for the current period.

## 28. Deferred tax assets and deferred tax liabilities

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

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

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

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

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

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

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

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

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

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

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

## 29. Operating leases and finance leases

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

### (1) As lessor

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

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

### (2) As lessee

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

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

## 30. Safety costs

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

## 31. Repurchase of shares

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

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

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

## 32. Critical accounting judgments and estimates

The Group gives continuous assessment of the reasonable expectations of future events and the critical accounting estimates and key assumptions based on its historical experience and other factors.

The critical accounting estimates and key assumptions that are likely to lead to significant adjusted risks of the carrying amount of assets and liabilities for the next financial year are listed as follows:

### (1) Impairment of receivables

As described in Note III (12), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

### (2) Provision for diminution in value of inventories

As described in Note III (13), the net realisable value of inventories is under management's regular review, and as a result, provision for diminution in value of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable value, the Company takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Company's historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product sale ability, manufacturing technology and the actual use of the inventories, resulting in the changes in provision for diminution in value of inventories. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

### (3) Impairment of long-term assets

As described in Note III (21), long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

### (4) Impairment of financial assets

As described in Note III (21), the Group assesses and confirms the loss provision based on expected credit losses on financial assets such as debt instruments measured at amortised cost or at fair value through other comprehensive income, lease receivables and contract assets. On each balance sheet date, the Group considers expected credit losses due to past events, current conditions and forecasts of future economic conditions. This involves significant accounting estimates and judgments and therefore involves uncertainties.

### (5) Depreciation and amortisation of assets such as fixed assets, intangible assets and long-term prepaid expenses

As described in Note III (16), (19) and (22), fixed assets, intangible assets and long-term prepaid expenses are depreciated and amortised over their useful lives after taking into account residual value. The estimated useful lives of the assets are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes, the amortisation periods for the long-term prepaid expenses are determined by the Company in accordance with the expected benefit period of each expense. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised.

### (6) Estimated revenue and estimated cost of the contract

The Group recognizes contract revenue and costs based on the input method and output method. The management estimates the percentage of completion of the construction project based on the actual cost involved in the total budgeted cost, and also estimates the relevant contract revenue. Due to the nature of the activities carried out in the construction contract, the date of the activity and the date of completion of the activity are usually classified into different accounting periods. The Group will review and revise the budget with the contract process (if the actual contract revenue is less than the estimated or actual contract cost, the estimated contract loss is prepared).

### (7) Pending claims

For the legal proceedings and claims, the Group derive the best estimate of committed losses to the related current obligations based on legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change during the development of the legal proceedings and claims.

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

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

### (8) Deferred income tax assets

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The management needs significant judgment to estimate the time and extent of the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. Where the expectation is different from the original estimate of the future taxable profits, such differences will impact the recognition of deferred tax assets and taxation in the years when the estimates are changed.

### (9) Taxation

There are various uncertainties on interpretation of the complicated tax jurisdictions (including related tax incentive regulations) and time and extent of the future taxable revenue. Regarding to various international business relationship and current contract complication, there may be adjustment to the recognized taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretation may be resulted from various events.

## 33. Changes in significant accounting policies and accounting estimates

### (1) Changes in significant accounting policies

1) According to "the Announcement of the revision of general enterprise financial statements format for 2018" (Accounting [2018] No. 15) issued by MOF, the Group revised the financial statement format as follows:

***A、 Balance sheet***

Combine "bills receivable" and "accounts receivable" into "bills receivable and accounts receivable";

Combine "interest receivable" and "dividends receivable" into "receivable notes and accounts receivable";

Merge "Disposal of Fixed Assets" into "Fixed Assets";

Merge "engineering materials" into "construction in progress";

Combine "bills payable" and "accounts payable" into "bills payable and accounts payable";

Consolidate the original "interest payables" and "dividend payables" line items to "other payables";

Consolidate "special payables" into "long-term payables";

***B、 Income statement***

Separate the "research & development expenses" from the original "administrative expenses";

"interest expense" and "interest income" separately presented under "finance expenses"

"Changes of re-measurement in net liabilities or net assets of defined benefit plans" is replaced by "The amount of changes of re-measurement in defined benefit plans"; "other comprehensive income to proportional shares in the investee cannot be reclassified into profit or loss under equity method" is changed to "other comprehensive income that cannot be transferred to profit or loss under the equity method"; other comprehensive income to proportional shares in the investee shall be reclassified into profit or loss under equity method is changed to "Other comprehensive income can be converted into profits or losses";

Added "Credit Impairment Loss" item related to the new financial instrument guidelines

***C、 Statement of changes in shareholder's equity***

Under the "internal transfer of shareholders' equity" line item, the original "Changes of re-measurement in net liabilities or net assets of defined benefit plans" was changed to "Transfer of change amount of defined benefit plans to retained earnings".

The Group adjust comparative data for comparable periods in accordance with Finance [2018] No. 15

The revised Financial Instruments Standards and Revenue Guidelines have no significant impact on the company's financial position, operating results and cash flows. The revision of the financial statement format has no impact on the Group's total assets, total liabilities, net profit, other comprehensive income, etc.

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

## 33. Changes in significant accounting policies and accounting estimates (Continued)

### (1) Changes in significant accounting policies (Continued)

2) The Group has implemented the "Accounting Standards for Business Enterprises No. 14 - Revenue" issued by the Ministry of Finance since January 1, 2018, "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 - Finance Asset Transfer, Enterprise Accounting Standards No. 24 - Hedge Accounting, Enterprise Accounting Standards No. 37 - Financial Instruments Presentation.

According to the newly issued guidelines, the classification of financial assets is changed from the current "four types" to "three types". The financial assets are classified as financial assets measured at amortized cost, measured at fair value and Financial assets included in other comprehensive income and financial assets measured at fair value through profit or loss.

The provision for impairment of financial assets was changed from the "incurred loss method" to "expected loss method".

A unified income recognition model under new revenue recognition guidelines is used to calculate the contract revenue between the Group and the customer. The confirmation standard of revenue is changed from "when the main risk and reward of the goods are transferred to the customer" to "when the customer obtains the control of the commodity"; on the contract start date, the enterprise shall evaluate the contract, identify each individual performance obligation included in the contract, and determine whether each individual performance obligation is fulfilled within a certain period of time, or is performed at a certain point in time, and then, fulfilled Revenue is recognized separately for each individual performance obligation.

On January 1, 2018, the comparing result of classification and measurement of financial assets according to the measurement criteria for financial instruments before and after revision is as follows:

| | Carrying amount as at January 2018 before adjustment | Reclassification | Remeasurement | Carrying amount as at January 2018 after adjustment |
|---|---|---|---|---|
| Assets: | | | | |
| Available for sale financial assets | 24,389 | -24,389 | — | — |
| Other equity instrument investment | — | 24,389 | — | 24,389 |

On January 1, 2018, the Group calculated the impairment of financial assets measured at amortized cost in accordance with the requirements of the new financial instruments. The estimated loss provision was not significantly different from the provision for bad debts under the original standard.

According to the Ministry of Finance's notice on the revision and issuance of the Accounting Standards for Business Enterprises No. 14 - Revenue (Accounting [2017] No. 22): contract assets or contract liabilities shall be presented in the balance sheet according to the relationship between the performance obligations of the enterprise and the payment from customers, the impact of the Group's reporting accounts on the application of new revenue criteria is as follows:

| | Carrying amount as at January 2018 before adjustment | Adjustment amount under new guideline | Carrying amount as at January 2018 after adjustment |
|---|---|---|---|
| Balance sheet: | | | |
| inventory | 7,803,074 | -6,458,640 | 1,344,434 |
| Contract assets | — | 6,458,640 | 6,458,640 |
| Advances from customers | 8,538,959 | -8,538,959 | — |
| Contract liabilities | — | 8,538,959 | 8,538,959 |

Notes:

1) The contract assets include the unbilled amount of the Group's provision of construction services, that is, the amount of revenue recognized by the output method exceeds the invoiced settlement amount of the customer. There is no contract assets recognized as a result of business combination.
2) There is no incremental cost due to the provision of labor.
3) Contract liability refers to the obligation of the Group to provide services to customers after receiving or receiving customer consideration. The Group originally confirmed the cost based on the completion stage, the amount of and the actual cost incurred less than the cost recognized shall be included in accounts payable and forms an inventory.

# IV. Types of taxes and tax rates

## 1. Major taxes and tax rate

| Type of taxes | Tax base | Tax rate% |
|---|---|---|
| **Value added tax** | Taxable value added(for the calculation of the output VAT and deducted by the input VAT) | 3, 6, 10 or 16 |
| **Urban maintenance and construction tax** | Turnover tax payable | 1, 5, 7 |
| **Educational surtax** | Turnover tax payable | 5 |
| **Income tax** | Tax payable | 25 |

### Corporate income tax:

| Taxpayer | Tax rate% |
|---|---|
| **Sinopec Southwest Oil Engineering Company Limited** | 15, 25 |
| **Sinopec Oil Engineering Design Company Limited** | 15 |
| **Sinopec Zhongyuan Oil Engineering Design Company Limited** | 15 |
| **Sinopec Henan Oil Engineering Design Company Limited** | 15 |
| **Sinopec Oil Engineering geophysical Company Limited** | 15 |

## 2. Tax incentives and approval documents

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

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

### (2) Corporate income ta

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

In accordance to "Notice on Recognizing 746 Enterprises such as Shandong Lianyou Communication Technology Development Co., Ltd. as a High-tech Enterprise in 2015" (Lu Ke Zi [2016]No.41) issued by Science and Technology Department of Shandong Province, Department of Finance of Shandong Province, The State Tax Administration of Shandong Province, The Local Tax Administration of Shandong Province, Sinopec Shengli Petroleum Engineering Company Limited and Sinopec Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to to "Notification of the list of the first batch of Henan Province High-tech enterprise subject to review in 2015" (Yu Gao Qi[2015]No.8) issued by Science and Technology Department of Henan Province, Henan Provincial Department of Finance, The State Tax Administration of Henan Province, The Local Tax Administration of Henan Province, Sinopec Zhongyuan Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

In accordance to "Notification of the first batch of Henan Province High-tech enterprise subject to review in 2017" (Yu Ke[2017]No.196) issued by Science and Technology Department of Henan Province, Henan Provincial Department of Finance, The State Tax Administration of Henan Province, The Local Tax Administration of Henan Province, Sinopec Henan Oil Engineering Design Company Limited has obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

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

# V. Notes to the consolidated financial statements

## 1. Cash at bank and on hand

| Items | As at 30 June 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Amount (RMB) | Original currency | Exchange rate | Amount (RMB) |
| Cash on hand: | | | 7,957 | | | 8,177 |
| RMB | — | — | 625 | — | — | 2,052 |
| USD | 457 | 6.6166 | 3,024 | 296 | 6.5342 | 1,933 |
| EUR | 43 | 7.6515 | 329 | 45 | 7.8023 | 348 |
| BRL | 29 | 1.7172 | 49 | 15 | 1.9725 | 29 |
| DZD | 3,299 | 0.0561 | 185 | 7,558 | 0.0569 | 430 |
| SAR | 381 | 1.7649 | 673 | 491 | 1.7423 | 855 |
| KWD | 14 | 21.8154 | 305 | 28 | 21.6185 | 609 |
| KZT | 33,942 | 0.0194 | 657 | 7,982 | 0.0197 | 157 |
| XAF | 57,171 | 0.0117 | 671 | 38,591 | 0.012 | 461 |
| BOB | 55 | 0.9575 | 52 | 58 | 0.9456 | 54 |
| Others | — | — | 1,387 | — | — | 1,249 |
| Cash at banks: | — | — | 2,210,302 | — | — | 2,490,152 |
| RMB | | | 403,492 | — | | 774,066 |
| USD | 214,234 | 6.6166 | 1,417,501 | 171,569 | 6.5342 | 1,121,068 |
| EUR | 199 | 7.6515 | 1,522 | 1,766 | 7.8023 | 13,780 |
| BRL | 35 | 1.7172 | 60 | 217 | 1.9725 | 427 |
| DZD | 529,378 | 0.0561 | 29,720 | 869,091 | 0.0569 | 49,423 |
| SAR | 14,900 | 1.7649 | 26,296 | 48,453 | 1.7423 | 84,417 |
| KWD | 4,393 | 21.8154 | 95,835 | 3,122 | 21.6185 | 67,494 |
| KZT | 989,838 | 0.0194 | 19,170 | 1,471,807 | 0.0197 | 28,996 |
| XAF | 958,214 | 0.0117 | 11,241 | 781,002 | 0.012 | 9,334 |
| BOB | 31,038 | 0.9575 | 29,720 | 104,516 | 0.9456 | 98,832 |
| KES | 82,459 | 0.0655 | 5,399 | 771,726 | 0.0633 | 48,848 |
| Others | — | — | 170,346 | — | | 193,467 |
| Among cash at bank: Related party | — | — | 936,548 | — | — | 1,050,749 |
| Including: RMB | — | — | 53,293 | — | — | 153,952 |
| USD | 122,700 | 6.6166 | 811,856 | 126,308 | 6.5342 | 825,322 |
| SAR | 23 | 1.7649 | 41 | 13,023 | 1.7423 | 22,690 |
| KWD | 3,210 | 21.8154 | 70,027 | 1,610 | 21.6185 | 34,801 |
| EUR | 165 | 7.6515 | 1,262 | 1,734 | 7.8023 | 13,528 |
| Others | — | — | 69 | — | — | 456 |
| Other monetary funds: | — | — | 5,480 | — | — | 39,565 |
| RMB | | | 93 | | | 243 |
| LYD | 420 | 4.7267 | 1,985 | 420 | 4.806 | 2,019 |
| PKR | 49,000 | 0.0536 | 2,626 | — | — | — |
| USD | — | 6.6166 | — | 5,562 | 6.5342 | 36,341 |
| AED | 131 | 1.802 | 237 | 131 | 1.7790 | 234 |
| DZD | 8,454 | 0.0561 | 475 | 8,454 | 0.0569 | 481 |
| KZT | — | 0.0194 | — | 1,420 | 0.0197 | 28 |
| BOB | — | 0.9575 | — | 209 | 0.9456 | 198 |
| Others | — | — | 64 | — | — | 21 |
| Total: | | | 2,223,739 | | | 2,537,894 |
| Amount deposited abroad: | | | 1,515,334 | | | 1,748,032 |

At 30 June 2018, the Group's restricted cash such as margin deposit is RMB 11,534 thousand (At 31 December 2017: RMB 14,538 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

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

## 2. Bills receivable and accounts receivable

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Bills receivable | 637,413 | 1,209,147 |
| Accounts receivable | 14,084,620 | 16,961,936 |
| Total | 14,722,033 | 18,171,083 |

### (1) Bills receivable

| Type | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Bank acceptance bills | 558,390 | 1,014,337 |
| Trade acceptance bills | 79,023 | 194,810 |
| Total | 637,413 | 1,209,147 |

① At 30 June 2018, the endorsed undue bills receivable.

| Type | recognized amount at 30 June 2018 | derecognized amount at 30 June 2018 |
|---|---|---|
| Bank acceptance bills | 556,420 | — |
| Trade acceptance bills | 293,306 | — |
| Total | 849,726 | — |

### (2) Accounts receivable

① The details of accounts receivable is as follows:

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Within 1 year | 10,795,582 | 12,235,257 |
| 1 – 2 years | 2,682,819 | 4,417,569 |
| 2 – 3 years | 1,869,592 | 1,706,574 |
| Over 3 years | 909,931 | 923,283 |
| Cost: | 16,257,924 | 19,282,683 |
| Less: provision for bad debts | 2,173,304 | 2,320,747 |
| Total: | 14,084,620 | 16,961,936 |

② The five largest accounts receivable are analyzed as follows:

| Company Name | Amount | Percentage of total accounts receivable | Ending balance of bad debt provision |
|---|---|---|---|
| Entity A | 5,423,697 | 33.36 | — |
| Entity B | 986,265 | 6.07 | 986,265 |
| Entity C | 985,187 | 6.06 | 91,106 |
| Entity D | 951,333 | 5.85 | — |
| Entity E | 829,471 | 5.10 | 25,179 |
| Total | 9,175,953 | 56.44 | 1,102,550 |

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

## 3. Prepayments

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Prepayments | 646,152 | 441,556 |
| Less: provision for bad debts | 17,773 | 16,825 |
| Net | 628,379 | 424,731 |

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

| Ageing | As at 30 June 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|
| | Amount | Proportion % | Amount | Proportion % |
| Within 1 year | 618,055 | 95.65 | 417,639 | 94.59 |
| 1 – 2 years | 13,476 | 2.09 | 6,365 | 1.44 |
| 2 – 3 years | 2,142 | 0.33 | 6,191 | 1.40 |
| Over 3 years | 12,479 | 1.93 | 11,361 | 2.57 |
| Total | 646,152 | 100.00 | 441,556 | 100.00 |

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

| Company Name | Amount | Percentage of total prepayments |
|---|---|---|
| Entity A | 50,154 | 7.76 |
| Entity B | 30,005 | 4.64 |
| Entity C | 24,284 | 3.76 |
| Entity D | 20,000 | 3.10 |
| Entity E | 16,342 | 2.53 |
| Total | 140,785 | 21.79 |

## 4. Other receivables

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Interests receivable | 188 | 188 |
| Other receivables | 2,314,990 | 1,999,912 |
| Total | 2,315,178 | 2,000,100 |

### (1) Interests receivable

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Entity A | 188 | 188 |

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

## 4. Other receivables (Continued)

### (2) Other receivable

① The details of other receivable is as follows:

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Within 1 year | 1,541,939 | 1,072,298 |
| 1 – 2 years | 446,812 | 627,042 |
| 2 – 3 years | 399,667 | 281,634 |
| Over 3 years | 563,681 | 631,432 |
| Cost | 2,952,099 | 2,612,406 |
| Less: provision for bad debts | 637,109 | 612,494 |
| Total | 2,314,990 | 1,999,912 |

② Other receivables disclosed by nature:

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Imprest | 63,322 | 34,523 |
| Guarantee | 845,207 | 846,193 |
| Amount paid on behalf | 734,202 | 641,003 |
| Temporary payment | 995,608 | 759,129 |
| Escrow funds | 9,735 | 9,733 |
| Deposits | 37,493 | 42,944 |
| Export tax refund receivable | 6,960 | 5,261 |
| Others | 259,572 | 273,620 |
| Total | 2,952,099 | 2,612,406 |

② The five largest other accounts receivable are analyzed as follows:

| Company Name | Relationship with the company | Nature of payment | Amount | Percentage of total accounts receivable | Ending balance of bad debt provision |
|---|---|---|---|---|---|
| Entity A | Related party | Amount paid on behalf | 407,351 | 13.80 | — |
| Entity B | Third party | Temporary payment | 263,418 | 8.92 | 69,961 |
| Entity C | Third party | Amount paid on behalf | 170,784 | 5.79 | 100,075 |
| Entity D | Third party | Temporary payment | 166,339 | 5.63 | 166,339 |
| Entity E | Related party | Amount paid on behalf | 140,359 | 4.75 | — |
| Total | -- | | 1,148,251 | 38.89 | 336,375 |

## 5. Inventories

### (1) Inventories by categories

| | As at 30 June 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| Category | Cost | Provision for diminution in value | Carrying amount | Cost | Provision for diminution in value | Carrying amount |
| Raw materials | 1,179,991 | 64,576 | 1,115,415 | 1,164,785 | 64,576 | 1,100,209 |
| Work in progress | 9,992 | 1,987 | 8,005 | 2,887 | 1,987 | 900 |
| Finished goods | 129,605 | 5,893 | 123,712 | 85,725 | 5,893 | 79,832 |
| Turnover materials | 1,608 | — | 1,608 | 10,151 | — | 10,151 |
| Costs to fulfil a contract | 985,873 | — | 985,873 | 151,395 | — | 151,395 |
| Others | 1,838 | — | 1,838 | 1,947 | — | 1,947 |
| Total | 2,308,907 | 72,456 | 2,236,451 | 1,416,890 | 72,456 | 1,344,434 |

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

## 5. Inventories (Continued)

### (2) Provision for diminution in value of inventories

| Category | As at 1 January 2018 | Increase during the period | | Written back during the period | | As at 30 June 2018 |
|---|---|---|---|---|---|---|
| | | Provision | Others | Reversal or Write-off | Others | |
| Raw materials | 64,576 | — | — | — | — | 64,576 |
| Work in progress | 1,987 | — | — | — | — | 1,987 |
| Finished goods | 5,893 | — | — | — | — | 5,893 |
| Total | 72,456 | — | — | — | — | 72,456 |

## 6. Contract assets

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Contract assets related to engineering services | 8,840,622 | 6,717,688 |
| Less: provision for impairment losses | 259,048 | 259,048 |
| Net | 8,581,574 | 6,458,640 |

The contract assets include the uninvoiced amount of the construction services provided by the Group, is the revenue recognized in accordance with the input method or output method exceeds the customer's invoiced amount. There is no contract assets recognized as a result of business combination.

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

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Long-term deferred expenses due within one year | 157,329 | |

## 8. Other current assets

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Excess value-added tax paid | 828,854 | 651,200 |
| Value-added tax to be certified | 19,906 | 24,043 |
| Prepaid VAT | 404,287 | 205,916 |
| Prepaid income tax | 10,686 | 4,314 |
| Total | 1,263,733 | 885,473 |

## 9. Long-term receivable

### (1) Long-term receivables disclosed by nature

| Items | As at 30 June 2018 | | | As at 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|
| | Ending balance | Provision for diminution in value | Carrying amount | Ending balance | Provision for diminution in value | Carrying amount | Discount rate interval |
| Installment collection services | 157,329 | — | 157,329 | 233,061 | — | 233,061 | — |
| Subtotal | 157,329 | — | 157,329 | 233,061 | — | 233,061 | — |
| Less: Long-term receivables due within 1 year | 157,329 | — | 157,329 | — | — | — | — |
| Total | — | — | | 233,061 | — | 233,061 | — |

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

## 10. Long-term equity investments

| Name of company | | The fluctuation of this period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 January 2018 | Additional investment | Reduce investment | Investment gains and losses confirmed by the equity method | Adjustment of other comprehensive income | Changes in other equity | The issuance of profit | Impairment | Others | As at 30 June 2018 | The ending balance of impairment |
| ① Joint venture | | | | | | | | | | | |
| Sinopec Gulf Petroleum Engineering Services, LLC | 13,383 | — | — | — | — | — | — | — | — | 13,383 | — |
| Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture) | 11,825 | — | — | -2,072 | — | — | — | — | — | 9,753 | — |
| SinoFTS Petroleum Services Ltd. (SinoFTS) | 168,122 | — | — | -1,355 | — | — | — | — | — | 166,767 | — |
| Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited | 1,135 | — | — | 458 | — | — | — | — | — | 1,593 | — |
| Subtotal | 194,465 | — | — | -2,969 | — | — | — | — | — | 191,496 | — |
| ② Associates | | | | | | | | | | | |
| Hua Bei Ruida Oil Service Company Limited ("Ordos North") | 3,839 | — | — | — | — | — | — | — | — | 3,839 | — |
| Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North") | 2,700 | — | — | — | — | — | — | — | — | 2,700 | — |
| Henan Zhongyuan Oil & Gas Technology Service Co., Ltd | 1,704 | — | — | — | — | — | — | — | — | 1,704 | — |
| Henan Zhongyou Oil & Gas Technology Service Co., Ltd | 2,200 | — | — | — | — | — | — | — | — | 2,200 | — |
| Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd | 2,138 | — | — | — | — | — | — | — | — | 2,138 | — |
| Subtotal | 12,581 | — | — | — | — | — | — | — | — | 12,581 | — |
| Total | 207,046 | — | — | -2,969 | — | — | | | — | 204,077 | — |

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

## 11. Other equity instrument investments

| Items | As at 30 June 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Ending balance | Changes in fair value | Carrying amount | Ending balance | Changes in fair value | Carrying amount |
| Non-tradable equity instrument investment designated as fair value and whose changes are included in other comprehensive income | 40,494 | -16,105 | 24,389 | — | — | — |
| Total | 40,494 | -16,105 | 24,389 | — | — | — |

Non-trading equity instruments that are measured at fair value through profit or loss are recognised in the Group's interests in non-listed companies. These companies are mainly engaged in oil and gas development technical services

## 12. Fixed assets

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Fixed assets | 24,081,213 | 25,582,509 |
| Disposal of fixed assets | 9,407 | 1,644 |
| Total | 24,090,620 | 25,584,153 |

### (1) Fixed assets

① Fixed assets by categories

| Items | Buildings | Equipment and others | Total |
|---|---|---|---|
| Cost: | | | |
| 1. At 31 December 2017 | 1,328,500 | 58,786,464 | 60,114,964 |
| 2. Increase in the year | — | 26,119 | 26,119 |
| (1) Purchase | — | 26,119 | 26,119 |
| (2) Transferred from construction in progress | — | — | — |
| (3) Other additions | — | — | — |
| 3. Written back during the year | 815 | 155,459 | 156,274 |
| (1) Disposal or retirement | 815 | 155,459 | 156,274 |
| (2) Other reduction | — | — | — |
| 4. At 30 June 2018 | 1,327,685 | 58,657,124 | 59,984,809 |
| Accumulated depreciation: | — | — | — |
| 1. At 31 December 2017 | 430,764 | 32,704,974 | 33,135,738 |
| 2. Increase in the year | 22,159 | 1,492,593 | 1,514,752 |
| (1) Depreciation | 22,159 | 1,492,593 | 1,514,752 |
| (2) Other additions | — | — | — |
| 3. Written back during the year | 591 | 142,815 | 143,406 |
| (1) Disposal or retirement | 591 | 142,815 | 143,406 |
| (2) Other reduction | — | — | — |
| 4. At 30 June 2018 | 452,332 | 34,054,752 | 34,507,084 |
| Provision for impairment | — | — | — |
| 1. At 31 December 2017 | 8,436 | 1,388,281 | 1,396,717 |
| 2. Increase in the year | — | — | — |
| (1) Provision | — | — | — |
| (2) Other additions | — | — | — |
| 3. Written back during the year | — | 205 | 205 |
| (1) Disposal or retirement | — | 205 | 205 |
| (2) Other reduction | — | — | — |
| 4. At 30 June 2018 | 8,436 | 1,388,076 | 1,396,512 |
| Net carrying amount | — | — | — |
| 1. At 30 June 2018 | 866,917 | 23,214,296 | 24,081,213 |
| 2. At 31 December 2017 | 889,300 | 24,693,209 | 25,582,509 |

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

## 12. Fixed assets (Continued)

### (1) Fixed assets (Continued)

② Fixed assets rented under finance leases

| Items | Cost | Accumulated depreciation | Provision for impairment | Net carrying amount |
|---|---|---|---|---|
| Equipment | 1,326,667 | 290,246 | — | 1,036,421 |

③ Fixed assets rented out under operating leases

| Items | Net carrying amount |
|---|---|
| Buildings | 5,374 |
| Equipment and others | 340,705 |
| Total | 346,079 |

④ The situation of premises without qualified ownership certificates

There had been a total amount of 23 premises without qualified ownership certificates up to 30 June 2018, totaling amount in cost of 240,935 thousand, in accumulated depreciation of 28,064 thousand and net book value of 212,871 thousand.

### (2) Disposal of fixed assets

| Items | As at 30 June 2018 | As at 31 December 2017 | Reasons for moving to disposal |
|---|---|---|---|
| Buildings | 147 | 147 | Requirements for demolition by environmental authorities |
| Equipment and others | 9,260 | 1,497 | No maintenance value |
| Total | 9,407 | 1,644 | |

## 13. Construction in progress

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Construction in progress | 263,726 | 237,638 |
| Construction materials | 869 | — |
| Total | 264,595 | 237,638 |

### (1) Construction in progress

① Details of construction in progress

| Items | As at 30 June 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Cost | Impairment | Net carrying amount | Cost | Impairment | Net carrying amount |
| Infrastructure improvement expenditure | 104,929 | 3,502 | 101,427 | 88,319 | 3,502 | 84,817 |
| Major Materials and equipment procurement projects | 223,826 | 68,232 | 155,594 | 205,511 | 68,232 | 137,279 |
| Other construction projects | 6,705 | — | 6,705 | 15,542 | — | 15,542 |
| Total | 335,460 | 71,734 | 263,726 | 309,372 | 71,734 | 237,638 |

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

## 13. Construction in progress (Continued)

### (1) Construction in progress (Continued)

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

| Project name | As at 1 January 2018 | Additions | Transfer to fixed assets | Other deduction | Accumulated capitalized interest | Including current capitalized interest | Capitalised rate% | As at 30 June 2018 |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | | | | E=A+B-C-D |
| Special down-hole operation company home officefracturing liquidation station renovation project | 9,566 | — | — | — | — | — | — | 9,566 |
| Saudi drilling logistics service base construction | 68,856 | — | — | — | — | — | — | 68,856 |
| Long-term pipeline construction equipment of Xinyuezhe | — | 4,475 | 879 | — | — | — | — | 3,596 |
| No.3 drilling platform part of equipment facilities update project | 74,410 | 6,861 | — | — | — | — | — | 81,271 |
| No.3 drilling platform crane update project | 20,200 | — | — | — | — | — | — | 20,200 |
| Total | 173,032 | 11,336 | 879 | — | — | — | — | 183,489 |

| Project name | Budget | Percentage of current input over budget (%) | Progress(%) | Sources of funds |
|---|---|---|---|---|
| Special down-hole operation company home office fracturing liquidation station renovation project | 20,000 | 47.83 | 47.83 | Selfraised |
| Saudi drilling logistics service base construction | 87,380 | 78.80 | 78.80 | Selfraised |
| Long-term pipeline construction equipment of Xinyuezhe | 55,380 | 8.08 | 8.08 | Fundraising |
| No.3 drilling platform part of equipment facilities update project | 91,000 | 89.31 | 89.31 | Selfraised |
| No.3 drilling platform crane update project | 21,200 | 95.28 | 95.28 | Selfraised |
| Total | 274,960 | | | — |

### (2) Construction materials

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Special material | 869 | — |

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

## 14. Intangible assets

### (1) Classification of intangible assets

| Items | Land use rights | Computer software | Contract revenue right | Others | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| 1. At 31 December 2017 | 140,817 | 146,826 | 224,726 | 9,162 | 521,531 |
| 2. Increase in the year | — | — | 8,837 | — | 8,837 |
| (1) Purchase | — | — | — | — | — |
| (2) Construction completed | — | — | 8,837 | — | 8,837 |
| (3) Business combination involving entities | — | — | — | — | — |
| (4) Other additions | — | — | — | — | — |
| 3. Written back during the year | — | — | — | — | — |
| (1) Disposal or retirement | — | — | — | — | — |
| (2) Other reduction | — | — | — | — | — |
| 4. At 30 June 2018 | 140,817 | 146,826 | 233,563 | 9,162 | 530,368 |
| **Accumulated amortization:** | | | | | |
| 1. At 31 December 2017 | 22,277 | 106,029 | 108,518 | 3,173 | 239,997 |
| 2. Increase in the year | 1,580 | 6,087 | 32,514 | 382 | 40,563 |
| (1) Provision | 1,580 | 6,087 | 32,514 | 382 | 40,563 |
| (2) Other additions | — | — | — | — | — |
| 3. Written back during the year | — | — | — | — | — |
| (1) Disposal or retirement | — | — | — | — | — |
| (2) Other reduction | — | — | — | — | — |
| 4. At 30 June 2018 | 23,857 | 112,116 | 141,032 | 3,555 | 280,560 |
| **Provision for impairment** | | | | | |
| 1. At 31 December 2017 | — | — | — | — | — |
| 2. Increase in the year | — | — | — | — | — |
| (1) Provision | — | — | — | — | — |
| (2) Other additions | — | — | — | — | — |
| 3. Written back during the year | — | — | — | — | — |
| (1) Disposal or retirement | — | — | — | — | — |
| (2) Other reduction | — | — | — | — | — |
| 4. At 30 June 2018 | — | — | — | — | — |
| **Carrying amount** | | | | | |
| 1. At 30 June 2018 | 116,960 | 34,710 | 92,531 | 5,607 | 249,808 |
| 2. At 31 December 2017 | 118,540 | 40,797 | 116,208 | 5,989 | 281,534 |

There was no land use right without qualified ownership certificates as at 30 June 2018.

For the year ended 30 June 2018, amortisation of intangible assets amounted to RMB40,563 thousand (2017: 83,902 thousand), were included in profit and loss.

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

## 15. Long-term deferred expenses

| Items | As at 31 December 2017 | Increase in the year | Decrease in the year | | As at 30 June 2018 |
|---|---|---|---|---|---|
| | | | Amortisation in the year | Other decreases | |
| Special tools of petroleum engineering | 2,411,362 | 233,401 | 499,041 | 10,900 | 2,134,822 |
| Other tools of Petroleum engineering | 338,554 | 81,789 | 87,389 | — | 332,954 |
| Camping house | 315,175 | 16,844 | 84,487 | 6,248 | 241,284 |
| Other long-term deferred expenses | 15,178 | 2,731 | 7,176 | — | 10,733 |
| Total | 3,080,269 | 334,765 | 678,093 | 17,148 | 2,719,793 |

## 16. Deferred income tax assets and deferred income tax liabilities

### (1) Deferred income tax assets and deferred income tax liabilities without offsetting

| Items | As at 30 June 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|
| | Deductible/taxable temporary differences | Deferred income tax assets/liabilities | Deductible/taxable temporary differences | Deferred incoome tax assets/liabilities |
| Deferred income tax assets | | | | |
| Provision for assets impairment and influence on depreciation | 1,404,657 | 296,036 | 1,404,657 | 296,036 |
| provision for bad debts | 794,530 | 160,840 | 794,530 | 160,840 |
| Deferred income | 102,050 | 15,308 | 102,050 | 15,308 |
| Subtotal | 2,301,237 | 472,184 | 2,301,237 | 472,184 |
| Deferred income tax liabilities | | | | |
| Revaluation of assets | 90,066 | 22,042 | 94,215 | 23,038 |
| Depreciation of fixed assets | 5,221 | 841 | 5,221 | 841 |
| Subtotal | 95,287 | 22,883 | 99,436 | 23,879 |

### (2) Details of unrecognised deferred income tax assets of deductible temporary differences and tax losses:

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Deductible temporary differences | 2,446,270 | 2,585,097 |
| Tax losses | 22,712,348 | 23,534,199 |
| Total | 25,158,618 | 26,119,296 |

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

| Years | As at 30 June 2018 | As at 31 December 2017 | Note |
|---|---|---|---|
| year 2018 | — | 1,143,155 | |
| year 2019 | 1,551,644 | 1,551,644 | |
| year 2020 | 710,556 | 710,556 | |
| year 2021 | 12,456,813 | 12,456,813 | |
| year 2022 | 7,672,031 | 7,672,031 | |
| year 2023 | 321,304 | — | |
| Total | 22,712,348 | 23,534,199 | |

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

## 17. Short-term loans

### (1) Classification of short-term loans

| Items | Currency | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|---|
| Unsecured borrowings from related parties | RMB | 12,900,000 | 9,495,000 |
| | USD | 3,817,778 | 8,015,830 |
| Total | | 16,717,778 | 17,510,830 |

As at 30 June 2018, no assets of the Group were pledged.

As at 30 June 2018, the Group has no overdue short-term borrowings.

As at 30 June 2018, the interest rate range of short-term borrowings is 2.62%-3.92%.

## 18. Bills payable and accounts payable

| Item | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Bills payable | 3,204,372 | 3,045,393 |
| Accounts payable | 22,110,751 | 26,442,482 |
| Total | 25,315,123 | 29,487,875 |

### (1) Bills payable

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Bank acceptance bills | 2,401,787 | 1,861,349 |
| Trade acceptance draft | 802,585 | 1,184,044 |
| Total | 3,204,372 | 3,045,393 |

Notes: The amount of unpaid bills payable which has be expired is 0 yuan at 30 June 2018.

### (2) Accounts payable

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Payables for materials | 6,491,186 | 7,252,290 |
| Payables for construction | 5,788,861 | 7,588,406 |
| Payable for labour cost | 6,823,417 | 8,102,709 |
| Payables for equipment | 2,325,037 | 2,796,545 |
| Others | 682,250 | 702,532 |
| Total | 22,110,751 | 26,442,482 |

Important accounts payable aged over one year:

| Items | As at 30 June 2018 | Overdue reasons |
|---|---|---|
| Entity A | 71,545 | Retention money、Unsettled |
| Entity B | 69,208 | Retention money、Unsettled |
| Entity C | 55,785 | Retention money、Unsettled |
| Entity D | 53,893 | Retention money、Unsettled |
| Entity E | 48,444 | Retention money、Unsettled |
| Total | 298,875 | |

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

## 19. Contract liabilities

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Advances from customers | 4,711,963 | 6,765,375 |
| Work and other payable | 1,754,959 | 1,773,584 |
| Total | 6,466,922 | 8,538,959 |

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

| Items | As at 30 June 2018 | Overdue reasons |
|---|---|---|
| Entity A | 144,182 | Not yet finalised |
| Entity B | 114,810 | Not yet finalised |
| Entity C | 83,566 | Not yet finalised |
| Entity D | 75,423 | Not yet finalised |
| Entity E | 59,276 | Not yet finalised |
| Total | 477,257 | |

## 20. Employee benefits payable

| Items | As at 31 December 2017 | Increase in the year | Decrease in the year | As at 30 June 2018 |
|---|---|---|---|---|
| Short term employee benefits | 381,240 | 5,205,497 | 5,215,998 | 370,739 |
| Post-employment benefits | — | 810,940 | 756,613 | 54,327 |
| Termination benefits | — | 10,541 | 10,541 | — |
| Total | 381,240 | 6,026,978 | 5,983,152 | 425,066 |

### (1) Short-term employee benefits

| Items | As at 31 December 2017 | Increase in the year | Decrease in the year | As at 30 June 2018 |
|---|---|---|---|---|
| Wages or salaries, bonuses, allowances and subsidies | 215,312 | 3,418,256 | 3,501,848 | 131,720 |
| Staff welfare | 547 | 336,739 | 337,281 | 5 |
| Social security contributions | 270 | 443,657 | 394,792 | 49,135 |
| Including: 1. Basic medical insurance | — | 319,835 | 280,142 | 39,693 |
| 2. Supplementary medical insurance | 254 | 43,756 | 44,010 | — |
| 3. Work-related injury insurance | — | 30,296 | 23,179 | 7,117 |
| 4. Birth insurance | — | 17,297 | 14,988 | 2,309 |
| 5. Other insurance | 16 | 32,473 | 32,473 | 16 |
| Housing funds | 1,463 | 391,372 | 380,661 | 12,174 |
| Labor union and employee education funds | 155,210 | 85,813 | 81,511 | 159,512 |
| Others | 8,438 | 529,660 | 519,905 | 18,193 |
| Total | 381,240 | 5,205,497 | 5,215,998 | 370,739 |

As at 30 June 2018, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2018.

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

## 20. Employee benefits payable (Continued)

### (2) Post-employment benefits

| Items | As at 31 December 2017 | Increase in the year | Decrease in the year | As at 30 June 2018 |
|---|---|---|---|---|
| Basic pension insurance | — | 623,533 | 573,437 | 50,096 |
| Unemployment insurance | — | 22,180 | 17,949 | 4,231 |
| Annuity | — | 165,227 | 165,227 | — |
| Total | — | 810,940 | 756,613 | 54,327 |

The in-service employees of the Group are subject to basic pension and medical insurance, which are extracted and paid according to regulated rates and set up and governed by local government. In addition, the Company provides a supplementary defined contribution retirement plan for its employees at rates not exceeding 5% of their salaries. Employees who have served the Group for more than one year may participate in this plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group. A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with the basic and supplementary pension plans beyond the annual contributions described above.

### (3) Termination benefits

| Items | As at 31 December 2017 | Increase in the year | Decrease in the year | As at 30 June 2018 |
|---|---|---|---|---|
| Termination benefits | — | 10,541 | 10,541 | — |

During this report, the Group paid 10,541 thousand compensation to the resigning employee for terminating labor relation.

## 21. Taxes payable

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| VAT | 490,284 | 489,548 |
| Urban maintenance and construction tax | 39,814 | 46,262 |
| Education surtax | 23,243 | 28,444 |
| Corporate income tax | 155,056 | 203,784 |
| individual income tax | 54,161 | 170,264 |
| Withholding tax | 32,770 | 5,467 |
| Others | 87,842 | 89,432 |
| Total | 883,170 | 1,033,201 |

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

## 22. Other payables

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Interest payable | 29,756 | 10,927 |
| Other payables | 2,369,672 | 6,359,459 |
| Total | 2,399,428 | 6,370,386 |

### (1) Interest payable

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Interest payable of long term loan which interest paid by installment and principal paid at maturity date | — | 1,907 |
| Interest payable of short term loan | 29,756 | 9,020 |
| Total | 29,756 | 10,927 |

### (2) Other payables (Disclosed by nature)

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Guarantee | 667,807 | 670,463 |
| Deposits | 145,398 | 164,697 |
| Amount paid on behalf | 771,773 | 473,452 |
| Temporary receipts | 438,920 | 743,062 |
| Escrow payments | 78,942 | 44,850 |
| Withheld payments | 64,652 | 67,641 |
| Sinopec Group capital restructuring funds | — | 2,600,000 |
| The net profit or loss during the reorganization | — | 1,118,903 |
| Others | 202,180 | 476,391 |
| Total | 2,369,672 | 6,359,459 |

## 23. Non-current liabilities due within one year

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Long-term payables within one year | 153,259 | 28,844 |

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

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Payables of finance lease | 153,259 | 28,844 |

## 24. Other current liabilities

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Output VAT to be certified | 44,182 | 11,744 |

## 25. Long-term loans

| Items | As at 30 June 2018 | Range of interest rate | As at 31 December 2017 | Range of interest rate |
|---|---|---|---|---|
| Loans on credit | 503,788 | 8.11%-8.78% | 455,826 | 6.86%-7.57% |
| Less: Long-term loans within one year | — | — | — | — |
| Total | 503,788 | — | 455,826 | — |

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

## 26. Long-term payables

### (1) Long-term payables

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Payables of finance lease | 1,066,865 | 81,881 |
| Others | 36,921 | 14,496 |
| Subtotal | 1,103,786 | 96,377 |
| Less: Long-term payables within one year | 153,259 | 28,844 |
| Total | 950,527 | 67,533 |

## 27. Deferred income

| Items | As at 31 December 2017 | Increase for the period | Decrease for the period | As at 30 June 2018 |
|---|---|---|---|---|
| Government grants related to assets | 3,923 | — | 399 | 3,524 |
| Government grants related to income | 132,389 | 501,847 | 515,450 | 118,786 |
| Total | 136,312 | 501,847 | 515,849 | 122,310 |

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

At 30 June 2018:

| Items | As at 1 January 2018 | Changes in current (+、-) | | | | Subtotal | As at 30 June 2018 |
|---|---|---|---|---|---|---|---|
| | | Issued shares | Sended shares | Conversion of fund into shares | Others | | |
| Held by state-owned legal person (A share) | 10,259,328 | 1,526,718 | — | — | — | 1,526,718 | 11,786,046 |
| RMB public shares (A share) | 1,783,333 | — | — | — | — | — | 1,783,333 |
| Foreign shares listed overseas (H share) | 2,100,000 | 3,314,961 | — | — | — | 3,314,961 | 5,414,961 |
| Total | 14,142,661 | 4,841,679 | — | — | — | 4,841,679 | 18,984,340 |

At 31 December 2017:

| Items | As at 1 January 2017 | Changes in current (+、-) | | Subtotal | As at 31 December 2017 |
|---|---|---|---|---|---|
| | | Issued shares | Others | | |
| Held by state-owned legal person (A share) | 10,259,328 | — | — | — | 10,259,328 |
| RMB public shares (A share) | 1,783,333 | — | — | — | 1,783,333 |
| Foreign shares listed overseas (H share) | 2,100,000 | — | — | — | 2,100,000 |
| Total | 14,142,661 | — | — | — | 14,142,661 |

Approved by China Securities Regulatory Commission's license [2018] No. 142, "The Approval of Sinopec Oilfield Service Corporation issuing non-public shares", the company had issues 1,526,717,556 shares to China Petrochemical Corporation and the Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund.The non-public issuance of ordinary shares (A shares) was issued at RMB 2.62 per share. Approved by China Securities Regulatory Commission's license [2018] No. 130, "The Approval of Sinopec Oilfield Service Corporation issuing overseas-listed foreign shares", the company had issued 3,314,961,482 H shares to Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund Co., Ltd at a price of HK$1.35 per share. After deducting the issuance fee of RMB20,783 thousand, the net proceeds raised were approximately RMB7,637,715 thousand.

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

## 29. Capital reserve

At 30 June 2018:

| Items | As at 1 January 2018 | Increase for the period | Decrease for the period | As at 30 June 2018 |
|---|---|---|---|---|
| Share premium | 8,826,247 | 2,796,036 | 1,372 | 11,620,911 |
| Other capital reserve | 81,621 | — | — | 81,621 |
| Total | 8,907,868 | 2,796,036 | 1,372 | 11,702,532 |

At 31 December 2017:

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

1) The increase in capital reserve is mainly due to the difference between the face value of the non-public offering shares and the actual issue price.

2) The decrease in capital reserve is mainly due to the repurchase of minority shares.

## 30. Special reserve

| Items | As at 31 December 2017 | Increase for the period | Decrease for the period | As at 30 June 2018 |
|---|---|---|---|---|
| Safety costs | 202,477 | 347,266 | 132,484 | 417,259 |

## 31. Surplus reserve

| Items | As at 31 December 2017 | Increase for the period | Decrease for the period | As at 30 June 2018 |
|---|---|---|---|---|
| Statutory surplus reserve | 200,383 | — | — | 200,383 |

## 32. Retained earnings

| Items | For the six months ended 30 June 2018 | For the year ended 31 December 2017 | Appropriation/ distribution ratio |
|---|---|---|---|
| Retained earnings at the end of last year before adjustment | -25,556,017 | -14,973,476 | |
| Adjustment of total retained earnings at 31 December 2017 (Increase in "+", decrease in "-") | — | — | |
| Retained earnings at the end of last year after adjustment | -25,556,017 | -14,973,476 | |
| Add: Net profit attributable to parent company | 400,949 | -10,582,541 | |
| Less: Withdrawal of statutory surplus reserves | — | — | 10% |
| Retained earnings | -25,155,068 | -25,556,017 | |
| Including: Surplus reserve attributable to parent company extracted by subsidiaries | — | 5,545 | |

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

## 33. Revenue and cost of sales

| Items | For the six months ended 30 June 2018 | | For the six months ended 30 June 2017 | |
|---|---|---|---|---|
| | Revenue | Cost | Revenue | Cost |
| Major business | 23,325,407 | 21,958,742 | 19,628,693 | 19,684,890 |
| Other business | 327,595 | 299,306 | 213,625 | 183,474 |
| Total | 23,653,002 | 22,258,048 | 19,842,318 | 19,868,364 |

### (1) Major business

| Industry | For the six months ended 30 June 2018 | | For the six months ended 30 June 2017 | |
|---|---|---|---|---|
| | Revenue | Cost | Revenue | Cost |
| Geophysics | 2,552,178 | 2,409,469 | 1,948,440 | 1,856,472 |
| Drilling Engineering | 12,360,125 | 11,656,744 | 11,609,081 | 11,760,883 |
| Logging and Mud Logging | 690,604 | 672,991 | 654,752 | 668,816 |
| Special Down-hole Operations | 2,040,928 | 1,945,560 | 1,529,318 | 1,686,145 |
| Engineering Construction | 5,254,504 | 4,841,671 | 3,398,822 | 3,179,703 |
| Others | 427,068 | 432,307 | 488,280 | 532,871 |
| Total | 23,325,407 | 21,958,742 | 19,628,693 | 19,684,890 |

### (2) Business revenue (Classified by area and time of revenue recognition)

| Industry | Geophysics | Drilling Engineering | Logging and Mud Logging | Special Down-hole Operations | Engineering Construction | Others |
|---|---|---|---|---|---|---|
| Area | | | | | | |
| PRC | 1,904,228 | 8,170,922 | 674,279 | 1,796,791 | 4,213,643 | 427,068 |
| Other countries or regions | 647,950 | 4,189,203 | 16,325 | 244,137 | 1,040,861 | — |
| Total | 2,552,178 | 12,360,125 | 690,604 | 2,040,928 | 5,254,504 | 427,068 |
| Time of revenue recognition | | | | | | |
| Recognized (outputs) at a certain time | — | 8,768 | — | 27 | — | 42,573 |
| Recognized (services) over time | 2,552,178 | 12,351,357 | 690,604 | 2,040,901 | 5,254,504 | 384,495 |
| Total | 2,552,178 | 12,360,125 | 690,604 | 2,040,928 | 5,254,504 | 427,068 |

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

## 34. Tax and surcharges

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Urban maintenance and construction tax | 7,684 | 21,851 |
| Education surtax | 6,258 | 22,837 |
| Overseas tax | 40,791 | 65,547 |
| Land use tax | 41,664 | 43,387 |
| Stamp duty | 9,872 | 6,264 |
| Others | 11,299 | 11,661 |
| Total | 117,568 | 171,547 |

## 35. Selling expenses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Freight | 1,030 | 626 |
| Staff costs | 16,907 | 15,668 |
| Depreciation | 225 | 286 |
| Transportation | 1,977 | 2,019 |
| Sales service fees | 1,283 | 1,419 |
| Business promotion fee | 171 | 151 |
| Rental expenses | 411 | 45 |
| Office expense | 911 | 870 |
| Others | 616 | 286 |
| Total | 23,531 | 21,370 |

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

## 36. General and administrative expenses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Repair and maintenance | 83,574 | 87,079 |
| Staff costs | 414,421 | 376,340 |
| Integrated service | 464,445 | 779,812 |
| Transportation | 19,293 | 27,857 |
| Rental expenses | 7,084 | 18,182 |
| Depreciation and amortization | 12,061 | 18,386 |
| Consultation | 3,940 | 3,722 |
| Office expense | 14,296 | 18,791 |
| Business entertainment | 9,911 | 12,726 |
| Vehicle usage fee | 3,044 | 3,330 |
| Freight | 3,604 | 4,154 |
| Property insurance | 4,583 | 5,548 |
| Others | 41,756 | 77,996 |
| Total | 1,082,012 | 1,433,923 |

## 37. Research and development expenses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Office expense | 16,665 | 9,935 |
| Transportation | 4,918 | 4,235 |
| Vehicle usage fee | 180 | 209 |
| Material consumption | 39,308 | 11,799 |
| Freight | 144 | 353 |
| Depreciation | 594 | 1,553 |
| Staff costs | 6,142 | 20,560 |
| Rental expenses | 1,924 | 594 |
| Others | 170,321 | 1,900 |
| Total | 240,196 | 51,138 |

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

## 38. Finance costs

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Interest expenses | 283,464 | 278,906 |
| Less:Interest capitalized | — | — |
| Less: Interest income | 35,114 | 8,393 |
| Exchange losses/(gains) | -115,868 | -61,711 |
| Bank charges and others | 31,142 | 39,181 |
| Total | 163,624 | 247,983 |

## 39. Credit impairment losses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| (1) Provision for bad debts | -121,880 | 284,193 |

## 40. Other income

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Related to assets/income |
|---|---|---|---|
| Subsidy funds for resettlement | 352,014 | — | Related to income |
| National research grants | 17,891 | 4,138 | Related to income |
| Subsidy of heavy-polluting vehicles | 812 | 879 | Related to income |
| Subsidies of stable post | 6,563 | 3,509 | Related to income |
| Consumption tax refund | 131,330 | 117,307 | Related to income |
| Vehicle purchase tax refund | 276 | — | Related to income |
| Compensation of relocation | 4,680 | — | Related to income |
| Government incentives | 1,884 | 1,774 | Related to income |
| National special research related to assets | 399 | — | Related to asset |
| Labor protection fee refund | — | 5,233 | Related to income |
| Total | 515,849 | 132,840 | |

Notes:

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

(2) In accordance to “Notification of refund of consumption tax for own use refined oil during oil (gas) field production” (Cai Shui [2011] No.7)) issued by MOF and State Taxation Administration, the oil field enterprises will be refunded the consumption tax after the actual payment of consumption tax paid for the purchases of refined oil from Sinopec. In this year, the Self-use consumption tax refund of 131,330 thousand from the MOF was closely related to the company’s business, it was a government grant that was quantitatively allocated according to the national uniform standard and was taken as a regular profit and loss.

## 41. Investment income

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Investment income from long-term equity investments under equity method | -2,969 | -12,945 |
| Entrusted investment and financing | — | 67 |
| Total | -2,969 | -12,878 |

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

## 42. Disposal income on assets

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Gains from disposal of fixed assets (loss in “-”) | -1,819 | -33,476 |
| Others (loss in “-”) | 2,714 | 502 |
| Total | 895 | -32,974 |

## 43. Non-operating income

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Recognised as non-recurring income |
|---|---|---|---|
| Government grants | — | 60,080 | — |
| Penalty income | 664 | 542 | 664 |
| Waived payables | 10,001 | 1,090 | 10,001 |
| Debt restructuring gains | 147,330 | 19,457 | 147,330 |
| Compensation received | 329 | 3,561 | 329 |
| Others | 8,388 | 3,970 | 8,388 |
| Total | 166,712 | 88,700 | 166,712 |

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

## 44. Non-operating expenses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 | Recognised as non-recurring income |
|---|---|---|---|
| Fixed assets written off | 418 | 497 | 418 |
| Penalty | 2,911 | 4,745 | 2,911 |
| Compensation | 7,320 | 3,958 | 7,320 |
| Others | 10,675 | 16,274 | 10,675 |
| Total | 21,324 | 25,474 | 21,324 |

## 45. Income tax expense

### (1) Details of income taxes expenses

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Current tax in accordance with tax laws and related regulations | 149,113 | 194,986 |
| Deferred income tax | -996 | 4,384 |
| Total | 148,117 | 199,370 |

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

## 45. Income tax expense (Continued)

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Profit before income tax | 549,066 | -2,085,986 |
| Taxation calculated at the statutory tax rate | 137,267 | -521,497 |
| Effect of other tax rates used by certain subsidiaries | -14,165 | 15,886 |
| Adjustments of current tax in previous years | 10,507 | 13,442 |
| Equity method accounting for the joint venture and associates' profit or loss | 742 | 3,236 |
| Non-taxable income (expressed in "-") | — | — |
| Non-deductible costs, expenses and losses | 1,954 | — |
| Effect on the change in statutory tax rate on opening balance of deferred tax | — | — |
| Reversal of previously recognized deferred tax assets | — | 7,816 |
| Effect of utilization of unrecognised tax losses and deductible temporary differences | -205,239 | -7,601 |
| Effect of unrecognised tax losses and deductible temporary differences | 45,619 | 680,230 |
| Tax effect on research and development expenses (expressed in "-") | — | — |
| Others | 171,432 | 7,858 |
| Income tax expense | 148,117 | 199,370 |

## 46. Notes to Cash Flow Statement

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Amount paid on behalf | 224,857 | 245,380 |
| Government grants | 501,847 | 75,613 |
| Temporary receipt and payment | 49,979 | 198,244 |
| Guarantee | 361,267 | 155,036 |
| Compensation | 44,502 | 34,142 |
| Others | 20,126 | 19,246 |
| Total | 1,202,578 | 727,661 |

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Temporary receipt and payment | 256,159 | 358,872 |
| Guarantee | 503,450 | 237,163 |
| Research and development expenses | 240,196 | 51,138 |
| Community service expenses | 464,445 | 779,812 |
| Repair and maintenance expenses | 83,613 | 87,147 |
| Other period expenses | 113,872 | 168,606 |
| Others | 159,630 | 138,251 |
| Total | 1,821,365 | 1,820,989 |

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Finance lease expenses | 500,000 | — |
| Interest received from selfraised funds special deposit | 176 | 3,038 |
| Total | 500,176 | 3,038 |

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

## 46. Notes to Cash Flow Statement (Continued)

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

| Items | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| Finance lease expense | 17,965 | 11,690 |
| Bills acceptance fees | 7,224 | 12,582 |
| Non-public issuance consulting fees | 1,380 | — |
| Payment of capital structure adjustment funds to Sinopec Group | 2,600,000 | — |
| Net profit or loss during the major asset restructuring | 1,118,902 | — |
| Payment of guarantee and commitment fees | 15,202 | — |
| Others | 610 | 5,064 |
| Total | 3,761,283 | 29,336 |

## 47. Supplement information to Cash Flow Statement

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

| Supplement information | For the six months ended 30 June 2018 | For the six months ended 30 June 2017 |
|---|---|---|
| 1. Reconciliation of net profits to cash flows from operating activities: | | |
| Net profit | 400,949 | -2,285,356 |
| Add: Provision for impairment losses on Credit | -121,880 | 284,193 |
| Depreciation of fixed assets | 1,514,752 | 1,651,000 |
| Amortization of intangible assets | 40,563 | 23,387 |
| Amortization of long-term deferred expenses | 678,093 | 909,495 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-") | -895 | 32,974 |
| Losses on retirement of fixed assets (Gain as in "-") | 418 | — |
| Fair value losses (Gain as in "-") | — | — |
| Finance costs (Income as in "-") | 260,827 | 198,142 |
| Investment losses (Income as in "-") | 2,969 | 12,878 |
| Decrease in deferred tax income assets (Increase as in "-") | — | 5,383 |
| Increase in deferred income tax liabilities (Decrease as in "-") | -996 | -998 |
| Decrease in inventories (Increase as in "-") | -3,014,951 | -2,899,653 |
| Decrease in operating receivables (Increase as in "-") | 3,001,456 | 5,838,080 |
| Increase in operating payables (Decrease as in "-") | -6,491,129 | -5,920,063 |
| Safety costs | 214,782 | 162,224 |
| Others | — | — |
| Net cash flows from operating activities | -3,515,042 | -1,988,314 |
| 2. Significant investment or finance activities not involving cash: | | |
| 3. Net changes in cash and cash equivalents: | | |
| Closing balance of cash | 2,212,205 | 2,014,515 |
| Less: Opening balance of cash | 2,523,356 | 2,446,923 |
| Add: Closing balance of cash equivalents | — | — |
| Less: Opening balance of cash equivalents | — | — |
| Net decrease/(increase) in cash and cash equivalents | -311,151 | -432,408 |

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

## 47. Supplement information to Cash Flow Statement (Continued)

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

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| 1. Cash | 2,212,205 | 2,523,356 |
| Including: Cash in hand | 7,957 | 8,178 |
| Cash at bank | 2,201,465 | 2,478,544 |
| Other monetary funds | 2,783 | 36,634 |
| 2. Cash equivalents | — | — |
| 3. Closing balance of cash and cash equivalents | 2,212,205 | 2,523,356 |
| 4. Restricted funds | 11,534 | 14,538 |
| 5. Balance of cash on hand and at bank | 2,223,739 | 2,537,894 |

## 48. Foreign currency items

### (1) Foreign currency items

| Items | Original | Exchange rate | Amount (RMB) |
|---|---|---|---|
| Cash at bank and on hand | | | 1,819,529 |
| Including: USD | 214,540 | 6.6166 | 1,419,526 |
| DZD | 541,130 | 0.0561 | 30,380 |
| KWD | 4,407 | 21.8154 | 96,140 |
| KZT | 1,024,833 | 0.0194 | 19,848 |
| SAR | 15,255 | 1.7649 | 26,923 |
| BOB | 31,093 | 0.9575 | 29,772 |
| Others | — | — | 196,940 |
| Accounts receivable | | | 5,524,767 |
| Including: USD | 589,256 | 6.6166 | 3,898,871 |
| DZD | 1,582,802 | 0.0561 | 88,862 |
| KWD | 30,407 | 21.8154 | 663,340 |
| KZT | 7,454,571 | 0.0194 | 144,373 |
| SAR | 272,823 | 1.7649 | 481,500 |
| BOB | 62,641 | 0.9575 | 59,981 |
| Others | — | — | 187,840 |
| Other receivables | | | 1,268,131 |
| Including: USD | 98,189 | 6.6166 | 649,677 |
| DZD | 232,765 | 0.0561 | 13,068 |
| KWD | 6,354 | 21.8154 | 138,615 |
| KZT | 1,065,889 | 0.0194 | 20,643 |
| SAR | 187,838 | 1.7649 | 331,512 |
| BOB | 37,759 | 0.9575 | 36,155 |
| Others | — | — | 78,461 |
| Long-term receivables | | | 157,329 |
| Including: USD | 23,778 | 6.6166 | 157,329 |
| Accounts payable | | | 1,085,746 |
| Including: USD | 84,320 | 6.6166 | 557,912 |
| DZD | 1,183,585 | 0.0561 | 66,449 |
| KWD | 3,245 | 21.8154 | 70,791 |
| KZT | 453,877 | 0.0194 | 8,790 |
| SAR | 172,996 | 1.7649 | 305,317 |
| BOB | 4,693 | 0.9575 | 4,494 |
| Others | — | — | 71,993 |

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

## 48. Foreign currency items (Continued)

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

| Items | Original | Exchange rate | Amount (RMB) |
|---|---|---|---|
| Other payables | | | 546,031 |
| Including: USD | 35,617 | 6.6166 | 235,663 |
| DZD | 613,600 | 0.0561 | 34,449 |
| KWD | 2,107 | 21.8154 | 45,965 |
| KZT | 1,344,802 | 0.0194 | 26,045 |
| SAR | 101,781 | 1.7649 | 179,631 |
| BOB | 9,306 | 0.9575 | 8,911 |
| Others | — | — | 15,367 |
| Short-term loans | | | 3,817,778 |
| Including: USD | 577,000 | 6.6166 | 3,817,778 |
| Long-term loans | | | 503,788 |
| Including: USD | 76,140 | 6.6166 | 503,788 |

# VI. Changes in scope of consolidation

There are no changes in scope of consolidation for the year ended 30 June 2018.

# VII. Equities in other entities

## 1. Equities in subsidiaries

### (1) Composition of enterprise groups

| | | | | % of shareholding held | | |
|---|---|---|---|---|---|---|
| Name | Place of Major operation activities | Place of registration | Nature of business | directly | indirectly | Ways of acquisition |
| Sinopec Oilfield Service Corporation | China | Beijing | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec Shengli Petroleum Engineering Corporation | China | Dongying, Shandong | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec Zhongyuan Petroleum Engineering Corporation | China | Puyang, Henan | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec Jianghan Petroleum Engineering Corporation | China | Qianjiang, Hubei | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec East China Petroleum Engineering Corporation | China | Nanjing, Jiangsu | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec North China Petroleum Engineering Corporation | China | Zhengzhou, Henan | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec South West Petroleum Engineering Corporation | China | Chengdu, Sichuan | Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec Geophysical Corporation | China | Beijing | Geophysical prospecting | 100 | — | Business combination under common control |
| Sinopec Petroleum Engineering and Construction Corporation | China | Beijing | Engineering and Construction | 100 | — | Business combination under common control |
| Sinopec Offshore Petroleum Engineering Corporation | China | Shanghai | Offshore Petroleum Engineering | 100 | — | Business combination under common control |
| Sinopec International Petroleum Service Corporation | China | Beijing | Petroleum Engineering | 100 | — | Business combination under common control |

# VII. Equities in other entities (Continued)

## 2. Equities in joint ventures and associates

### (1) Principal joint ventures and associates

| Name | Place of major operational activities | Place of registration | Nature of business | % of shareholding held: Directly | % of shareholding held: Indirectly | Method of accounting |
|---|---|---|---|---|---|---|
| ① Joint ventures | | | | | | |
| SinoFTS Petroleum Services Ltd. (SinoFTS) | Beijing | Beijing | Petroleum service | 55.00 | — | Equity method |
| Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture) | Beijing | Beijing | Oilfield Service | 50.00 | — | Equity method |

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

### (2) Financial information of principal joint ventures

| Items | SinoFTS | | Zhong Wei Energy Service Co. Ltd. | |
|---|---|---|---|---|
| | Closing balance | Opening balance | Closing balance | Opening balance |
| Current assets: | 130,714 | 117,204 | 29,714 | 66,202 |
| Cash and cash equivalents | 10,543 | 47,991 | 4,708 | 1,998 |
| Non-current assets | 216,540 | 225,684 | 5,760 | 6,159 |
| Total assets | 347,254 | 342,888 | 35,474 | 72,361 |
| Current liabilities | 41,559 | 34,730 | 15,968 | 48,711 |
| Non-current liabilities | — | — | — | — |
| Total liabilities | 41,559 | 34,730 | 15,968 | 48,711 |
| Net assets | 305,695 | 308,158 | 19,506 | 23,650 |
| Shareholder's equity | 168,132 | 169,487 | 9,753 | 11,825 |
| Carrying amount of equity investment in joint ventures | 166,767 | 168,122 | 9,753 | 11,825 |

Continued:

| Items | SinoFTS For the 6 months ended 30 June 2018 | | Zhong Wei Energy Service Co. Ltd. For the 6 months ended 30 June 2017 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | 54,143 | 36,172 | 1,635 | 7,158 |
| Finance costs | 242 | 536 | -36 | -56 |
| Income tax expense | — | — | — | — |
| Net profit | -2,463 | -18,302 | -4,144 | -5,188 |
| Net profit from discontinued operations | — | — | — | — |
| Other comprehensive income | | | | |
| Total comprehensive income | -2,463 | -18,302 | -4,144 | -5,188 |
| Dividend received from joint ventures | — | — | — | — |

# VII. Equities in other entities (Continued)

## 2. Equities in joint ventures and associates (Continued)

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

| Items | For the current period and the closing balance | For the previous period and the opening balance |
|---|---|---|
| Joint ventures | | |
| Total investment from the Group | 14,976 | 14,518 |
| Equity contributed to the Group | | |
| Net profit | 458 | -285 |
| Other comprehensive income | — | — |
| Total comprehensive income | 458 | -285 |
| Associates: | | |
| Total investment from the Group | 12,581 | 12,581 |
| Equity contributed to the Group: | | |
| Net profit | — | 840 |
| Other comprehensive income | — | — |
| Total comprehensive income | — | 840 |

# VIII. Financial instruments and risk management

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

## 1. Objectives and policies of financial risk management

The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Based on the objectives of financial risk management, certain policies are made to recognize and analyze risk and internal control is designed according to proper acceptable in order to monitor the risk position of the Group. Both the policies and internal control will be reviewed and revised regularly to adapt the changes of the market and business activities of the Group. The performance of internal control will be reviewed regularly or randomly in accordance with the financial management policies.

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk.

### (1) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

Credit is managed on the grouping basis. Credit risk is mainly arises from cash at bank and accounts receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank and bills receivables since they are either deposited or will be accepted by the sate-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit risk exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on it customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

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

# Ⅷ. Financial instruments and risk management (Continued)

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

### (2) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Cash flow forecasting is performed by Group's finance department. The Group's finance management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The department monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institute to meet the short-term and long-term liquidity requirements.

The financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

| | As at 30 June 2018 | | | | |
|---|---|---|---|---|---|
| Items | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total amount |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | 2,223,739 | — | — | — | 2,223,739 |
| Bills receivable and accounts receivable | 14,722,033 | — | — | — | 14,722,033 |
| Other receivables | 2,315,178 | — | — | — | 2,315,178 |
| Non-current assets due within one year | 157,329 | — | — | — | 157,329 |
| Other current assets | 1,263,733 | — | — | — | 1,263,733 |
| **Total assets** | 20,682,012 | — | — | — | 20,682,012 |
| **Financial liabilities:** | | | | | |
| Short-term borrowings | 16,717,778 | — | — | — | 16,717,778 |
| Bills payable and accounts payable | 25,315,123 | — | — | — | 25,315,123 |
| Employee benefits payable | 425,066 | — | — | — | 425,066 |
| Tax payable | 883,170 | — | — | — | 883,170 |
| Other payables | 2,399,428 | — | — | — | 2,399,428 |
| Non-current liabilities due within one year | 153,259 | — | — | — | 153,259 |
| Long-term borrowings | — | 503,788 | — | — | 503,788 |
| Long-term payables | — | 176,859 | 398,668 | 375,000 | 950,527 |
| Financial lease payables of unrecognized financial expenses | 42,878 | 34,646 | 70,309 | 24,813 | 172,646 |
| **Total liabilities** | 45,936,702 | 715,293 | 468,977 | 399,813 | 47,520,785 |

# Ⅷ. Financial instruments and risk management (Continued)

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

### (2) Liquidity risk (Continued)

The financial assets and liabilities of the Group at 31 December 2016 are analyzed by their maturity date below at their undiscounted contractual cash flows as follows:

| | As at 31 December 2017 | | | | |
|---|---|---|---|---|---|
| Items | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total amount |
| **Financial assets:** | | | | | |
| **Cash and cash equivalents** | 2,537,894 | — | — | — | 2,537,894 |
| **Bills receivable and accounts receivable** | 18,171,083 | — | — | — | 18,171,083 |
| **Other receivables** | 2,000,100 | — | — | — | 2,000,100 |
| **Long-term receivables** | — | 233,061 | — | — | 233,061 |
| **Other current assets** | 885,473 | — | — | — | 885,473 |
| **Total assets** | 23,594,550 | 233,061 | — | — | 23,827,611 |
| **Financial liabilities:** | | | | | |
| **Short-term borrowings** | 17,510,830 | — | — | — | 17,510,830 |
| **Bills payable and accounts payable** | 29,487,875 | — | — | — | 29,487,875 |
| **Employee benefits payable** | 381,240 | — | — | — | 381,240 |
| **Tax payable** | 1,033,201 | — | — | — | 1,033,201 |
| **Other payables** | 6,370,386 | — | — | — | 6,370,386 |
| **Non-current liabilities due within one year** | 28,844 | — | — | — | 28,844 |
| **Long-term borrowings** | — | 455,826 | — | — | 455,826 |
| **Long-term payables** | — | 23,919 | 43,614 | — | 67,533 |
| **Financial lease payables of unrecognized financial expenses** | 5,356 | 3,304 | 3,075 | — | 11,735 |
| **Total liabilities** | 54,817,732 | 483,049 | 46,689 | — | 55,347,470 |

# Ⅷ. Financial instruments and risk management (Continued)

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

### (3) Market risk

Market risk, includes interest rate risk and foreign currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market price.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the floating rate. Interest rate risk arises from recognized interest-bearing financial instrument and unrecognized financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from short-term borrowings, long-term bank loans and other interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flows interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. At the same time, the Group monitors and maintains the combined financial instruments of fixed rate and floating rate.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's management will make decisions with reference to the latest market conditions. The Group may enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2017 and the 6 months ended 30 June 2018, the Company did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not principal because the fixed term deposits are short-term deposits etc.

Interest-bearing financial instruments held by the Group:

| Items | 30- Jun- 2018 | 31-Dec-17 |
|---|---|---|
| **Fixed interest rate financial instruments** | | |
| **Financial instruments** | | |
| **including: Cash and cash equivalents** | **165,349** | 311,176 |
| **Long-term receivables** | **157,329** | 233,061 |
| **Financial liabilities** | | |
| **Including: Short-term borrowings** | **12,900,000** | 9,495,000 |
| **Long-term borrowings** | **—** | — |
| **Long-term payables** | **1,066,865** | 81,881 |
| **Floating interest rate financial instruments** | | |
| **Financial assets** | | |
| **including: Cash and cash equivalents** | **2,058,390** | 2,226,718 |
| **Financial liabilities** | | |
| **Including: Short-term borrowings** | **3,817,778** | 8,015,830 |
| **Long-term borrowings** | **503,788** | 455,826 |

As at 30 June 2018, it is estimated that a general increase or decrease of 50 basis points in variable interest rates, while all other variables held constant, would decrease or increase the Group's net profit and shareholder's equity for the year by approximately RMB16,206 thousand (2017: RMB31,769 thousand).

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

# VIII. Financial instruments and risk management (Continued)

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

### (3) Market risk (Continued)

Foreign currency risk

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

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

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

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at 30 June 2018:

| | Liabilities denominated in currencies other than RMB | | Assets denominated in currencies other than RMB | |
|---|---|---|---|---|
| Items | As at 2018/6/30 | As at 2017/12/31 | As at 2018/6/30 | As at 2017/12/31 |
| USD | 5,115,141 | 9,797,529 | 6,125,403 | 6,580,306 |
| SAR | 484,948 | 484,209 | 839,935 | 766,894 |
| KWD | 116,756 | 112,209 | 898,095 | 836,802 |
| Others | 470,010 | 224,051 | 2,702,513 | 1,062,754 |
| Net exposure in RMB | 6,186,855 | 10,617,998 | 10,565,946 | 9,246,756 |

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange agreements or currency swap agreements to mitigate the foreign currency risk. The Group has not entered into any forward exchange agreements or currency swap agreements in the 6 months ended 2018 and the year ended 2017.

The following table illustrates the Group's net profit to a possible change in floating interest rates while other variables were held constant:

| Increase/decrease in net profits | 2018 | | 2017 | |
|---|---|---|---|---|
| Appreciation in USD | 5% | 37,885 | 5% | -120,646 |
| Depreciation in USD | -5% | -37,885 | -5% | 120,646 |
| Appreciation in SAR | 5% | 13,312 | 5% | 10,601 |
| Depreciation in SAR | -5% | -13,312 | -5% | -10,601 |
| Appreciation in KWD | 5% | 29,300 | 5% | 27,172 |
| Depreciation in KWD | -5% | -29,300 | -5% | -27,172 |

# Ⅷ. Financial instruments and risk management (Continued)

## 2. Capital management

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

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

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

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

| Items | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Short-term borrowings | 16,717,778 | 17,510,830 |
| Long-term payables due within 1 year | 153,259 | 28,844 |
| Long-term borrowings | 503,788 | 455,826 |
| Long-term payables | 913,606 | 53,037 |
| Less: cash and cash equivalents | 2,212,205 | 2,523,356 |
| Net debt | 16,076,226 | 15,525,181 |
| Shareholder's equity | 6,149,446 | -2,104,000 |
| Total equity | 22,225,672 | 13,421,181 |
| Debt to equity ratio | 72.33 | 115.68 |

# Ⅸ. Fair value

Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement.

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

As at 30 June 2017 and 31 December 2017, financial assets and liabilities of the Group measured at amortized cost mainly represent: cash and cash equivalents, accounts receivable, short-term borrowings, long-term borrowings and accounts payable.

The carrying amounts of these financial assets and liabilities are not materially different from those measured at fair value except the following items.

| | As at 30 June 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Fixed rate receivables | 157,329 | 157,329 | 233,061 | 261,618 |

# X. Related parties and transaction

## 1. Particulars of parent company

| Name Of parent company | Place of registration | Nature of business | Registered capital | Percentage of the Company shareholding held by parent company % | Percentage of the Company voting power held by parent company % |
|---|---|---|---|---|---|
| **China Petrochemical Corporation** | 22 Chaoyangmen North Street, Chaoyang District Beijing | Exploring for, extracting and selling crude oil and natural gas; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information. | 274.866 billion | 56.51 | 70.18 |

The Company's ultimate controlling party is Sinopec Group.

Changes of registered capital of parent company during the reporting period

| As at 1 January 2018 | Increase in the year | Decrease in the year | As at 30 June 2018 |
|---|---|---|---|
| **274.87 billion** | — | — | 274.87 billion |

## 2. Subsidiaries

Details of subsidiaries refer to Note VII.1.

## 3. Joint ventures and associates of the Group

Details of principal joint ventures and associates refer to Note VII.2

Other joint ventures and associates which have related party transactions for the current period or balances brought forward from the prior period arising with the Group are as follows:

| Names of joint ventures or associates | Relationship with the Group |
|---|---|
| **Sinopec Bayshore Petroleum Service Co., LTD** | Joint venture |
| **Qianjiang Hengyun Motor Vehicle Performance Testing Corporation** | Joint venture |
| **Huabei Ruida Oil Service Company Limited** | Associate |
| **Xinjiang North China Tianxiang Oil Service Company Limited** | Associate |
| **Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd** | Associate |
| **Henan Zhongyuan Oil & Gas Engineering Technology Service Co., Ltd** | Associate |
| **Oil & Gas Engineering Technology Service Co., Ltd** | Associate |

# X. Related parties and transaction (Continued)

## 4. Other related parties of the Group

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

## 5. Transactions with related parties

### (1) Details of related purchase and sales

① Purchase of goods and Receiving of services

| Related party | Type of the transaction | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|
| Sinopec Group and its subsidiaries | Purchases of materials and equipments | 2,029,979 | 1,645,866 |

② Sales of goods and provision of services

| Related party | Type of the transaction | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|
| Sinopec Group and its subsidiaries | Sales of goods | 7,798 | 46,143 |
| Joint ventures and associates of the Group | Sales of goods | 43 | — |

# X. Related parties and transaction (Continued)

## 5. Transactions with related parties (Continued)

### (2) Details of related rendering of engineering services

① Rendering of engineering services:

| Related party | Type of the transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Sinopec Group and its subsidiaries** | Total | | **13,265,680** | 10,665,334 |
| | Geophysical exploration | Based on normal commercial terms or relevant agreements | **1,740,060** | 1,310,483 |
| | Drilling | Based on normal commercial terms or relevant agreements | **6,698,178** | 6,067,061 |
| | Logging and mud-logging | Based on normal commercial terms or relevant agreements | **491,430** | 466,602 |
| | Special down-hole service | Based on normal commercial terms or relevant agreements | **1,276,368** | 912,591 |
| | Engineering & construction | Based on normal commercial terms or relevant agreements | **2,916,702** | 1,822,245 |
| | Other services | Based on normal commercial terms or relevant agreements | **142,942** | 86,352 |

② Receiving of services

| Related party | Type of the transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Joint ventures and associates** | Services | Based on normal commercial terms or relevant agreements | **391,869** | 340,557 |

### (3) Details of related comprehensive services

| Related party | Type of the transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Sinopec Group and its subsidiaries** | Purchase of other comprehensive resident services | Based on normal commercial terms or relevant agreements | **464,445** | 779,812 |
| | Purchase of other comprehensive resident services | Based on normal commercial terms or relevant agreements | **—** | 68,119 |

### (4) Technology research and development service

| Related party | Type of the transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Sinopec Group and its subsidiaries** | Research and development service | Based on normal commercial terms or relevant agreements | **83,000** | — |

### (5) Details of related party leases

① The Group as a lessee

| Name of lessor | Type of leasing assets | Pricing policy and procedure for decision-making | Leasing expense for the current period | Leasing expense for the previous period |
|---|---|---|---|---|
| **Sinopec Group and its subsidiaries** | Land and buildings | Based on normal commercial terms or relevant agreements | **12,907** | 26,763 |

② Sale-leaseback financing lease of related party

The company signed a “Financial Lease Contract (Rent-Back)” with Taiping Petrochemical Financial Lease Co. Ltd., which stipulates that the company will lease drilling equipment, underground operations equipment and other equipment as leased property I for a financial lease of 1 billion yuan - after-sales lease business with Taiping Petrochemical Financial Lease Co., Ltd., which would last for 8 years and take a fixed interest rate of 4% as the rental rate. The rental interest is about RMB 174,159,722.23.

# X. Related parties and transaction (Continued)

## 5. Transactions with related parties (Continued)

### (6) Related party guarantees

③ the Group as a guarantee

Nothing

② the Group as a guarantor

| Guarantee | Type of guarantee | Amount of guarantee | Beginning date | Maturity date | Status of Guarantee |
|---|---|---|---|---|---|
| **Sinopec International Petroleum Service Corporation** | Performance guarantee | USD 588,000 thousand | May 2015 | December 2020 | Incomplete |
| **Sinopec International Petroleum Service Corporation** | Performance guarantee | USD 61,830 thousand | February 2016 | August 2019 | Incomplete |
| **Sinopec International Petroleum Service Corporation** | Performance guarantee | THB314,290 thousand; USD 123,929 thousand | April 2017 | October 2020 | Incomplete |

### (7) Related financial services

| Related party | Content of related transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Subsidiaries of Sinopec Group** | Deposit interest income | Based on normal commercial terms or relevant agreements | 702 | 245 |
| | Loan interest expense | Based on normal commercial terms or relevant agreements | 275,566 | 277,066 |
| | Entrusted loans interest income | Based on normal commercial terms or relevant agreements | — | 67 |
| | Obtaining the borrowings | Based on normal commercial terms or relevant agreements | 16,559,753 | 28,945,143 |
| | Payment of the loan | Based on normal commercial terms or relevant agreements | 17,343,880 | 26,837,186 |
| **Joint ventures and associates** | Interest expense | Based on normal commercial terms or relevant agreements | 6,071 | — |

### (8) Security funds

| Related party | Content of related transaction | Pricing policy and procedure for decision-making | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|---|---|
| **Sinopec Group** | Security fund expenditure | Relevant agreement | 41,550 | 1,100 |
| | Return on security fund | Relevant agreement | 24,489 | — |

### (9) Remuneration of key management personnel

| Item | **For the 6 months ended 30 June 2018** | For the 6 months ended 30 June 2017 |
|---|---|---|
| **Remuneration** | **4,557** | 4,373 |
| **Retirement scheme contribution** | **260** | 370 |
| **Share options** | **—** | 308 |
| **Total** | **4,817** | 5,051 |

# X. Related parties and transaction (Continued)

## 6. Receivables from and payables to related parties

### (1) Amount receivables of related parties

| | | As at 30 June 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|---|
| **Item** | Related party | **Balance** | **Provision for bad debt** | Balance | Provision for bad debt |
| **Bank deposit** | Sinopec Finance Co., LTD | **50,269** | **—** | 152,155 | — |
| | Sinopec Century Bright Capital Investment Limited | **928,492** | **—** | 898,594 | — |
| | CITIC Bank | **1** | **—** | — | — |
| **Accounts receivable** | Sinopec Group and its subsidiaries | **6,375,030** | **—** | 9,082,346 | — |
| | Joint ventures of the Group | **2,584** | **—** | 14 | — |
| | Joint ventures and associates of Sinopec Group | **95,917** | **—** | 122,450 | — |
| **Prepayments** | Sinopec Group and its subsidiaries | **17,292** | **—** | 30,088 | — |
| | Joint ventures and associates of the Group | **216** | **—** | 72 | — |
| | Joint ventures and associates of Sinopec Group | **—** | **—** | 3 | — |
| **Other receivables** | Sinopec Group and its subsidiaries | **280,949** | **—** | 337,509 | — |
| | Joint ventures of the Group | **234** | **—** | 309 | — |
| | Joint ventures and associates of Sinopec Group | **1,001** | **—** | 1,457 | — |

### (2) Payables to related parties

| **Item** | **Related party** | **As at 30 June 2018** | **As at 31 December 2017** |
|---|---|---|---|
| **Accounts payable** | Sinopec Group and its subsidiaries | **1,766,090** | 1,150,292 |
| | Joint ventures and associates of the Group | **9,904** | 49,643 |
| | Joint ventures and associates of Sinopec Group | **55,120** | 47,623 |
| **Prepayments** | Sinopec Group and its subsidiaries | **449,991** | 6,244,831 |
| | Joint ventures and associates of the Group | **4,581** | 7,024 |
| **Other payables** | Sinopec Group and its subsidiaries | **71,899** | 3,767,038 |
| **Short-term borrowings** | Sinopec Finance Co., LTD | **10,400,000** | 6,995,000 |
| | Sinopec Century Bright Capital Investment Limited | **3,817,778** | 8,015,830 |
| | Sinopec Group and its subsidiaries | **2,500,000** | 2,500,000 |
| **Interest payable** | Sinopec Group and its subsidiaries | **29,756** | 10,927 |
| **Long-term loan** | Sinopec Finance Co., LTD | **—** | — |
| | Sinopec Century Bright Capital Investment Limited | **503,788** | 455,826 |

# XI. Payment of share option

## 1. General information of payment of share options

On 1 November 2016, the Proposal regarding the Adjustment of the List of Participants and the Number of the Share Option under the Proposed Grant of the Share Option Incentive Scheme and the Proposal regarding the Proposed Grant under the Share Option Incentive Scheme were reviewed and adopted at the 14th meeting of the Eighth Session of the board of directors of Sinopec Oilfield Service Corporation.

The Company granted 49,050,000 A share options (0.3469% of the total share capital of the company) to 477 employees on the grant date, 1 November 2016. The Exercise Price of the Proposed Grant shall be RMB5.63 per share. The Company may only grant options under the Scheme to the Participants provided that both the Company and the Participants have fulfilled the following conditions:

The Company's compound growth rate for 2017, 2018, 2019 shall not be less than 6% (on the base of the Company's total profit for 2015)

Ⅱ.The Company's EOE for 2017, 2018, 2019 shall not be less than 32%;

The performance conditions of item Ⅰ and Ⅱ are no less than the average performance level of the target enterprise.

Ⅲ. The Economic Value Added for 2017, 2018, 2019 reaches the performance objective set by China Petrochemical Corporation, and ΔEVA shall be more than 0.

As at 30 June 2018, the exercise date and exercise price of the share options are as follows, the share options will expire in 12 months after the exercise date:

| Exercise date | Exercise price (RMB per share) | Number of share options |
|---|---|---|
| 1 November 2019 | 5.63 | 14,715,000.00 |
| 1 November 2020 | 5.63 | 19,620,000.00 |

## 2. Changes of share options for 2018

| | For the 6 months ended 30 June 2018 |
|---|---|
| Number of share options at 1 January 2018 | 34,335,000 |
| Number of share options granted in the period | — |
| Number of share options exercised in the period | — |
| Number of share options lapsed in the period | — |
| Number of share options in the end of balance sheet date | 34,335,000 |

## 3. Calculation of the fair value of the share options on the Grant Date

The Company has elected the Black-Scholes option pricing model to calculate the fair value of the share option. On the Grant Date of the Share Options, the principle figures are as follows:

| | For the 6 months ended 30 June 2018 |
|---|---|
| Exercise price for the Proposed Grant(RMB: yuan) | 5.63 |
| Validity period of the share options(year) | 3-5 |
| Closing price of A share(RMB: yuan) | 3.96 |
| Expected volatility | 46.17% |
| Expected dividend yield ratio | 0 |
| Risk-free rate of interest during the validity period | 2.3407%-2.4518% |

The fair value of share options calculated with the figures above is RMB 41,440,700.

# XII. Commitments and contingencies

## 1. Principle commitments

### (1) Capital commitments

| Capital commitments contracted for but not yet necessary to be recognized on the balance sheet | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Land and buildings, plant & machineries | 73,121 | 130,116 |

### (2) Operating lease commitments

On the balance sheet date, the future minimum lease payment under the sighed irrevocable operating leases contracts are summarized as follows:

| Minimum lease payment under irrevocable operating lease contracts | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Within one year | 158,849 | 291,189 |
| Between one and two years | 20,447 | 32,746 |
| Between three and four years | 12,323 | 11,775 |
| After four years | 19,008 | 21,130 |
| Total | 210,627 | 356,840 |

### (3) Other commitments

As at 30 June 2018, there are no other commitments to be disclosed by the Group.

## 2. Contingency

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

China National Chemical Engineering No. 11 Construction Co., Ltd. (the"Applicant") entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay RMB456,810,240 for the project fee and the accrued interest, RMB145,968,410.5 for the loss due to stoppage of work and the accrued interest, RMB38,018,100 for the advance payment under the letter of guarantee and the accrued interest, and RMB 500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the "Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhongjing Zi No. 048223)".

As the hearing of the case has not yet proceeded, it is currently impossible to determine its impact on the current or future profits of the Company, the Group did not provide the provision of such incident.

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

As at 30 June 2018, there is no contingent liability from guarantee provided for other entities.

As at 30 June 2018, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD773,759 thousand and THB314,290 thousand guarantee to its subsidiaries (31 December 2017: USD773,759 thousand and THB314,290 thousand).

### (3) Overseas tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL80,459,100 (equivalent to USD24,289,800), including tax of BRL36,467,100, interest of BRL13,929,800 and tax penalties of BRL30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. Since the tax penalties are not predictable, SOSC Group did not provide the provision of such incident.

### (4) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No. 644) issued by the State Administrative of Taxation in June 2007, the Company has been informed the relevant tax authority to settle the corporation income tax ("CIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional CIT in respect of any years prior to 2007. There is no further development of this matter until 30 June 2018. No provision has been made in the financial statements for this uncertainty for tax year prior to 2007 for the reason that management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

# XIII. Post balance sheet date events

As at 28 August 2018, there are no other events after balance sheet date to be disclosed in the Group.

# XIV. Other significant events

## 1. Correction of errors

There is no correction of errors during the reporting period.

## 2. Significant debt restructuring

There is no significant debt restructuring during the reporting period.

## 3. The main contents and major changes of pension plan

The main contents of pension plan refer to Note.III. 23(3).

## 4. Discontinued operation

There is no discontinued operation during the reporting period.

## 5. Segment information

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

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

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

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

# XIV. Other significant events (Continued)

## 5. Segment information (Continued)

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

| For the 6 months ended 30 June 2018 and as at 30 June 2018 | Geophysics | Drilling engineering | logging and mud logging | Special down-hole operations | Engineering construction | Others | Elimination | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue | 2,552,187 | 12,472,630 | 886,049 | 2,164,526 | 5,291,985 | 1,766,299 | -1,480,674 | 23,653,002 |
| Including:External revenue | 2,552,187 | 12,390,817 | 695,110 | 2,043,193 | 5,291,485 | 680,210 | — | 23,653,002 |
| Including: Inter-segment revenue | — | 81,813 | 190,939 | 121,333 | 500 | 1,086,089 | -1,480,674 | — |
| Including: Major business revenue | 2,552,178 | 12,441,938 | 881,543 | 2,162,261 | 5,255,004 | 1,513,157 | -1,480,674 | 23,325,407 |
| Cost of sales | 2,280,948 | 11,589,313 | 808,960 | 2,066,952 | 4,936,370 | 2,056,179 | -1,480,674 | 22,258,048 |
| Including:Major business cost | 2,409,469 | 11,738,557 | 863,930 | 2,066,893 | 4,842,171 | 1,518,396 | -1,480,674 | 21,958,742 |
| Operating expenses | 116,881 | 929,298 | 18,831 | 32,153 | 435,533 | 94,235 | — | 1,626,931 |
| Operating profit/(loss) | 154,358 | -45,981 | 58,258 | 65,421 | -79,918 | -384,115 | — | -231,977 |
| Total assets | 4,976,271 | 33,754,212 | 1,770,638 | 6,224,963 | 4,891,296 | 33,939,147 | -25,402,645 | 60,153,882 |
| Total liabilities | 3,914,171 | 28,603,870 | 1,382,494 | 3,696,553 | 13,147,183 | 28,662,810 | -25,402,645 | 54,004,436 |
| Supplementary information: | | | | | | | | |
| Capital expenditure | 9,530 | 14,635 | 280 | 24,499 | 8,864 | 4,105 | | 61,913 |
| Depreciation and amortization | 233,765 | 1,414,342 | 100,281 | 248,774 | 104,838 | 131,408 | — | 2,233,408 |
| Impairment loss on assets | -5,113 | -6,726 | -3,518 | -1,589 | -110,703 | 5,769 | — | -121,880 |

| For the 6 months ended 30 June 2017 and as at 30 June 2017 | Geophysics | Drilling engineering | logging and mud logging | Special down-hole operations | Engineering construction | Others | Elimination | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,954,706 | 11,773,564 | 822,556 | 1,545,881 | 3,462,914 | 726,603 | -443,906 | 19,842,318 |
| Including:External revenue | 1,952,617 | 11,681,646 | 655,510 | 1,533,586 | 3,443,066 | 575,893 | | 19,842,318 |
| Including: Inter-segment revenue | 2,089 | 91,918 | 167,046 | 12,295 | 19,848 | 150,710 | -443,906 | |
| Including: Major business revenue | 1,950,529 | 11,700,999 | 821,798 | 1,541,613 | 3,418,670 | 638,990 | -443,906 | 19,628,693 |
| Cost of sales | 1,859,088 | 11,871,694 | 836,297 | 1,699,299 | 3,263,657 | 782,235 | -443,906 | 19,868,364 |
| Including:Major business cost | 1,858,561 | 11,852,801 | 835,862 | 1,698,440 | 3,199,551 | 683,581 | -443,906 | 19,684,890 |
| Operating expenses | 191,419 | 1,042,263 | 127,427 | 300,685 | 510,174 | 38,186 | | 2,210,154 |
| Operating profit/(loss) | -95,801 | -1,140,393 | -141,168 | -454,103 | -310,917 | -93,818 | | -2,236,200 |
| Total assets | 5,318,569 | 34,807,136 | 2,007,167 | 6,394,501 | 6,928,328 | 22,703,276 | -16,216,348 | 61,942,629 |
| Total liabilities | 4,602,485 | 29,309,833 | 1,568,472 | 3,830,778 | 15,557,750 | 25,393,659 | -16,216,348 | 64,046,629 |
| Supplementary information: | | | | | | | | |
| Capital expenditure | 20,496 | 61,837 | 5,562 | 7,453 | 957 | 8,569 | — | 104,874 |
| Depreciation and amortization | 258,780 | 1,725,719 | 122,050 | 281,435 | 119,997 | 75,901 | — | 2,583,882 |
| Impairment loss on assets | -1,714 | 26,594 | -3,855 | 118,631 | 149,330 | -4,793 | — | 284,193 |

# XIV. Other significant events (Continued)

## 5. Segment information (Continued)

### (2) Other segment information

① External revenue of goods and services

| Item | For the 6 months ended 30 June 2018 | For the 6 months ended 30 June 2017 |
|---|---|---|
| Geophysics | 2,552,187 | 1,952,617 |
| Drilling engineering | 12,390,817 | 11,681,646 |
| Logging and mud logging | 695,110 | 655,510 |
| Special down-hole operations | 2,043,193 | 1,533,586 |
| Engineering construction | 5,291,485 | 3,443,066 |
| Others | 680,210 | 575,893 |
| Total | 23,653,002 | 19,842,318 |

② Geographical information

| For the 6 months ended 30 June 2018 and as at 30 June 2018 | PRC | Other countries or regions | Total |
|---|---|---|---|
| External revenue | 17,499,389 | 6,153,613 | 23,653,002 |
| Non-current assets | 24,220,518 | 3,804,948 | 28,025,466 |

Continued:

| For the 6 months ended 30 June 2017 and as at 30 June 2017 | PRC | Other countries or regions | Total |
|---|---|---|---|
| External revenue | 13,629,171 | 6,213,147 | 19,842,318 |
| Non-current assets | 25,096,608 | 5,023,666 | 30,120,274 |

③ The dependence of principle customers

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

# XIV. Other significant events (Continued)

## 6. Government grants

| Category | As at 31 December 2017 | Increase in the year | Decrease in the year | As at 30 June 2018 | Presentation | Amount recognized in current profit or loss |
|---|---|---|---|---|---|---|
| Government grant related to income | 3,923 | — | 399 | 3,524 | Other income | 399 |
| Government grant related to assets | 132,389 | 501,847 | 515,450 | 118,786 | Other income | 515,450 |
| Total | 136,312 | 501,847 | 515,847 | 122,310 | | 515,849 |

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

| Government grants projects | category | As at 31 December 2017 | Increase in current year | Amount recognized in current profit or loss | As at 30 June 2018 | Presentation item in current income statements | Related to assets/income |
|---|---|---|---|---|---|---|---|
| Subsidy funds for resettlement | financial appropriation | — | 352,014 | 352,014 | — | Other income | Related to income |
| Special funds for national scientific research | financial appropriation | 132,389 | 4,288 | 17,891 | 118,786 | Other income | Related to income |
| Subsidies for yellow label cars | financial appropriation | — | 812 | 812 | — | Other income | Related to income |
| Stabilization allowance | financial appropriation | — | 6,563 | 6,563 | — | Other income | Related to income |
| Consumption tax refund | financial appropriation | — | 131,330 | 131,330 | — | Other income | Related to income |
| Vehicle purchase tax refund | financial appropriation | — | 276 | 276 | — | Other income | Related to income |
| House removal compensation | relocation compensation | — | 4,680 | 4,680 | — | Other income | Related to income |
| Government incentives | financial appropriation | — | 1,884 | 1,884 | — | Other income | Related to assets |
| Special funds for national scientific research | financial appropriation | 3,923 | — | 399 | 3,524 | Other income | Related to assets |
| Total | | 136,312 | 501,847 | 515,849 | 122,310 | | |

Notes:

(1) In accordance to “Notification of refund of consumption tax for own-used refined oil during oil or gas field production” (Cai Shui [2011] No.7) issued by MOF and State Taxation Administration, from 1 January 2009, the oil or gas field enterprises will be refunded the consumption tax after the actual payment of temporary consumption tax paid for the purchases of refined oil used in the exploitation of crude oil. In 2017, the company received refund of consumption tax (RMB131,330 thousand) from MOF, which was recognized as other income.

In accordance to “Notification of subsidy funds of disposing zombie companies approved by central state-owned capital operating budget in 2016” (Cai Zi [2016] No.100) issued by MOF,, the company received subsidy fund (RMB352,014 thousand) which was recognized as other income in 2018.

The Group undertook national scientific research projects, and received special funds from the Ministry of Finance for scientific research, which was carried forward profits and losses with the progress of research and development. RMB18,290 thousand was recognized as other income in 2018.

(2) The government subsidy of RMB515,849 thousand which was recognized in current profit and loss was counted in other income.

# XV. Notes to parent company's financial statements

## 1. Other receivables

| Item | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Other receivables | 4,344,306 | 5,313,186 |
| Less: provision for bad debts | — | — |
| Net amount | 4,344,306 | 5,313,186 |

### (1) Other receivables

① Other receivables disclosed by categories

| Category | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| Within 1 year | 172,734 | 149,222 |
| 1-2 years | 176,390 | 438,095 |
| 2-3 years | 2,292,708 | 4,725,869 |
| Over 3 years | 1,702,474 | — |
| Original Value | 4,344,306 | 5,313,186 |
| Less: provision for bad debts | — | — |
| Net amount | 4,344,306 | 5,313,186 |

## 2. Long-term equity investment

| Item | As at 30 June 2018 | | | As at 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Ending balance | Provision for diminution in value | Carrying amount | Ending balance | Provision for diminution in value | Carrying amount |
| Investments in subsidiaries | 27,891,662 | — | 27,891,662 | 20,215,327 | — | 20,215,327 |

### (1) Investment in subsidiary

| Investee | Opening balance | Increase during the period | Decrease during the period | Ending balance | Provision for impairment during the period | Ending balance of provision for impairment |
|---|---|---|---|---|---|---|
| | | | | | | |
| Sinopec oilfield service corporation | 20,215,327 | 7,676,335 | — | 27,891,662 | — | — |
| Total | 20,215,327 | 7,676,335 | — | 27,891,662 | — | — |

# XVI. Supplementary information

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

| Item | For the six months ended 30 June 2018 | Notes |
|---|---|---|
| Gain or loss on disposal of non-current assets | 895 | |
| Government grants recognized in profit or loss for the year/period | 384,519 | |
| Gain or loss on debt restructuring | 147,330 | |
| Non-operating income/(expenses) except the above | -1,941 | |
| Total non-recurring gains or losses | 530,803 | |
| Less: Effects of income tax on non-recurring gains or losses | 130,317 | |
| Net non-recurring gains or losses | 400,486 | |
| Less: Effects of non-recurring gains or losses attributable to the minority shareholders of the Company (after tax) | | |
| Non-recurring gains or losses attributable to the shareholders of the Company | 400,486 | |

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

| Profit of reporting period | Weighted average return on net assets% | Earnings/(loss) per share | |
|---|---|---|---|
| | | Basic earnings/ (loss) (Yuan/share) | Diluted earnings/ (loss)(Yuan/share) |
| Net profit attributable to the Company's ordinary equity shareholders | 8.99 | 0.0221 | 0.0221 |
| Net loss attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss | 0.01 | 0.0000 | 0.0000 |

## 3. Differences between local and overseas accounting standards

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

| Item | Net profit attributed to parent company | | Net assets attributed to parent company | |
|---|---|---|---|---|
| | For the six months ended 30 June 2018 | For the year ended 31 December 2017 | As at 30 June 2018 | As at 31 December 2017 |
| Based on CASBE | 400,949 | -2,285,324 | 6,149,446 | -2,102,628 |
| Adjusted items and amounts in accordance with IFRS: | | | | |
| Government grants | — | — | — | — |
| Special reserve | 214,782 | 153,176 | — | — |
| Based on IFRS | 615,731 | -2,132,148 | 6,149,446 | -2,102,628 |

### (2) Note:

(a) Special reserve

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

Sinopec Oilfield Service Corporation

28 August 2018

Grant Thornton
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# Independent Review Report

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

### INTRODUCTION

We have reviewed the interim financial information of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 119 to 150, which comprises the condensed consolidated statement of financial position as at 30 June 2018, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

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

### SCOPE OF REVIEW

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

### CONCLUSION

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

**Grant Thornton Hong Kong Limited**
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

28 August 2018

Shaw Chi Kit
Practising Certificate No.: P04834

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | Notes | For the six months ended 30 June 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
|---|---|---|---|
| Revenue | 4 | 23,653,002 | 19,842,318 |
| Cost of sales and taxes | | (22,160,834) | (19,886,735) |
| Gross profit/(loss) | | 1,492,168 | (44,417) |
| Selling expenses | | (23,531) | (21,370) |
| General and administrative expenses | | (1,322,208) | (1,485,061) |
| Finance expenses - net | 6 | (163,624) | (247,916) |
| Reversal of provision/(Provision) for impairment on assets | 7 | 121,880 | (284,193) |
| Share of loss from joint ventures | | (2,969) | (12,945) |
| Operating profit/(loss) | | 101,716 | (2,095,902) |
| Other income | 8 | 685,275 | 222,042 |
| Other expenses | 9 | (23,143) | (58,950) |
| Profit/(Loss) before income tax | 10 | 763,848 | (1,932,810) |
| Income tax expense | 11 | (148,117) | (199,370) |
| Profit/(Loss) for the period | | 615,731 | (2,132,180) |
| Other comprehensive income for the period, net of tax | | — | — |
| Profit/(Loss) and total comprehensive income/(expense) for the period | | 615,731 | (2,132,180) |
| Profit/(Loss) and total comprehensive income/(expense) for the period attributable to: | | | |
| Owners of the Company | | 615,731 | (2,132,148) |
| Non-controlling interests | | — | (32) |
| Profit/(Loss) and total comprehensive income/(expense) for the period | | 615,731 | (2,132,180) |
| Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company (presented in RMB per share) | 12 | | |
| Basic and diluted | | 0.034 | (0.151) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | Notes | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|---|
| | | RMB'000 (Unaudited) | RMB'000 (Audited) |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 24,345,808 | 25,820,147 |
| Other non-current assets | | 2,866,798 | 3,065,771 |
| Long-term receivables | | — | 233,061 |
| Prepaid land leases | 16 | 116,960 | 118,540 |
| Intangible assets | | 132,848 | 162,994 |
| Interests in joint ventures | | 191,496 | 194,465 |
| Interests in associates | | 12,581 | 12,581 |
| Financial assets at fair value through other comprehensive income | | 24,389 | — |
| Available-for-sale financial assets | | — | 24,389 |
| Deferred income tax assets | | 472,184 | 472,184 |
| **Total non-current assets** | | 28,163,064 | 30,104,132 |
| **Current assets** | | | |
| Inventories | 20 | 1,250,578 | 1,193,039 |
| Notes and trade receivables | 17 | 14,722,033 | 18,171,083 |
| Prepayment and other receivables | 18 | 4,227,021 | 3,326,446 |
| Amounts due from customers for contract works | 19 | — | 6,610,035 |
| Contract assets | 19 | 9,567,447 | — |
| Restricted cash | | 11,534 | 14,538 |
| Cash and cash equivalents | | 2,212,205 | 2,523,356 |
| **Total current assets** | | 31,990,818 | 31,838,497 |
| **Total assets** | | 60,153,882 | 61,942,629 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2018

| | Notes | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|---|
| | | RMB'000 (Unaudited) | RMB'000 (Audited) |
| **Equity** | | | |
| Share capital | 21 | 18,984,340 | 14,142,661 |
| Reserves | | (12,834,894) | (16,245,289) |
| Equity attributable to owners of the Company | | 6,149,446 | (2,102,628) |
| Non-controlling interests | | — | (1,372) |
| **Total equity** | | 6,149,446 | (2,104,000) |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Long term borrowings | 25 | 1,417,394 | 508,863 |
| Deferred income | | 122,310 | 136,312 |
| Deferred income tax liabilities | | 22,883 | 23,879 |
| **Total non-current liabilities** | | 1,562,587 | 669,054 |
| **Current liabilities** | | | |
| Notes and trade payables | 23 | 25,315,123 | 29,487,875 |
| Receipt in advance and other payables | 24 | 3,633,711 | 9,380,867 |
| Amounts due to customers for contract works | 19 | — | 6,765,375 |
| Contract liabilities | 19 | 6,466,922 | — |
| Short term borrowings | 25 | 16,871,037 | 17,539,674 |
| Current income tax payable | | 155,056 | 203,784 |
| **Total current liabilities** | | 52,441,849 | 63,377,575 |
| **Total liabilities** | | 54,004,436 | 64,046,629 |
| **Total equity and liabilities** | | 60,153,882 | 61,942,629 |
| **Net current liabilities** | | (20,451,031) | (31,539,078) |
| **Total assets less current liabilities** | | 7,712,033 | (1,434,946) |

*Vice Chairman and General Manager:*
SUN Qingde

*Director and Vice General Manager:*
CHEN Xikun

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other capital reserve | Surplus reserve | Specific reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | RMB'000 (Note 21) | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2018** | **14,142,661** | **8,826,247** | **81,621** | **200,383** | **202,477** | **(25,556,017)** | **(2,102,628)** | **(1,372)** | **(2,104,000)** |
| **Profit and total comprehensive income for the period** | **—** | **—** | **—** | **—** | **—** | **615,731** | **615,731** | **–** | **615,731** |
| **Transactions with owners:** | | | | | | | | | |
| **Issue of share capital (Note 21)** | **4,841,679** | **2,796,036** | **—** | **—** | **—** | **—** | **7,637,715** | **—** | **7,637,715** |
| **Appropriation of specific reserve** | **—** | **—** | **—** | **—** | **347,266** | **(347,266)** | **—** | **—** | **—** |
| **Utilisation of specific reserve** | **—** | **—** | **—** | **—** | **(132,484)** | **132,484** | **—** | **—** | **—** |
| **Other** | **—** | **(1,372)** | **—** | **—** | **—** | **—** | **(1,372)** | **1,372** | **—** |
| **Total transactions with owners** | **4,841,679** | **2,794,664** | **—** | **—** | **214,782** | **(214,782)** | **7,636,343** | **1,372** | **7,637,715** |
| **At 30 June 2018 (Unaudited)** | **18,984,340** | **11,620,911** | **81,621** | **200,383** | **417,259** | **(25,155,068)** | **6,149,446** | **—** | **6,149,446** |
| **At 1 January 2017** | 14,142,661 | 8,826,247 | 70,985 | 200,383 | 176,068 | (14,973,476) | 8,442,868 | (1,276) | 8,441,592 |
| **Loss and total comprehensive expense for the period** | — | — | — | — | — | (2,132,148) | (2,132,148) | (32) | (2,132,180) |
| **Transactions with owners:** | | | | | | | | | |
| **Equity settled share-based transaction (Note 22)** | — | — | 9,048 | — | — | — | 9,048 | — | 9,048 |
| **Appropriation of specific reserve** | — | — | — | — | 284,906 | (284,906) | — | — | — |
| **Utilisation of specific reserve** | — | — | — | — | (131,730) | 131,730 | — | — | — |
| **Total transactions with owners** | — | — | 9,048 | — | 153,176 | (153,176) | 9,048 | — | 9,048 |
| **At 30 June 2017 (Unaudited)** | 14,142,661 | 8,826,247 | 80,033 | 200,383 | 329,244 | (17,258,800) | 6,319,768 | (1,308) | 6,318,460 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| **Cash flows from operating activities** | | |
| Cash flows used in operations | (3,352,315) | (1,774,619) |
| Interest received | 35,114 | 8,460 |
| Income tax paid | (197,841) | (222,155) |
| **Net cash used in operating activities** | (3,515,042) | (1,988,314) |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (308,535) | (214,699) |
| Proceeds from disposal of property, plant and equipment | 16,272 | 5,722 |
| Proceeds from disposal of other non-current assets | 14,436 | — |
| Dividends received from joint venture | — | 300 |
| **Net cash used in investing activities** | (277,827) | (208,677) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 17,059,753 | 29,001,017 |
| Repayments of borrowings | (17,361,845) | (26,839,058) |
| Interests paid | (302,487) | (367,393) |
| Proceeds from issuance of new shares | 7,637,715 | — |
| Payment for Sinopec Group capital restructuring funds | (2,600,000) | — |
| Payment for profit arising during major assets restructuring | (1,118,902) | — |
| **Net cash generated from financing activities** | 3,314,234 | 1,794,566 |
| **Net decrease in cash and cash equivalents** | (478,635) | (402,425) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 167,484 | (29,983) |
| Cash and cash equivalents at the beginning of the period | 2,523,356 | 2,446,923 |
| **Cash and cash equivalents at the end of the period** | 2,212,205 | 2,014,515 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

## 1 General information and the Reorganisation

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

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the 'Sinopec Group'') which is a state wholly-owned enterprise established in the PRC.

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

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

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 28 August 2018.

## 2 BASIS OF PRESENTAION AND PREPARATION

### 2.1 Basis of presentation

As at 30 June 2018, the Group had net current liabilities of approximately RMB20,451,031,000 (31 December 2017: RMB31,539,078,000) and capital commitments of approximately RMB 73,121,000. 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 June 2018, the Company obtained a line of credit of RMB15 billion and USD0.9 billion (Total: approximately RMB21 billion) from the Sinopec Group's subsidiaries respectively, and line of credit promissory note of RMB 4 billion from Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements, and considered that going concern basis is appropriate for the preparation of this interim financial information.

### 2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information have been prepared under the historical cost convention, whereas the financial instruments are carried at fair value.

Certain comparative figures have been reclassified to conform to current period's presentation.

# 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the interim financial information are the same as those in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

## Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's interim financial information:

| | |
|---|---|
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| Amendments to IFRS 15 | Classifications to IFRS 15 Revenue from Contracts with Customers |
| Amendments to IAS 40 | Transfers of Investment Property |
| IFRIC – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle |

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on the Group's results and financial position.

## 3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of goods
- Rendering of drilling engineering, geophysics, engineering construction, special downhole operations and logging and mud logging

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has selected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

### 3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

# 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

## 3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

### 3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

***Contracts with multiple performance obligations (including allocation of transaction price)***

For contracts that contain more than one performance obligation in the sales of parts and components, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled exchange for transferring the promised goods to the customer.

***Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation***

The progress towards complete satisfaction of a performance obligation in the rendering of drilling engineering, geophysics, engineering construction, special downhole operation and logging and mug logging is measured based on the percentage of completion to recognise revenue according to input or output method.

***Principal versus agent***

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

# 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

## 3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

### 3.1.2 Summary of effects arising from initial application of IFRS 15

The adoption of IFRS 15 does not have a significant impact to the Group's results and financial position for the current or prior periods except the presentation of contract assets and contract liabilities. To follow the terminology used under IFRS 15, the Group has made the following adjustments at 1 January 2018:

(1) "Amounts due from/to customers for contract works" has been reclassified as "Contract assets/liabilities"; and

(2) "Receipt in advance from customers" in relation to deposits or payment received in advance for services not yet delivered to customers, which was previously included in "Receipt in advance-advance for construction and service", and "Amounts due to customers for contract works" have been reclassified as "Contract liabilities".

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2017 | Reclassification | Carrying amounts under IFRS 15 at 1 January 2018 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Current assets** | | | |
| Amount due from customers for contract works | 6,610,035 | (6,610,035) | — |
| Contract assets | — | 6,610,035 | 6,610,035 |
| | 6,610,035 | — | 6,610,035 |
| **Current liabilities** | | | |
| Receipt in advance and other payables | 9,380,867 | (1,773,584) | 7,607,283 |
| Amount due to customers for contract works | 6,765,375 | (6,765,375) | — |
| Contract liabilities | — | 8,538,959 | 8,538,959 |
| | 16,146,242 | — | 16,146,242 |

## 3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial instruments. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets), and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) with the cumulative effect of initial application recognised at the date of initial application and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

# 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

## 3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

### 3.2.1 Key changes in accounting policies resulting from application of IFRS 9

***Classification and measurement of financial assets***

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

***Financial assets designated as at fair value through other comprehensive income***

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI").

Investments in equity instruments at FVTOCI are initial measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income; and are not subject to impairment assessment. The cumulative gain or loss accumulated in fair value through other comprehensive income reserve will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

***Impairment under expected credit losses model***

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets which are subject to impairment under IFRS 9 (including notes and trade receivables) and contract assets. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECLs represents the ECLs that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECLs represents the portion of lifetime ECLs that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECLs for notes and trade receivables and contract assets. The ECLs on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises ECLs. The assessment of whether lifetime ECLs should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*(1) Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indication of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

# 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

## 3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

### 3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

***(2) Measurement and recognition of expected credit losses***

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECLs is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss by adjusting their carrying amount, which the exception of notes and trade receivables, contract assets where the corresponding adjustment is recognised through a loss allowance account.

At 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

As at 30 June 2018, the Group has applied simplified approach and recorded lifetime ECLs on notes and trade receivables and contract assets, and general approach and 12-month ECLs on amounts due from related company and other receivables. The Group determined that there are no significant financial impact arising from these changes.

### 3.2.2 Summary of effects arising from initial application of IFRS 9

***From available-for-sale financial assets to financial assets at FVTOCI***

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale financial assets at cost less impairment. The investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB24,389,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amount as at 31 December 2017 under IAS 39 | Reclassification | Carrying amount as at 1 January 2018 under IFRS9 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | |
| Financial assets at FVTOCI (note) | — | 24,389 | 24,389 |
| Available-for-sale financial assets | 24,389 | (24,389) | — |
| | 24,389 | — | 24,389 |

Note: The fair value of the unlisted equity securities is measured using valuation techniques with reference to the net asset value, which is categorised as level 3 of fair value hierarchy. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

Except as described above, the adoption of IFRS 9 does not have a significant impact to the Group's results and financial position for the current or prior periods.

# 4 REVENUE

The Group's revenue is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Geophysics | 2,552,187 | 1,952,617 |
| Drilling engineering | 12,390,817 | 11,681,646 |
| Logging and mud logging | 695,110 | 655,510 |
| Special downhole operations | 2,043,192 | 1,533,586 |
| Engineering construction | 5,291,485 | 3,443,066 |
| Others | 680,211 | 575,893 |
| | 23,653,002 | 19,842,318 |

| | For the six months ended 30 June 2018 |
|---|---|
| | RMB'000 (Unaudited) |
| Revenue recognition: | |
| At a point of time | 112,764 |
| Over time | 23,540,238 |
| | 23,653,002 |

### Remaining performance obligations

As at 30 June 2018, amount of remaining performance obligations is RMB51,682,000,000, which is expected to be completed in the coming 60 months.

# 5 SEGMENT INFORMATION

The Group identifies operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group's has identified five operating segments including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction. These operating segments are identified based on the regular internal financial information reported to the senior executive management. Senior executive management of the Company regularly reviews the segment information for their decision about the resources allocation and performance assessment.

Five reportable operating segments are as follows:

– Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;

– Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;

– Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;

– Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and

– Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects, oil and gas transporting process projects, storage and transportation projects, petrochemical supporting projects, building construction, water resources and hydropower, ports and waterways, electricity transmission and distribution projects, manufacturing of pressure vessels, LNG projects, coal chemical engineering, geothermal utilisation, energy saving and municipal roads and bridges.

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

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 contract assets, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred income tax assets.

# 5 SEGMENT INFORMATION (Continued)

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, certain contract liabilities and certain tax payable.

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

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

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

## (a) Segment results, assets and liabilities

For the six months ended 30 June 2018 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 |
| **For the six months ended 30 June 2018 (Unaudited)** | | | | | | | | |
| **Segment revenue and results** | | | | | | | | |
| Revenue from external customers | 2,552,187 | 12,390,817 | 695,110 | 2,043,193 | 5,291,485 | 680,210 | — | 23,653,002 |
| Inter-segment revenue | — | 81,813 | 190,939 | 121,333 | 500 | 1,086,089 | (1,480,674) | — |
| **Reportable segment revenue** | 2,552,187 | 12,472,630 | 886,049 | 2,164,526 | 5,291,985 | 1,766,299 | (1,480,674) | 23,653,002 |
| **Reportable segment profit/(loss)** | 166,769 | 117,244 | 70,568 | 88,322 | 40,752 | (381,939) | — | 101,716 |
| Other income | 17,220 | 118,188 | 5,154 | 14,935 | 475,512 | 54,266 | — | 685,275 |
| Other expenses | (1,672) | (10,365) | (805) | (1,454) | (4,383) | (4,464) | — | (23,143) |
| **Profit/(loss) before income tax** | 182,317 | 225,067 | 74,917 | 101,803 | 511,881 | (332,137) | — | 763,848 |
| Income tax expense | | | | | | | | (148,117) |
| **Profit for the period** | | | | | | | | 615,731 |
| **Supplementary information** | | | | | | | | |
| **Depreciation and amortisation** | | | | | | | | |
| – Property, plant and equipment | 209,323 | 818,751 | 84,407 | 196,708 | 96,406 | 109,157 | — | 1,514,752 |
| – Other non-current assets | 24,265 | 563,190 | 15,096 | 50,814 | 5,424 | 19,304 | — | 678,093 |
| – Prepaid land leases | — | 214 | 208 | 934 | 224 | — | — | 1,580 |
| – Intangible assets | 177 | 32,187 | 570 | 318 | 2,784 | 2,947 | — | 38,983 |
| **Capital expenditure** | | | | | | | | |
| – Property, plant and equipment | 9,530 | 14,635 | 280 | 24,499 | 8,864 | 4,105 | — | 61,913 |
| Provision/(Reversal of provision) for impairment on trade receivables | (3,889) | (10,830) | (3,753) | (1,751) | (131,400) | 4,180 | — | (147,443) |
| Provision/(Reversal of provision) for impairment on other receivables | (1,224) | 4,104 | 235 | 162 | 20,697 | 1,589 | — | 25,563 |
| **As at 30 June 2018 (Unaudited)** | | | | | | | | |
| **Assets** | | | | | | | | |
| Segment assets | 4,976,271 | 33,754,212 | 1,770,638 | 6,224,963 | 4,891,296 | 33,939,147 | (25,402,645) | 60,153,882 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 3,914,171 | 28,603,870 | 1,382,494 | 3,696,553 | 13,147,183 | 28,662,810 | (25,402,645) | 54,004,436 |

# 5 SEGMENT INFORMATION (Continued)

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

As at 31 December 2017 and for the six months ended 30 June 2017, 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 |
| For the six months ended 30 June 2017 (Unaudited) | | | | | | | | |
| Segment revenue and results | | | | | | | | |
| Revenue from external customers | 1,952,617 | 11,681,646 | 655,510 | 1,533,586 | 3,443,066 | 575,893 | — | 19,842,318 |
| Inter-segment revenue | 2,089 | 91,918 | 167,046 | 12,295 | 19,848 | 150,710 | (443,906) | — |
| Reportable segment revenue | 1,954,706 | 11,773,564 | 822,556 | 1,545,881 | 3,462,914 | 726,603 | (443,906) | 19,842,318 |
| Reportable segment loss | (82,019) | (1,036,260) | (128,239) | (431,032) | (309,041) | (109,311) | — | (2,095,902) |
| Other income | 17,681 | 114,035 | 2,809 | 13,763 | 71,540 | 2,214 | — | 222,042 |
| Other expenses | (3,828) | (46,068) | (1,246) | (2,782) | (3,840) | (1,186) | — | (58,950) |
| Loss before income tax | (68,166) | (968,293) | (126,676) | (420,051) | (241,341) | (108,283) | — | (1,932,810) |
| Income tax expense | | | | | | | | (199,370) |
| Loss for the period | | | | | | | | (2,132,180) |
| Supplementary information | | | | | | | | |
| Depreciation and amortisation | | | | | | | | |
| – Property, plant and equipment | 239,193 | 903,711 | 97,612 | 234,435 | 103,154 | 72,895 | — | 1,651,000 |
| – Other non-current assets | 19,326 | 806,849 | 23,961 | 45,615 | 13,669 | 75 | — | 909,495 |
| – Prepaid land leases | — | 211 | 208 | 871 | 191 | — | — | 1,481 |
| – Intangible assets | 261 | 14,948 | 269 | 514 | 2,983 | 2,931 | — | 21,906 |
| Capital expenditure | | | | | | | | |
| – Property, plant and equipment | 20,496 | 61,837 | 5,562 | 7,453 | 957 | 8,569 | — | 104,874 |
| Provision/(Reversal of provision) for impairment on trade receivables | (996) | 24,480 | (3,967) | 118,451 | 60,244 | 4,295 | — | 202,507 |
| Provision/(Reversal of provision) for impairment on other receivables | (718) | 2,114 | 112 | 180 | 89,086 | (9,088) | — | 81,686 |
| As at 31 December 2017 (Audited) | | | | | | | | |
| Assets | | | | | | | | |
| Segment assets | 5,318,569 | 34,807,136 | 2,007,167 | 6,394,501 | 6,928,328 | 22,703,276 | (16,216,348) | 61,942,629 |
| Liabilities | | | | | | | | |
| Segment liabilities | 4,602,485 | 29,309,833 | 1,568,472 | 3,830,778 | 15,557,750 | 25,393,659 | (16,216,348) | 64,046,629 |

# 5 SEGMENT INFORMATION (Continued)

## (b) Geographical information

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

| | Revenue from external customers For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **The PRC** | **17,499,389** | 13,629,171 |
| **Middle East** | **3,555,372** | 3,736,914 |
| **Other countries** | **2,598,241** | 2,476,233 |
| | **23,653,002** | 19,842,318 |

| | Specified non-current assets | |
|---|---|---|
| | **As at 30 June 2018** | As at 31 December 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Audited) |
| **The PRC** | **23,727,622** | 26,416,413 |
| **Other countries** | **3,938,869** | 2,958,085 |
| | **27,666,491** | 29,374,498 |

## (c) Major customer

For the six months ended 30 June 2018 and 2017, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **Customer A** | **13,273,478** | 10,711,477 |

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 56% (2017: 54%) of the Group's revenue.

## 6 FINANCE EXPENSES - NET

| | For the six months ended 30 June 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
|---|---|---|
| **Finance income** | | |
| Interest income from entrusted loans | | |
| – Sinopec Group's subsidiaries | — | 67 |
| Interest income | | |
| – Sinopec Group's subsidiaries | 702 | 245 |
| – Third-party banks and other financial institutions | 34,412 | 8,148 |
| Exchange gains, net | 115,868 | 61,711 |
| | 150,982 | 70,171 |
| **Finance expenses** | | |
| Interest expenses on loans wholly repayable within 5 years | | |
| – Sinopec Group and its subsidiaries | (275,566) | (277,066) |
| – Associates and joint ventures of the Group | (6,071) | — |
| – Third-party banks and other financial institutions | (1,827) | (1,840) |
| Bank and other charges | (31,142) | (39,181) |
| | (314,606) | (318,087) |
| | (163,624) | (247,916) |

## 7 REVERSAL OF PROVISION/(PROVISION) FOR IMPAIRMENT ON ASSETS

| | For the six months ended 30 June 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
|---|---|---|
| Reversal of provision/(Provision) for impairment on trade and other receivables, net | 121,880 | (284,193) |

# 8 OTHER INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **Gain on disposal of other non-current assets, net** | **2,714** | 502 |
| **Government grants (Note)** | **515,849** | 192,920 |
| **Waived payables** | **10,001** | 1,090 |
| **Penalty income** | **664** | 542 |
| **Compensation received** | **329** | 3,561 |
| **Gain on debt restructuring** | **147,330** | 19,457 |
| **Others** | **8,388** | 3,970 |
| | **685,275** | 222,042 |

Note:

Government grants for the periods ended 30 June 2018 and 2017 primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

# 9 OTHER EXPENSES

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **Loss on disposal of property, plant and equipment, net** | **1,819** | 33,476 |
| **Loss on scraps of assets** | **418** | 497 |
| **Penalty** | **2,911** | 4,745 |
| **Compensation** | **7,320** | 3,958 |
| **Others** | **10,675** | 16,274 |
| | **23,143** | 58,950 |

## 10 PROFIT/(LOSS) BEFORE INCOME TAX

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **Staff costs, including directors and supervisors emoluments** | **6,811,475** | 6,461,781 |
| **Retirement benefit plan contribution (including in the above mentioned staff costs)** | | |
| **– Municipal retirement scheme costs** | **622,855** | 618,572 |
| **– Supplementary retirement scheme costs** | **165,038** | 163,205 |
| **Share options granted to directors and employees (including in the above mentioned staff costs)** | **—** | 9,048 |
| **Cost of goods sold** | **5,401,001** | 4,494,119 |
| **Depreciation and amortisation** | | |
| **– Property, plant and equipment** | **1,514,752** | 1,651,000 |
| **– Other non-current assets** | **678,093** | 909,495 |
| **– Prepaid land leases** | **1,580** | 1,481 |
| **– Intangible assets** | **38,983** | 21,906 |
| **Operating lease expenses** | | |
| **– Property, plant and equipment** | **682,308** | 480,202 |
| **(Reversal of provision)/Provision for impairment, net – Trade and other receivables** | **(121,880)** | 284,193 |
| **Rental income from property, plant and equipment after relevant expenses** | **(12,263)** | (4,237) |
| **Research and development expenses** | **240,196** | 51,138 |
| **Loss on disposal/write-off of property, plant and equipment, net** | **1,819** | 33,476 |
| **Gain on disposal/write-off of other non-current assets, net** | **(2,714)** | (502) |
| **Exchange gains, net** | **(115,868)** | (61,711) |

# 11 INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| **Current tax** | | |
| PRC enterprise income tax | 17,161 | 18,846 |
| Overseas income tax | 131,952 | 176,140 |
| | 149,113 | 194,986 |
| **Deferred income tax** | | |
| (Reversal) and origination of temporary difference | (996) | 4,384 |
| Income tax expense | 148,117 | 199,370 |

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2018 and 2017 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 six months ended 30 June 2018 and 2017, the majority of the companies of the Group are subject to 25% income tax rate.

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

# 12 EARNINGS/(LOSS) PER SHARE

## (a) Basic

For the six months ended 30 June 2018 and 2017, the basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company.

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Profit/(Loss) for the period attributable to owners of the Company (RMB'000) | 615,731 | (2,132,148) |
| Weighted average number of ordinary shares in issue (Shares) | 18,352,229,243 | 14,142,660,995 |
| Basic earnings/(loss) per share (RMB) | 0.034 | (0.151) |

## (b) Diluted

For the six months ended 30 June 2018, the diluted earnings per share was the same as the basic earning per share as the exercise price of those share options is higher than the average market price for shares in the current period.

The calculation of diluted loss per share did not take into account of exercise of the share options which are potential ordinary shares because of anti-dilutive effects, hence, the diluted loss per share for the six month ended 30 June 2017 were the same as the basic loss per share.

# 13 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2018 (2017: Nil).

## 14 EMPLOYMENT BENEFITS

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000 (Unaudited)** | RMB'000 (Unaudited) |
| **Salaries, wages and other benefits** | **6,023,582** | 5,670,956 |
| **Retirement benefit plan contribution (Note)** | | |
| **– Municipal retirement scheme costs** | **622,855** | 618,572 |
| **– Supplementary retirement scheme costs** | **165,038** | 163,205 |
| **Share options granted to directors and employees (Note 22)** | **—** | 9,048 |
| | **6,811,475** | 6,461,781 |

Note:

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2018, the Group and the employees pay 20% and 8% (31 December 2017: 20% and 8%) of salary respectively to basic defined contribution plan.

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

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

## 15 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2018

| | Buildings | Oil engineering equipment and others | Construction in progress | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | |
| **Balance at 1 January 2018** | **1,328,500** | **58,786,465** | **309,372** | **60,424,337** |
| **Additions** | **—** | **26,119** | **35,794** | **61,913** |
| **Transfer to intangible asset** | **—** | **—** | **(8,837)** | **(8,837)** |
| **Disposals/Write-off** | **(815)** | **(155,459)** | **—** | **(156,274)** |
| **At 30 June 2018** | **1,327,685** | **58,657,125** | **336,329** | **60,321,139** |
| **Accumulated depreciation and impairment loss** | | | | |
| **Balance at 1 January 2018** | **439,200** | **34,093,256** | **71,734** | **34,604,190** |
| **Depreciation** | **22,159** | **1,492,593** | **—** | **1,514,752** |
| **Disposals/Write-off** | **(591)** | **(143,020)** | **—** | **(143,611)** |
| **At 30 June 2018** | **460,768** | **35,442,829** | **71,734** | **35,975,331** |
| **Carrying amounts** | | | | |
| **At 30 June 2018 (Unaudited)** | **866,917** | **23,214,296** | **264,595** | **24,345,808** |
| **Carrying amounts** | | | | |
| **At 31 December 2017 (Audited)** | **889,300** | **24,693,209** | **237,638** | **25,820,147** |

## 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the six months ended 30 June 2017

| | Buildings | Oil engineering equipment and others | Construction in progress | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | |
| **Balance at 1 January 2017** | 1,331,721 | 59,220,040 | 962,110 | 61,513,871 |
| **Additions** | — | 94,599 | 10,275 | 104,874 |
| **Disposals/Write-off** | (2,623) | (298,536) | — | (301,159) |
| **Reclassification** | (17,643) | — | — | (17,643) |
| **At 30 June 2017** | 1,311,455 | 59,016,103 | 972,385 | 61,299,943 |
| **Accumulated depreciation and impairment loss** | | | | |
| **Balance at 1 January 2017** | 399,691 | 31,344,813 | 95,264 | 31,839,768 |
| **Depreciation** | 22,452 | 1,628,548 | — | 1,651,000 |
| **Disposals/Write-off** | (1,950) | (267,719) | — | (269,669) |
| **Reclassification** | (4,186) | — | — | (4,186) |
| **At 30 June 2017** | 416,007 | 32,705,642 | 95,264 | 33,216,913 |
| **Carrying amounts** | | | | |
| **At 30 June 2017 (Unaudited)** | 895,448 | 26,310,461 | 877,121 | 28,083,030 |

Note:

As at 30 June 2018, the property, plant and equipment under finance leases are "Oil engineering equipment and others" and its carrying amounts are RMB1,036,421,000 (31 December 2017: RMB80,172,000).

## 16 PREPAID LAND LEASES

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **At 1 January** | **118,540** | 108,178 |
| **Reclassification** | **—** | 13,457 |
| **Amortisation** | **(1,580)** | (1,481) |
| **At 30 June (Unaudited)** | **116,960** | 120,154 |

Prepaid land leases represent prepayments made by the Group for the prepaid land leases located in the PRC which are held on leases term between 20 years to 50 years.

## 17 NOTES AND TRADE RECEIVABLES

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | RMB'000 (Unaudited) | RMB'000 (Audited) |
| Trade receivables | | |
| – Sinopec Group and its subsidiaries | 6,375,030 | 9,082,346 |
| – Associates and joint ventures of the Group | 2,584 | 14 |
| – Sinopec Group and its joint ventures and associates | 95,917 | 122,450 |
| – Third parties | 9,784,393 | 10,077,873 |
| | 16,257,924 | 19,282,683 |
| Less: Provision for impairment | (2,173,304) | (2,320,747) |
| Trade receivables – net | 14,084,620 | 16,961,936 |
| Notes receivables | 637,413 | 1,209,147 |
| Notes and trade receivables - net | 14,722,033 | 18,171,083 |

As at 30 June 2018 and 31 December 2017, the Group's notes and trade receivables were approximately their fair values.

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

As at 30 June 2018 and 31 December 2017, none of the Group's notes receivables were pledged as collateral or overdue.

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

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

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | RMB'000 (Unaudited) | RMB'000 (Audited) |
| Within 1 year | 11,524,816 | 13,428,767 |
| 1 to 2 years | 2,415,442 | 3,631,272 |
| 2 to 3 years | 543,119 | 821,310 |
| Over 3 years | 238,656 | 289,734 |
| | 14,722,033 | 18,171,083 |

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

| | 2018 | 2017 |
|---|---|---|
| | RMB'000 | RMB'000 |
| At 1 January | 2,320,747 | 1,177,173 |
| Provisions | 745,861 | 656,752 |
| Reversal | (893,304) | (454,245) |
| At 30 June (Unaudited) | 2,173,304 | 1,379,680 |

The Group applied the simplified approach according to IFRS 9 to assess the expected credit losses.

Provision/(Reversal of provision) for impairment on trade receivables is included in "Reversal of provision/(Provision) for impairment on assets" in condensed consolidated statement of profit or loss and other comprehensive income.

# 18 PREPAYMENT AND OTHER RECEIVABLES

| | As at 30 June 2018 | As at 31 December 2017 |
|---|---|---|
| | RMB'000 (Unaudited) | RMB'000 (Audited) |
| Prepayments (a) | 646,152 | 441,556 |
| Other receivables (b) | | |
| Petty cash funds | 63,322 | 34,523 |
| Guarantee deposits | 845,207 | 846,193 |
| Disbursement of funds | 734,202 | 641,003 |
| Temporary payment | 995,608 | 759,129 |
| Escrow payments | 9,735 | 9,733 |
| Deposits | 37,493 | 42,944 |
| Export tax refund receivables | 6,960 | 5,261 |
| Excess value-added tax paid | 828,854 | 651,200 |
| Value added tax to be offset | 19,906 | 24,043 |
| Prepaid value-added tax | 404,287 | 205,916 |
| Prepaid income tax | 10,686 | 4,314 |
| Others | 279,491 | 289,950 |
| | 4,881,903 | 3,955,765 |
| Less: Provision for impairment | (654,882) | (629,319) |
| Prepayments and other receivables - net | 4,227,021 | 3,326,446 |

Note:

(a) As at 30 June 2018, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB17,292,000 (31 December 2017: RMB30,088,000) and the associates and joint ventures of the Group amounting at RMB216,000 (31 December 2017: RMB72,000) and nil for the associates and joint ventures of Sinopec Group (31 December 2017: RMB3,000).

(b) As at 30 June 2018, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB280,949,000 (31 December 2017: RMB337,509,000), the associates and joint ventures of the Group amounting at RMB234,000 (31 December 2017: RMB309,000) and the associates and joint ventures of Sinopec Group amounting at RMB1,001,000 (31 December 2017: RMB1,457,000).

(c) The amounts due from related parties are unsecured, interest free and repayable on demand.

(d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2018 and 31 December 2017 approximate their fair values.

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

| | 2018 | 2017 |
|---|---|---|
| | RMB'000 | RMB'000 |
| At 1 January | 629,319 | 524,759 |
| Provisions | 148,737 | 180,921 |
| Reversal | (123,174) | (99,235) |
| At 30 June (Unaudited) | 654,882 | 606,445 |

## 19 CONTRACT ASSETS/CONTRACT LIABILITIES

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Contract assets | 9,826,495 | — |
| Amounts due from customers for contract works | — | 6,869,083 |
| Less: Expected loss on contracts | (259,048) | (259,048) |
| | 9,567,447 | 6,610,035 |
| Contract liabilities | (6,466,922) | — |
| Amounts due to customers for contract works | — | (6,765,375) |
| | 3,100,525 | (155,340) |
| Contract cost incurred plus recognised profit less recognised losses | 76,426,977 | 60,396,625 |
| Less: Expected loss on contracts | (259,048) | (259,048) |
| Less: Progress billings | (73,067,404) | (60,292,917) |
| | 3,100,525 | (155,340) |

Note: The contract assets primarily related to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

## 20 INVENTORIES

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Raw materials | 1,179,991 | 1,164,785 |
| Finished goods | 129,605 | 85,725 |
| Work in progress | 9,992 | 2,887 |
| Turnover materials | 1,608 | 10,151 |
| Others | 1,838 | 1,947 |
| | 1,323,034 | 1,265,495 |
| Less: Provision for impairment/write off | (72,456) | (72,456) |
| | 1,250,578 | 1,193,039 |

## 21 SHARE CAPITAL

| | As at 30 June 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|
| | Number of shares (Share) | Share capital RMB'000 (Unaudited) | Number of shares (Share) | Share capital RMB'000 (Audited) |
| Registered, issued and paid: | | | | |
| – Domestic non-public legal person shares of RMB1.00 each | 11,786,045,218 | 11,786,046 | 10,259,327,662 | 10,259,328 |
| – Social public A shares of RMB1.00 each | 1,783,333,333 | 1,783,333 | 1,783,333,333 | 1,783,333 |
| – H shares of RMB1.00 each | 5,414,961,482 | 5,414,961 | 2,100,000,000 | 2,100,000 |
| | 18,984,340,033 | 18,984,340 | 14,142,660,995 | 14,142,661 |

| | Number of shares (Share) | Share capital RMB'000 |
|---|---|---|
| As at 1 January 2018 | 14,142,660,995 | 14,142,661 |
| Issuance of shares (Note) | 4,841,679,038 | 4,841,679 |
| As at 30 June 2018 | 18,984,340,033 | 18,984,340 |

Note:

According to the China Securities Regulatory Commission's license [2018] No. 142 "Approving the non-public issuance of shares by Sinopec Oilfield Service Corporation", the Company had issued 1,526,717,556 A shares at non-public issuance at RMB2.62 per share, to the China Petrochemical Corporation and Changjiang Pension Insurance Co., Ltd. - Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund; According to the China Securities Regulatory Commission's license [2018] No. 130 "Approving the issuance of additional overseas listed foreign shares by Sinopec Oilfield Service Corporation", the Company had issued 3,314,961,482 H shares at non-public issuance at HKD1.35 per share to the two designated investors - Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund Corporation Limited. After deduction of share issuance expenses of RMB 20,783,000, the net proceeds from issuance of share is RMB7,637,715,000.

## 22 SHARE-BASED PAYMENTS

Pursuant to the resolution of the fourteen meeting of the eighth session of the Board of Directors of the Company on 1 November 2016, the proposal regarding “the Adjustment of the List of Participants and the Number of the Share Options under the Proposed Grant of the Share Option Incentive Scheme” and the proposal regarding “the Proposed Grant under Share Option Incentive Scheme” was approved.

According to the Company’s share option incentive scheme, the grant date of share options was 1 November 2016, and there were a total of 49,050,000 share options granted to 477 participants (0.3469% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB5.63 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

(i) achieving compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;

(ii) ratio of earnings before interest, tax, depreciation and amortisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;

(iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and

(iv) the performance of the indicator for economic value added has reached the target set by the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 30 June 2018, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

| Vesting date | Exercise price (per share in RMB) | Outstanding shares |
|---|---|---|
| 1 November 2019 | 5.63 | 14,715,000 |
| 1 November 2020 | 5.63 | 19,620,000 |

| The movement of share options are as follows: | No. of share options |
|---|---|
| Outstanding shares at 31 December 2016 and 1 January 2017 | 49,050,000 |
| Lapsed during the year | (14,715,000) |
| Outstanding shares at 31 December 2017, 1 January 2018 and 30 June 2018 | 34,335,000 |

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. At 30 June 2018, the Company have 34,335,000 share options has not been exercised with a total fair value of RMB41,441,000 at the grant date.

The significant inputs into the model were as follows:

| | Granting date |
|---|---|
| Spot share price | RMB3.96 |
| Exercise price | RMB5.63 |
| Expected volatility | 46.17% |
| Maturity (years) | 3-5 years |
| Risk-free interest rate | 2.34% - 2.45% |
| Expected dividend yield | 0% |

No share-based payment expenses have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 (For the six months ended 30 June 2017: RMB9,048,000). For the six months ended 30 June 2018, no share option had been exercised.

At 30 June 2018, the Company have a total of 34,335,000 (31 December 2017: 34,335,000) outstanding shares under the share option incentive scheme. Under the current capital structure, fully exercise of the outstanding shares will lead to issue of 34,335,000 (31 December 2017: 34,335,000) extra ordinary A share and increase in share capital of RMB34,335,000, before issue expenses.

## 23 NOTES AND TRADE PAYABLES

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Trade payables | | |
| – Sinopec Group and its subsidiaries | 1,766,090 | 1,150,292 |
| – Associates and joint ventures of the Group | 9,904 | 49,643 |
| – Sinopec Group's joint ventures and associates | 55,120 | 47,623 |
| – Third parties | 20,279,637 | 25,194,924 |
| | 22,110,751 | 26,442,482 |
| Notes payables | 3,204,372 | 3,045,393 |
| | 25,315,123 | 29,487,875 |

As at 30 June 2018 and 31 December 2017, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Within 1 year | 18,760,019 | 20,493,186 |
| 1 and 2 years | 3,398,586 | 5,007,071 |
| 2 and 3 years | 1,255,304 | 1,799,618 |
| Over 3 years | 1,901,214 | 2,188,000 |
| | 25,315,123 | 29,487,875 |

## 24 RECEIPT IN ADVANCE AND OTHER PAYABLES

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Receipt in advance (a) | | |
| Advances for construction and service | — | 1,773,584 |
| Salaries payables | 425,066 | 381,240 |
| Other tax payables | 728,114 | 829,417 |
| Output valued-added tax to be certified | 44,182 | 11,744 |
| Interest payables (b) | 29,756 | 10,927 |
| Other payables (c) | | |
| Guarantee deposits | 667,807 | 670,463 |
| Deposits | 145,398 | 164,697 |
| Disbursement of funds | 771,773 | 473,452 |
| Temporary receipts | 438,920 | 743,062 |
| Escrow payments | 78,942 | 44,850 |
| Withheld payments | 64,652 | 67,641 |
| Sinopec Group capital restructuring funds | — | 2,600,000 |
| Payable of profit arising during major assets restructuring | — | 1,118,902 |
| Others | 239,101 | 490,888 |
| | 3,633,711 | 9,380,867 |

## 24 RECEIPT IN ADVANCE AND OTHER PAYABLES (Continued)

Note:

(a) As at 30 June 2018, the receipt in advance include related party balances: Sinopec Group and its subsidiaries amounting at RMB449,991,000 (31 December 2017: RMB423,073,000) and the joint ventures and associates of Sinopec Group amounting at RMB4,581,000 (31 December 2017: RMB5,179,000). Due to initial application of IFRS 15, the balance as at 30 June 2018 has been reclassified to contract liabilities (Note 19).

(b) As at 30 June 2018 and 31 December 2017, the interest payables was the related party balances with Sinopec Group and its subsidiaries.

(c) As at 30 June 2018, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB71,899,000 (31 December 2017: RMB3,767,038,000).

(d) The above amounts due to related parties are unsecured, interest free and repayable on demand.

## 25 BORROWINGS

| | As at 30 June 2018<br>RMB'000<br>(Unaudited) | As at 31 December 2017<br>RMB'000<br>(Audited) |
|---|---|---|
| **Current liabilities** | | |
| Loans from Sinopec Finance Company Limited (a) | 10,400,000 | 6,995,000 |
| Loans from Sinopec Century Bright Capital Investment Company Limited (a) | 3,817,778 | 8,015,830 |
| Loans from Sinopec Group (a) | 2,500,000 | 2,500,000 |
| Finance lease liabilities (b) | 153,259 | 28,844 |
| | 16,871,037 | 17,539,674 |
| **Non-current liabilities** | | |
| Loans from Sinopec Century Bright Capital Investment Company Limited (a) | 503,788 | 455,826 |
| Finance lease liabilities (b) | 913,606 | 53,037 |
| | 1,417,394 | 508,863 |
| | 18,288,431 | 18,048,537 |

Note:

(a) Loans from related parties

The loans from related parties of the Group are repayable as follows:

| | As at 30 June 2018<br>RMB'000<br>(Unaudited) | As at 31 December 2017<br>RMB'000<br>(Audited) |
|---|---|---|
| Within 1 year | 16,717,778 | 17,510,830 |
| 1 to 2 years | 503,788 | 455,826 |
| | 17,221,566 | 17,966,656 |

As at 30 June 2018, loans from related parties are unsecured and their annual interest rates were range from 2.62 % to 8.78 % (31 December 2017: 1.7 % to 7.9 %).

# 25 BORROWINGS (Continued)

(b) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

| | As at 30 June 2018<br>RMB'000<br>(Unaudited) | As at 31 December 2017<br>RMB'000<br>(Audited) |
|---|---|---|
| **Total minimum lease payments** | | |
| – Within 1 year | 196,137 | 34,200 |
| – 1 to 2 years | 174,583 | 27,223 |
| – 2 to 5 years | 468,976 | 32,193 |
| – Over 5 years | 399,812 | — |
| | 1,239,508 | 93,616 |
| **Future finance charges on finance leases** | (172,643) | (11,735) |
| **Present value of finance lease liabilities** | 1,066,865 | 81,881 |

| | As at 30 June 2018<br>RMB'000<br>(Unaudited) | As at 31 December 2017<br>RMB'000<br>(Audited) |
|---|---|---|
| **Present value of minimum lease payments:** | | |
| – Within 1 year | 153,260 | 28,844 |
| – 1 to 2 years | 139,937 | 23,919 |
| – 2 to 5 years | 398,668 | 29,118 |
| – Over 5 years | 375,000 | — |
| | 1,066,865 | 81,881 |
| **Less: Portion due within one year included under current liabilities** | (153,259) | (28,844) |
| **Portion due after one year included under non-current liabilities** | 913,606 | 53,037 |

Note:

(i) On 11 January 2018, the Group entered into a sale and leaseback arrangement with the Sinopec Group's joint venture at a consideration of approximately RMB1,000,000,000 for term of 8 years.

(ii) As at 30 June 2018, the Group leased certain oil engineering equipment for its business operations. The lease term are from 2 to 8 years (31 December 2017: 2 to 5 years).

# 26 COMMITMENTS

## (a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2018 and 31 December 2017 not provided for in the interim financial information are as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | **RMB'000 (Unaudited)** | RMB'000 (Audited) |
| **Contracted but not provided for** | **73,121** | 130,116 |

## (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 30 June 2018 and 31 December 2017 are as follows:

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | **RMB'000 (Unaudited)** | RMB'000 (Audited) |
| **Within 1 year** | **158,849** | 291,189 |
| **1 to 2 years** | **20,447** | 32,746 |
| **2 to 3 years** | **12,323** | 11,775 |
| **Over 3 years** | **19,008** | 21,130 |
| **Total** | **210,627** | 356,840 |

The Group leases various residential properties, office, equipments and leased land under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 24 years (31 December 2017: 1 to 24 years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

## (c) Investment commitments

As at 30 June 2018, the Group has outstanding commitments of RMB129,625,000 (31 December 2017: RMB129,625,000) in respect of its investment in in joint ventures.

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

The Group has fulfilled the capital and operating lease commitments as at 30 June 2018.

## 27 CONTINGENCIES

In preparing this interim financial information, except for described below, there were no further developments of those contingencies as at 30 June 2018, which were disclosed in the 2017 annual report.

### Contingent liabilities and financial impacts due to pending litigation

China National Chemical Engineering No. 11 Construction Co., Ltd. (the "Applicant") and Sinopec International Petroleum Services Corporation ("International services Corporation" or the "Respondent"), a wholly-owned subsidiary of the Group, has entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay approximately RMB456,810,000 for the project fee and the accrued interest, approximately RMB145,968,000 for the loss due to stoppage of work and the accrued interest, approximately RMB38,018,000 for the advance payment under the letter of guarantee and the accrued interest, and approximately RMB500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the "Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhongjing Zi No. 048223)". As the hearing of the case has not yet proceeded, the Group does not make provision for the pending litigation since the management considered that the outcome of the litigation cannot be reasonably estimated and cannot determine its impact on the Group's financial position and operation result.

## 28 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2018 and 2017.

The transactions with related parties are carried out on normal commercial terms or relevant agreements with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

# 28 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

## (a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| **Purchases of materials** | | |
| – Sinopec Group and its subsidiaries | 2,029,979 | 1,645,866 |
| | | |
| **Sales of products** | | |
| – Sinopec Group and its subsidiaries | 7,798 | 46,163 |
| | | |
| **Rendering of engineering services** | | |
| – Sinopec Group and its subsidiaries | 13,265,680 | 10,665,334 |
| | | |
| **Receiving of community services** | | |
| – Sinopec Group and its subsidiaries | 464,445 | 779,812 |
| | | |
| **Receiving of integrated services** | | |
| – Sinopec Group and its subsidiaries | — | 68,119 |
| | | |
| **Receiving of technology research and development services** | | |
| – Sinopec Group and its subsidiaries | 83,000 | — |
| | | |
| **Rental expenses** | | |
| – Sinopec Group and its subsidiaries | 12,907 | 26,763 |
| | | |
| **Interest income from entrusted loans** | | |
| – Sinopec Group's subsidiaries | — | 67 |
| | | |
| **Deposits interest income** | | |
| – Sinopec Group's subsidiaries | 702 | 245 |
| | | |
| **Loans interest expenses** | | |
| – Sinopec Group and its subsidiaries | 275,566 | 277,066 |
| | | |
| **Borrowings obtained** | | |
| – Sinopec Group and its subsidiaries | 16,559,753 | 28,945,143 |
| | | |
| **Borrowings repaid** | | |
| – Sinopec Group and its subsidiaries | 17,343,880 | 26,837,186 |
| | | |
| **Safety and insurance fund expenses** | | |
| – Sinopec Group | 41,550 | 1,100 |
| | | |
| **Safety and insurance fund refund** | | |
| – Sinopec Group | 24,489 | — |

# 28 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

## (b) Significant related party transactions arising with the joint ventures and associates of the Group:

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Sales of products | | |
| – Associates and joint ventures of the Group | 43 | — |
| | | |
| Receiving of engineering services | | |
| – Associates and joint ventures of the Group | 391,869 | 340,557 |
| | | |
| Loans Interest expenses | | |
| – Associates and joint ventures of the Group | 6,071 | — |

## (c) Remuneration of key management personnel

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

| | For the six months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Fee | 300 | 300 |
| Salaries, allowances and bonus | 4,257 | 4,073 |
| Contributions to pension plans | 260 | 370 |
| Share-based payments | — | 9,048 |
| | 4,817 | 13,791 |

## (d) Related party guarantee

At 30 June 2018, Sinopec Group has not provided performance guarantee to the Group. (31 December 2017: USD210,000,000).

# Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 30 August 2017 (Wednesday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2017 signed by the Chairman and General Manager of the Company;
2. The financial report of the Company for the six months ended 30 June 2017 signed by the Legal Representative, General Manager, Chief Financial Officer and the person in charge of the accounts;
3. The Articles of Association of the Company;
4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by the CSRC during the report period.

* This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IFRS, the Chinese version will prevail.