中国石化
SINOPEC

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
2019

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 2019 Interim Report has been approved at the fifteenth meeting of the ninth session of the Board. Eight directors of the board attended the meeting. Mr. Lu Baoping, and Mr.Wei Ran, Director, and Mr. Pan Ying, Independent non-executive Director, were absent from the meeting due to official affairs, but had authorized respectively Mr. Fan Zhonghai, Director, and Mr. Chen Xikun, and Ms. Jiang Bo, Independent non-executive Director, to attend the meeting and exercise their rights.

3. The interim financial statements of the Company for 2019, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("**PRC ASBE**") and International Financial Reporting Standards ("**IFRS**"), are unaudited. But the interim financial statements of the Company for 2019, which have been prepared in accordance with IFRS has been reviewed by Grant Thornton Hong Kong Limited.

4. Mr. Liu Zhongyun, Chairman，Mr. Yuan Jianqiang, General Manager, Mr. Li Tian, Chief Financial Officer, and Mr. Pei Defang, Manager of the Accounting Department of the Company, hereby warranted the authenticity, accuracy 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 2019, 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 cannot 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.

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Section I 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 H Shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (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 of Hong Kong Limited as well as in New York, London and Shanghai, the subsidiary of CPC.
A Share	Means	Domestic Share(s) in the share capital of the Company of par value at RMB1.00 each which is(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 of Hong Kong Limited
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 to 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
SOSC	Means	Sinopec Oilfield Service Corporation, a wholly-owned subsidiary of the Company
Shengli Petroleum Engineering Company	Means	Sinopec Shengli Oil 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
Hong Kong	Means	Hong Kong Special Administrative Region of the People's Republic of China

Section II 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	Liu Zhongyun

2. Contact Persons and Contact Information

	Secretary to the board	Securities Affairs Representative
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, Chaoyang District, Beijing, PRC
Post Code of Registered address	100728
Office address	No.9 Jishikou Road, Chaoyang District, Beijing, PRC
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 information disclosure and inspection place

Domestic Newspapers for information disclosure	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 directors 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	SINOPEC SSC	600871	*ST Youfu
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	
PRC:	Beijing Haiwen & Partners
	20th Floor, Fortune Financial Center, No.5 Dong San Huan Central Road, Chaoyang District, Beijing
Hong Kong:	Herbert Smith Freehills LLP
	23rd Floor, Gloucester Tower, 15 Queen's Road, Central, Hong Kong
Share registrars and transfer office	
H Share:	Hong Kong Registrars Limited
	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong
A Share:	China Securities Depository and Clearing Corporation Limited Shanghai Branch
	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 which is unaudited)

(1) Key financial data

	For the six months ended 30 June 2019	For the six months ended 30 June 2018		Increase/(Decrease) from corresponding period of last year
		Adjusted	Unadjusted	
	RMB'000	RMB'000	RMB'000	(%)
Operating income	**30,256,030**	23,650,777	23,653,002	27.9
Operating profit	**736,554**	403,678	403,678	82.5
Profit before income tax	**742,777**	549,066	549,066	35.3
Net profit attributable to equity shareholders of the Company	**509,428**	400,949	400,949	27.1
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**430,060**	463	463	92,785.5
Net cash inflow from operating activities ("-" for outflow)	**-709,159**	-3,515,042	-3,515,042	Not applicable

	As at 30 June 2019	As at 31 December 2018		Increase/(Decrease) from last year
		Adjusted	Unadjusted	
	RMB'000	RMB'000	RMB'000	(%)
Total equity attributable to equity shareholders of the Company	**6,584,854**	5,778,410	5,778,410	14.0
Total assets	**66,064,838**	60,904,715	60,904,715	8.5

(2) Key financial indicators

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Increase/(Decrease) (%)
Basic earnings per share (RMB)	**0.027**	0.022	22.7
Diluted earnings per share (RMB)	**0.027**	0.022	22.7
Basic earnings per share deducted extraordinary gain and loss (RMB)	**0.023**	0.00002	114,900.0
Weighted average return on net assets	**8.44%**	8.99%	Decreased by 0.55 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	**7.13%**	0.01%	Increased by 7.12 percentage points

Explanations for key financial data and key financial indicators

√ Applicable ☐ Not Applicable

According to the Ministry of Finance's "Interpretation of the Issues Concerning the Format of Financial Statements for General Enterprises in 2018", the refund of personal income tax withholding fees is included in the subject of "other income". The Company adjusted the figures for the same period of the previous year, resulting in a decrease of RMB2,225,000 in operating income for the same period last year.

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		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2019	For the six months ended 30 June 2018	As at 30 June 2019	As at 1 January 2019
	RMB'000	RMB'000	RMB'000	RMB'000
PRC ASBE	**509,428**	400,949	**6,584,854**	5,778,410
Adjustment of items and amount in accordance with the IFRS:				
Specific reserve (a)	**294,485**	214,782	**–**	–
IFRS	**803,913**	615,731	**6,584,854**	5,778,410

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 Production Safety Fund, if it is profit or loss related, the cost of expenditure is directly charged against the Specific reserves. While if it is capital expenditure related, the cost 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 which is unaudited)

Extraordinary gain and loss items	Amount (RMB'000)
Disposal of non-current assets	-1,437
Government grants recognized in profit or loss during the current period	21,728
Gain of debt restructuring	75,509
Other non-operating income and expenses excluding the aforesaid items	6,223
Effect of income tax	-22,655
Total	79,368

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

	As at 30 June 2019	As at 31 December 2018	Increase/(Decrease) from last year
	RMB'000	RMB'000	(%)
Total assets	66,064,838	60,904,715	8.5
Total liabilities	59,479,984	55,126,305	7.9
Total equity attributable to equity shareholders of the Company	6,584,854	5,778,410	14.0
Net assets per share attributable to equity shareholders of the Company (RMB)	0.35	0.30	16.7

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Increase/(Decrease) from corresponding period of last year
	RMB'000	RMB'000	(%)
Profit attributable to equity shareholders of the Company	803,913	615,731	30.6
Basic and diluted earnings per share	RMB0.042	RMB0.034	23.5
Net cash used in operating activities	(709,159)	(3,515,042)	Not applicable
Return on net assets	12.21%	10.01%	increased by 2.2 percentage points
Net cash used in operating activities per share	RMB (0.037)	RMB (0.185)	Not applicable

Section III Company Business Summary

1. The Group'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 2019, 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 332 projects execute in 35 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, shale gas and heavy oil reservoirs. The large-scale ultra-deep high-sulfur gas field safe and efficient development technology and industrial application was awarded National Special Prize for Progress in Science and Technology. The Fuling large-scale marine shale gas field high-efficiency exploration and development project was awarded National first prize for Progress in Science and Technology and the Golden Prize of National High-Quality Project for the Sichuan-Eastern China Natural Gas Transportation 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 "leading technology, creating value, supporting oil & gas, serving customers", 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 Group's major assets in the reporting period

On June 30, 2019, according to the PRC Accounting Standards for Business Enterprises, the Group's total assets were RMB66,064,838,000, an increase of 8.5% from the end of the previous year, mainly due to the increase in workload resulting in the augment of contract assets and the implementation of the new IFRS16 "Leases" to recognise right-of-use asset, of which foreign assets were RMB21,456,478,000, accounting for 32.5% of total assets; The net assets attributable to equity shareholders of the Company was RMB6,584,854,000, increased by 14% from the end of the previous year, mainly due to the increase in special reserves of RMB294,485,000 and the accumulation of operations in the first half of the year; the ratio of total liabilities to assets was 90.0%, a decrease of 0.5 percentage points from the end of the previous year.

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

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 2019, the Group has 716 onshore drilling rigs, 14 offshore drilling platforms, 64 sets of seismic acquisition equipment and 131 sets of imaging logging tools, 440 sets of comprehensive logging instruments, 134 sets of Model 2500 and Model 3000 fracturing trucks and 44 sets of 750 HP and above workover rigs and 1,799 professional teams, which are able to provide oil and gas fields with services throughout the life cycle from exploration to development and production can bring value to oil companies.

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

The Group has advanced exploration and development technologies as well as strong R&D abilities. It has a number of advanced technologies with proprietary intellectual property rights, such as shale gas, high-acidic oil &gas reservoirs, ultra-deep drilling and completion etc, 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 of the Group.

1. Discussion and analysis of operation

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 2019, the Company's consolidated revenue was RMB30,256,030,000, representing an increase of 27.9% compared to RMB23,650,777,000 for the same period of last year. Net profit attributable to shareholders of the Company was RMB509,428,000, increased by 27.1% compared to RMB400,949,000 for the same period of last year; and basic earnings per share was RMB0.027, increased by RMB0.005 compared with the same period of last year.

In the first half of 2019, the Company's operating results achieved a steady growth, mainly attributable to the continuously increase of capital expenditure for upstream exploration and development of oil companies, and the continuous improvement in operating conditions of the oilfield service industry. As a result, the Company's major professional workload and operating income increased significantly year-on-year. The effects of deepening reform, strengthening management and internal potential exploration were appeared simultaneously. In the first half of the year, the gross profit margin of the Company's principal business reached 9.2%, representing an increase of 3.3 percentage points as compared with the corresponding period of last year.

Market review

In the first half of 2019, the global economy showed an overall recovery. However, the instability and uncertainties of international politics and the economy increased. The Chinese economy continued its generally stable and steady progress trend, and the Gross Domestic Product (GDP) increased by 6.3% over the corresponding period of last year. The international crude oil price basically maintained a wide range of fluctuations between USD60-70 per barrel, which effectively supported the continuous recovery of the oilfield service market. The three major domestic oil companies increased the capital expenditure for upstream exploration and development, and the recovery of the domestic oilfield service market accelerated. For example, Sinopec, the largest customer of the Company, recorded a capital expenditure for upstream exploration and development of RMB20.1 billion in the first half of 2019, representing a year-on-year increase of 86.8%. As a result, the oilfield services industry showed a steady recovery trend, and the oilfield services business continued to be active and the workload of the oilfield services market increased significantly.

In the first half of 2019, the Company achieved remarkable results in market expansion, the total newly signed contracts amounted to RMB42.85 billion, representing a year-on-year increase of 24.6%, the total completed contracts amounted to RMB30.96 billion, representing a year-on-year increase of 35.1%. In particular, the newly signed contracts in the Sinopec market amounted to RMB22.98 billion, representing a year-on-year increase of 42.7%. The completed contracts amounted to RMB19.07 billion, representing a year-on-year increase of 38.1%. The newly signed contracts in domestic external markets amounted to RMB7.94 billion, representing a year-on-year increase of 9.2%, the completed contracts amounted to RMB5.88 billion, representing a year-on-year increase of 63.3%. The newly signed contracts in overseas markets amounted to USD1.72 billion, representing a year-on-year decrease of 2.0%, the completed contracts amounted to USD0.88 billion, representing a year-on-year decrease of 7.1%.

Operation review

In the first half of 2019, the Company actively played its role as the main force for oil and gas exploration and development, coordinated and optimized the market layout, reinforced the production organization of projects under construction and strengthened the refined management of projects. In the first half of the year, the major professional workload increased significantly year-on-year. The operating income increased by 27.9%, the operating performance has been improved steadily and the overall profitability has been continuously enhanced.

A. Geophysical service

In the first half of 2019, the Company's geophysical services business recorded a revenue from principal business of RMB1,869,906,000, representing a decrease of 26.7% from RMB2,552,178,000 for the corresponding period of last year. The completed 2D seismic exploration accumulated for 13,167 kilometers, representing a year-on-year increase of 2.5%; while the completed 3D seismic exploration accumulated for 5,152 square kilometers, representing a year-on-year decrease of 29.1%; the qualified rates of data records for both 2D and 3D seismic exploration are 100%. In the first half of the year, the accumulated new contract value of geophysical services amounted to RMB2.71 billion, representing a year-on-year increase of 401.9%. While focusing on securing the exploration and development needs of Sinopec, the Company actively explored external markets and domestic and overseas markets such as seismic information collection for China Geological Survey, the accumulated new contract value amounted to RMB150 million. The Company continued to improve the operation efficiency of the seismic information collection team, and effectively completed 2D information collection projects in Xinjiang, Eastern region, Bangladesh, Myanmar and Caribbean Sea, and 3D information collection projects in Tarim Basin and Algeria.

B. Drilling service

In the first half of 2019, the Company's drilling services business recorded a revenue from principal business of RMB16,779,456,000, representing an increase of 35.8% from RMB12,360,125,000 for the corresponding period of last year. The completed drilling footage reached 5,010 kilometers, representing a year-on-year increase of 30.1%. The Company actively and efficiently served Sinopec in exploration and development, coordinated and adjusted teams and equipment, and optimized production and operation. At the same time, the Company continued to strengthen technical breakthroughs, optimized construction techniques, improved construction quality and operation efficiency of drilling rigs, and fully guaranteed the construction of key production capacity in Weirong shale gas field, Shunbei oil and gas field, Ordos tight gas field and mature oil fields in Eastern China. The Company also seized the increasing market investment opportunities from PetroChina, CNOOC, local coalbed methane and Yanchang Group, and actively explored external markets such as shale gas, tight gas, coalbed methane and conventional oil and gas in Southwest China. In the first half of the year, the accumulated new contract value for drilling services in domestic and overseas markets amounted to RMB5.57 billion, representing a year-on-year increase of 43.6%.

C. Logging/mud logging service

In the first half of 2019, the Company's logging/mud logging services business recorded a revenue from principal business of RMB1,048,528,000, representing an increase of 51.8% from RMB690,604,000 for the corresponding period of last year. The completed logging projects accumulated for 122,560,000 standard meters, representing a year-on-year increase of 25.7%. The completed mud logging projects accumulated for 4,570,000 meters, representing a year-on-year increase of 44.2%. The Company seized the favorable opportunities arising from the market recovery and won workload through safe, high-quality and efficient services. To ensure the capacity construction of Sinopec, the Company actively explored market opportunities such as PetroChina Southwest. The various quality and technical indicators of logging/mud logging services were maintained well, techniques such as ultra-high temperature and high-pressure logging, traction perforating and other technologies continued to improve, and new records were created for various indicators such as well depth logging and traction distance, providing technical support for exploration and development and key market guarantees.

D. Downhole operation service

In the first half of 2019, the Company's downhole operation services business recorded a revenue from principal business of RMB3,197,268,000, representing an increase of 56.7% as compared with RMB2,040,928,000 for the corresponding period of last year. The Company has completed downhole operation for 3,362 wells/times, with a year-on-year increase of 17.4%. The Company gave full play to the advantages of professionalism and integration in horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing, horizontal well repairment, high-pressure operations and coiled tubing, and focused on serving the capacity increase and stabilization of Sinopec Fuling shale gas project, production increase of tight gas in Ordos, production stabilization of mature oil fields in Eastern China and ultra-deep test of Shunbei oil and gas field, and actively explored the external markets from PetroChina such as Sichuan Basin deep shale gas and Changqing tight oil and gas.

E. Engineering and construction service

In the first half of 2019, the Company's engineering and construction services business recorded a revenue from principal business of RMB6,481,250,000, representing an increase of 23.3% as compared with RMB5,254,504,000 for the corresponding period of last year. In the first half of 2019, the Company has completed contracts valued of RMB6.92 billion, representing a year-on-year increase of 27.7%; the newly signed contracts were valued at RMB10.35 billion, representing a year-on-year increase of 2.0%. The Company fully promoted the construction of key projects such as Qianjiang-Shaoguan natural gas pipeline and Rizhao-Puyang-Luoyang crude oil pipeline. Meanwhile, the Company vigorously explored the market and successively won the bid for two sections of Qingdao-Nanjing gas pipeline, with a contract value of RMB4.02 billion, as well as Shaoguan-Guangzhou main line project for North Guangdong natural gas main pipeline network, 2 sections in Guilin of Guangxi LNG gas transmission pipeline and 8 sections of Shunbei off-line pipeline and other pipeline projects, with a total contract value of RMB860 million.

International business

In the first half of 2019, the Company's international business achieved a revenue from principal business of RMB6,009,307,000, representing a decrease of 2.1% as compared with RMB6,138,476,000 for the corresponding period of last year, accounting for 20.0% of the revenue from principal business of the first half of the year. In the first half of 2019, the Company fully committed to expanding overseas high-end market, carefully organized project implementation, and made positive progress in key market of scale. In Saudi Arabian market, the Company newly signed (renewed) 32 drilling rigs service contracts with a contract value of USD1.06 billion, of which 2 drilling rigs have been awarded 10-year service contracts; the Company signed a contract for the 3D seismic information collection project of Saudi Arabian Oil Company with a contract value of USD170 million; the Company firstly entered into new business in Saudi Arabia such as gas well drilling, oil well repairment and hydrogen sulfide testing; the Company also won the bid for the pipeline project of Saudi Arabian Oil Company, with a contract value of USD270 million. In the Ecuador market, the Company signed general contracting service contracts for 41 well drilling and completion projects, and won the bid for well drilling and completion general contracting service projects of COCA-PAYAMINO oilfield.

Technology research & development

In the first half of 2019, the Company continued to promote the construction of its R&D system. In response to the actual conditions of key industrial regions such as "Northwest China, North China and Sichuan and Chongqing", the Company focused on researching in key technologies such as deep shale gas, normal pressure shale gas and deep oil and gas reservoir, and enhanced key technologies such as tight oil and gas reservoir, beach shallow marine oil and gas reservoir and mature oil fields in East China. The on-site speed and efficiency improvement have achieved remarkable results. The average drilling cycle in Weirong shale gas field was 92.1 days, shorted by 13.8% compared with that in 2018. In the first half of the year, a total of 310 domestic and overseas patents were newly applied by the Company, of which 203 patents were granted; "A multi-directional offshore oil drilling jack-up platform" of the Company won the 2018 National Patent Excellence Award. The Company made an orderly promotion of IT Construction, promoted design of SICP platform, accelerate wellbore data collection and delivery, video intelligent monitoring, integrated application of wellbore business etc.

Internal reform and management

In the first half of 2019, the Company continued to deepen the internal reform, further streamlined the institutions and staff, and reduce the institutional operating expenses; optimized the team structure and improved the productivity. In addition, the Company continued to deepen the reform of ancillary business, further promoted the professional integration of ancillary business, and improved the mechanism of contractual operation. The Company fully implemented the assessment of single-well/project by strengthening performance assessment and intensifying the linkage between compensation and efficiency. The Company has actively built a project management system with project management as the main body and Asset Swap and Leasing Center and Human Resources Allocation Center as the "two wings". The Company also comprehensively managed the enterprise according to laws and regulations by strengthening risk inspection and prevention, and effective risk management and control. The Company continuously strengthened project quality management by strictly controlling procurement quality, and effectively improved the quality management. The "two extensions" of the industrial chain achieved positive progress. In the first half of the year, the newly signed contracts of cooperative development projects for difficult-to-use reserves were valued at RMB580 million, by which, the Company promoted a number of downward-extending industrial chain projects such as instruments, advanced equipment, materials and tools, and achieved a revenue of RMB240 million. The Company also strengthened the costs and target management of all employees, created its low-cost advantages focusing on reducing standby expenses, production and operation costs and institutional operation expenses, and achieve a cost reduction of RMB470 million.

Capital expenditure

In the first half of 2019, capital expenditure of the Company reached RMB490 million. In the first half of 2019, the Company adhered to the "proactive and prudent" investment principle, optimized investment structure, strengthened resource coordination, and continued to play the leading and supporting role of investment, mainly for projects such as geophysical information collection equipment and upgrading of drilling rigs.

(1) Main business analysis of the Company

A. Changes in the relevant items of financial statements

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Change
	RMB'000	RMB'000	(%)
Operating income	**30,256,030**	23,650,777	27.9
Operating costs	**27,487,631**	22,258,048	23.5
Selling and distribution expenses	**25,300**	23,531	7.5
General and administrative expenses	**1,060,520**	1,082,012	-2.0
Net financial expense	**455,088**	163,624	178.1
Net cash inflow from operating activities ("-" for outflow)	**-709,159**	-3,515,042	Not applicable
Net cash inflow from investing activities ("-" for outflow)	**-697,409**	-277,827	Not applicable
Net cash inflow from financing activities	**1,116,539**	3,314,234	-66.3
Research and development expenditure	**479,782**	240,196	99.7

Reasons for the changes:

(a) The change in financial expenses was mainly due to the increase in net foreign exchange losses and interest expenses of the Company in the first half of 2019, and the impact of the implementation of the new leases standard.

(b) The change in net cash flow from operating activities was mainly due to the significant increase in the operating income and the significant improvement in cash flow operating activities in the first half of 2019.

(c) The change in net cash flow from investment activities was mainly due to the increase in cash paid for the purchase of long-term assets such as the collection of construction equipment for geophysical exploration in the first half of 2019.

(d) The change in net cash flow from financing activities was mainly due to receival of funds raised in the non-public placement of A shares and H shares in the same period of last year and the use of part of the funds to repay borrowings.

(e) The reason for the change in R&D expenditure was mainly due to the increase in technical investment in drilling and completion, complex reservoir logging and special reservoir reform in the first half of 2019.

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 2019 RMB'000	Percentage of amount at 30 June 2019 in total assets (%)	Amount at 31 December 2018 RMB'000	Percentage of amount at 31 December 2018 in total assets (%)	Changes from the end of the preceding year to the end of the reporting period (%)
Cash at bank and on hand	1,929,045	2.9	2,203,441	3.6	-12.5
Notes receivables	831,848	1.3	481,196	0.8	72.9
Accounts receivable	14,566,908	22.0	15,630,004	25.7	-6.8
Prepayment	801,728	1.2	444,749	0.7	80.3
Inventories	1,641,130	2.5	1,411,638	2.3	16.3
Contract Assets	13,881,033	21.0	8,871,704	14.6	56.5
Non-current assets due within one year	–	0.0	40,477	0.1	-100.0
Other current assets	1,539,515	2.3	1,218,035	2.0	26.4
Long-term equity investments	241,126	0.4	232,823	0.4	3.6
Fixed assets	22,410,517	33.9	23,842,767	39.1	-6.0
Construction in progress	730,369	1.1	365,414	0.6	99.9
Right-of-use assets	1,086,739	1.6	–	–	Not applicable
Intangible assets	192,526	0.3	237,275	0.4	-18.9
Short-term borrowings	19,265,502	29.2	17,606,082	28.9	9.4
Notes payable	4,278,090	6.5	3,797,742	6.2	12.6
Accounts payable	25,053,265	37.9	23,261,762	38.2	7.7
Contract liabilities	3,362,264	5.1	4,390,293	7.2	-23.4
Other payables	2,646,308	4.0	2,186,009	3.6	21.1
Non-current liabilities due within one year	673,748	1.0	156,559	0.3	330.3
Long-term borrowings	412,482	0.6	536,291	0.9	-23.1
Long-term payable	846,119	1.3	868,672	1.4	-2.6
Leases Liabilities	728,524	1.1	–	–	Not applicable
Deferred income	132,552	0.2	139,594	0.2	-5.0
Specific reserve	595,094	0.9	300,609	0.5	98.0

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

√ Applicable ☐ Not Applicable

On 30 June 2019, the Company's funds with restricted use such as margin deposit, etc. was RMB43,171,000 (On 31 December 2018: RMB29,861,000).

C. Reasons for the changes

(1) Notes receivable increased by RMB350,652,000 compared with the beginning of the fiscal year, mainly due to the increase in the settlement volume of the corresponding bills in the first half of 2019.

(2) Prepayment increased by RMB356,979,000 compared with the beginning of the fiscal year, mainly due to the increase in prepayments for the steel pipe purchases for newly opened pipeline projects in the first half of 2019.

(3) Contract assets increased by RMB5,009,329,000 compared with the beginning of the fiscal year, mainly due to the increase in contract assets occupation resulting from the increase in workload in the first half of 2019.

(4) Non-current assets due within one year decreased by RMB40,477,000 compared with the beginning of the fiscal year, mainly due to the repayment of the amount due.

(5) Construction in progress increased by RMB364,955,000 compared with the beginning of the fiscal year, mainly due to the investment in geophysical exploration and construction equipment in the first half of 2019.

(6) Non-current liabilities due within one year increased by RMB517,189,000 compared with the beginning of the fiscal year, mainly due to the non-current liabilities due to the transfer of some long-term loans to one year.

(7) The special reserve increased by RMB294,485,000 compared with the beginning of the fiscal year, mainly due to the increase in the provision for special reserves.

(4) Analysis of investments

A. Significant equity investment

Reviewed and approved by the 12th meeting of the ninth session of the Board held on 25 April 2019, SOSC, a wholly-owned subsidiary of the company, has conditionally agreed to purchase 45% equity interest of SinoFTS Petroleum Services Ltd. ("SinoFTS") held by FTS International Netherlands, B.V. ("FTSI"), at a purchase price of US$26,902,400 (tax exclusive). For details please refer to the "Possible Disclosable Transaction Acquisition of the 45% Equity Interest of SINOFTS" announcement (P.2019-020) published on China Securities, Shanghai Securities News, Securities Times on 26 April 2019 and on www.hkexnews.hk on 25 April 2019.

On 10 May 2019, the buyer, SOSC, the wholly-owned subsidiary of the company, and the seller, FTSI, entered into the buyout agreement. The buyout agreement became effective on 10 May 2019. Please refer to the Announcement "Progress Update Announcement on Disclosable Transaction" (P.2019-022) published on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 11 May 2019 and on www.hkexnews.hk on 10 May 2019 for details.

As at 20 August 2019, the related transfer procedure of 45% equity interest of SinoFTS has been completed, the business registration of SinoFTS has been completed. So far, SinoFTS has become a wholly-owned subsidiary of SOSC.

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	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
		(%)	RMB'000	RMB'000	RMB'000	RMB'000	
Sinopec Oilfield Service Company Limited	RMB4,000,000,000	100	66,064,667	63,857,187	2,207,480	522,588	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited*	RMB700,000,000	100	12,577,344	12,460,914	116,430	179,699	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited*	RMB450,000,000	100	11,772,493	11,606,929	165,564	196,074	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited*	RMB250,000,000	100	4,777,931	3,596,395	1,181,536	97,409	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited*	RMB860,000,000	100	3,910,179	3,792,996	117,183	-233	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited*	RMB890,000,000	100	4,480,220	2,351,133	2,129,087	90,582	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited*	RMB300,000,000	100	5,841,849	2,358,911	3,482,938	105,601	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited*	RMB300,000,000	100	3,668,068	3,386,952	281,116	42,674	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation*	RMB500,000,000	100	22,963,763	22,875,218	88,545	16,626	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited*	RMB2,000,000,000	100	5,396,461	1,714,329	3,682,132	9,439	Offshore Oil Engineering Technology Service
Sinopec International Oil Engineering Company Limited*	RMB700,000,000	100	3,981,299	2,955,486	1,025,813	3,055	Petroleum engineering technical service

Name of company	Revenue RMB'000	Operating profit RMB'000
Sinopec Oilfield Service Company Limited	30,256,030	749,715
Sinopec Shengli Oil Engineering Company Limited*	6,926,812	199,480
Sinopec Zhongyuan Oil Engineering Company Limited*	5,714,220	247,270
Sinopec Jianghan Oil Engineering Company Limited*	2,332,059	104,098
Sinopec East China Oil Engineering Company Limited*	1,365,239	18,513
Sinopec North China Oil Engineering Company Limited*	2,091,972	91,804
Sinopec Southwest Oil Engineering Company Limited*	2,414,151	104,996
Sinopec Oil Engineering Geophysical Company Limited*	1,805,668	43,315
Sinopec Oil Engineering and Construction Corporation*	6,608,613	119,008
Sinopec Shanghai Offshore Oil Engineering Company Limited*	684,448	8,858
Sinopec International Oil Engineering Company Limited*	535,188	30,710

*Note: The Company holds shares though SOSC.

(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 2019 RMB'000	Operating cost for the first half of 2019 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	1,869,906	1,776,054	5.0	-26.7	-26.3	Decreased by 0.6 percentage points
Drilling	16,779,456	15,109,872	10.0	35.8	29.6	Increased by 4.3 percentage points
Logging/Mud logging	1,048,528	831,110	20.7	51.8	23.5	Increased by 18.1 percentage points
Downhole operation	3,197,268	2,946,624	7.8	56.7	51.5	Increased by 3.1 percentage points
Engineering and Construction	6,481,250	5,952,019	8.2	23.3	22.9	Increased by 0.3 percentage points
Other	633,588	635,173	-0.3	48.4	46.9	Increased by 0.9 percentage points
Total	30,009,996	27,250,852	9.2	28.7	24.1	Increased by 3.3 percentage points

B. Statement of operation by regions

Region	Operating income for the first half of 2019 RMB'000	Increase/(decrease) as compared with the corresponding period of last year (%)
Mainland China	24,000,689	39.6
Hong Kong, Macau, Taiwan and overseas	6,009,307	-2.1

2. Market prospects and operation arrangements in the second half of 2019

(1) Market Forecast for the Second Half of 2019

Looking forward to the second half of 2019, the global political and economic uncertainties will increase significantly, and the global economic recovery will slow down. However, the stable and healthy fundamentals of China's economic development remain unchanged, and the overall trend of long-term stable and positive development remains unchanged. The supply and demand in the global crude oil market will generally remain balanced, and it is expected that the international oil price will be more likely to fluctuate between USD60-70 per barrel. Meanwhile, with the continuous deepening of China's supply-side structural reform in energy industry, the demand for clean energy such as natural gas will maintain rapid growth. Under the requirements of ensuring national energy strategy security, the three major domestic oil companies will continue to increase their capital expenditure in upstream exploration and development. As a result, the oilfield service industry will continue to recover in the second half of the year, and the operating results of the oilfield service industry will continue to improve steadily.

(2) Operation Plans of the Company for the Second Half of 2019

In the second half of 2019, the Company will continue to seize the favorable opportunities arising from the recovery of the oilfield services market, and continue to be market-oriented, to optimize the market layout and fully expand the market. The Company planned to achieve a newly signed contract value of RMB25 billion, and a completed contract value of RMB34 billion in the second half of the year. In addition, focusing on efficiency improvement, the Company will strengthen refined management of projects, strengthen technological innovation and application, and improve project operation efficiency; further strengthen cost control, strive to expand operating results and improve the corporate development quality.

A. Geophysical service

In the second half of 2019, the Company will effectively serve the exploration and development of domestic and overseas oil companies, continue to strengthen the efficiency exploration with project management as the core, and improve the operation efficiency of domestic and overseas projects. In overseas land and offshore markets such as Africa, the Middle East, South America and Southeast Asia, we will strengthen the development, strive for more quality seismic information collection projects and expand its integrated collection and processing projects. In new business markets such as non-seismic, surveying and mapping, measurement, etc., we will actively expand and cultivate business growth points. In the second half of the year, the Company plans to complete the 2D seismic information collection of 8,000 kilometers and the 3D seismic information collection of 12,000 square kilometers.

B. Drilling service

In the second half of 2019, the Company will strengthen the service of high-efficiency exploration and efficiency development in the upstream of Sinopec, strengthen the scientific operation of the team, strengthen the support of production enhancement technology to ultra-deep wells, shale gas, tight oil and gas and the mature oil fields in Eastern China, and make good efforts in the construction of key projects such as Weirong shale gas, West Sichuan marine gas field, Shunbei oil and gas field and North China tight gas field. Leveraging the technological advantages of integrated services, the Company will continue to expand the coverage of both domestic and overseas markets such as PetroChina and CNOOC; continue to expand the market share of domestic shale gas, conventional oil and gas, coalbed methane, etc., and to achieve stable operation in key overseas markets such as the Middle East, Africa and America, continuously expanding market share. In the second half of the year, a drilling footage of 4,800,000 meters is planned to be completed.

C. Logging/mud logging service

In the second half of 2019, the Company will continue to improve the professional technology system for logging/mud logging service, expand the application of various new technologies for logging/mud logging, and continue to improve the support capacity of exploration and development services. The Company will actively expand the overseas service business of logging/mud logging, accelerate the expansion of scale and effective market based on the existing markets of Central Asia and the Middle East. The Company will also continue to strengthen the promotion and application of multi-level horizontal well perforation and integrated geological orientation of testing, logging and locating, and actively explore the unconventional oil and gas market. In the second half of the year, the Company plans to complete a logging of 120,000,000 standard meters, and a mud logging footage of 3,800,000 meters.

D. Downhole operation service

In the second half of 2019, the Company will continue to improve its support capabilities of exploration and development services, constantly improve the engineering technology system of special downhole operation; further expand the market of conventional oil and gas and unconventional oil and gas, and develop the market of shale gas pressure cracking in Sichuan and Chongqing, to contribute to the production increase in domestic shale gas; strengthen high-end businesses such as high-pressure operations and intelligent coiled tubing, to further expand the high-end technology service market; continue to expand and strengthen the overseas well repairment market to expand the scale of the international market. In the second half of the year, we plan to complete the 3,500 downhole operations.

E. Engineering and construction service

In the second half of 2019, the Company will effectively promote the construction of key projects under construction, including Qianjiang-Shaoguan natural gas pipeline, Ordos-Anping-Cangzhou natural gas pipeline, Rizhao-Puyang-Luoyang crude oil pipeline, Qingdao-Nanjing gas pipeline and Nanchuan Shuijiang-Fuling Baitao gas pipeline; continue to increase efforts in market expansion of key projects such as domestic oil and gas pipelines and coal chemical by leveraging its technological advantages in oil and gas pipeline construction, striving to sign high quality and efficient projects. The Company will also strengthen management and control over subcontractors and project subcontracting to ensure project progress and efficiency; and actively expand overseas pipeline, station projects and road and bridge projects. In the second half of the year, we plan to sign new contracts valued at RMB7.0 billion and complete contracts valued at RMB8.0 billion.

F. International Business

In the second half of 2019, the Company will, as always, vigorously implement the "internationalization" business strategy. In particular, the Company will optimize the layout of overseas markets while steadily expanding the market share of its conventional advantageous projects, actively explore the high-end service market, continue to expand the market size, focusing on the wellbore and engineering construction projects in Saudi Arabia, the well repairment machine service project in Kuwait, the well drilling and completion general contracting service project Ecuador, the wellbore, geophysical and engineering construction projects in Algeria, etc. The Company will also continue to strengthen project supervision, overseas public security and HSE supervision to constantly improve project efficiency. In the second half of the year, we plan to sign new contract valued at USD480 million and complete contracts valued at USD1.02 billion.

G. Technology Research & development

In the second half of 2019, the Company will closely focus on the key exploration and development projects such as the construction of production capacity of Shunbei extra-deep oil and gas reservoir, the development of Weirong shale gas and the cooperation of difficult-to-use reserves in Eastern China, strengthen the in-depth integration of engineering and geology, strengthen the in-depth connection between technology and site, focusing on the research and development of key technology for the efficient development of deep shale gas; accelerate the breakthrough of key technology for the deep oil and gas reservoir, strengthen and improve the supporting technology for exploration and development of tight oil and gas reservoir, actively develop the high-precision high-density seismic exploration technology, and enhance the ability to solve the problems of high-efficiency exploration and efficiency development.

H. Internal Reform and Management

In the second half of 2019, the Company will continue to deepen the internal reform, clarify the functional positioning and streamline the management relationship in accordance with the overall deployment of "improving governance, strengthening incentives, highlighting main business and enhancing efficiency". The Company will vigorously promote the streamlining of organization and institution and personnel and build a high-quality and efficient organization; optimize the team structure, to establish a market-oriented team management model, improve the service quality and standard of the team, and enhance and strengthen the principal business; promote the optimization and integration of ancillary business to further improve the contractual operation mechanism and promote professional, market-oriented and social operation; strengthen performance assessment, comprehensively promote single-well/project assessment, to further highlight efficiency orientation and form innovation and create synergy for all employees. The Company will unswervingly follow the path of project management, to establish and improve the "one body, two wings" project management system, make full use of the two platforms (namely Asset Swap and Leasing Center and Human Resources Allocation Center) to coordinate and optimize the resource allocation, and strive to move towards refined management and lean management. The Company will continue to improve the comprehensive risk management system, comprehensively promote corporate governance according to laws and regulations, and promote the in-depth integration of risk control, internal control and specific business. The Company will also strengthen the cost control of all employees, all elements and the whole process by seizing the key process and key areas and strictly controlling non-production expenses, so as to ensure the smooth realization of the cost reduction target formulated at the beginning of the year.

I. Capital expenditure

In the second half of 2019, our planned capital expenditure is RMB2.01 billion. The Company will focus on economic benefits, continue to enhance its service exploration and development capabilities, strengthen resource integration and coordination, focusing on ensuring urgent production needs, enhancing technical service capabilities, upgrading and transformation of equipment with potential safety and environmental protection risks, and adaptability transformation of equipment for the "going global" projects already obtained. By further promoting the transformation of development mode and adjustment of market structure through investment, the Company will cultivate its 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. Increase of the uncertainties of international oil price trend

The international crude oil price basically maintained a wide range of fluctuations between USD60-70 per barrel in the first half of 2019. 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. 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 HSSE 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 2019	As to 31 December 2018	The change
	RMB'000	RMB'000	RMB'000
Total assets	**66,064,838**	60,904,715	5,160,123
Current assets	**37,159,701**	32,042,484	5,117,217
Non-current assets	**28,905,137**	28,862,231	42,906
Total liabilities	**59,479,984**	55,126,305	4,353,679
Current liabilities	**56,847,060**	52,990,402	3,856,658
Non-current liabilities	**2,632,924**	2,135,903	497,021
Total equity attributable to equity shareholders of the Company	**6,584,854**	5,778,410	806,444

As at 30 June 2019, the Group's total assets were RMB66,064,838,000 and total liabilities were RMB59,479,984,000. The total equity attributable to shareholders of the Company was RMB6,584,854,000. Compared with the consolidated statement of financial position as at 31 December 2018 ("Compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB66,064,838,000, increased by RMB5,160,123,000 compared with that of the end of last year, including that (i) current assets were RMB37,159,701,000, increased by RMB5,117,217,000 compared with that of the end of last year, mainly due to the significant increase in workload in the first half of the year, resulting in an increase in contract assets of RMB5,201,463,000. (ii) non-current assets were RMB28,905,137,000, increased by RMB42,906,000 compared with that of the end of last year, mainly due to the increase of Group's other non-current assets by RMB62,780,000.

The total liabilities were RMB59,479,984,000, increased by RMB4,353,679,000 compared with that of the end of last year, including that (i) current liabilities were RMB56,847,060,000, increased by RMB3,856,658,000 compared with that of the end of last year, mainly due to an increase of RMB2,271,851,000 of notes and trade receivables, an increase of RMB1,822,763,000 of short-term loans from related parties in the first half of the year. (ii) non-current liabilities were RMB2,632,924,000, increased by RMB497,021,000 compared with that of the end of last year which is mainly due to the implementation of the new IFRS16 "Leases" in the first half of the year represented the condensed consolidated statement of financial position resulting in additional non-current lease liabilities of RMB636,906,000.

Total equity attributable to shareholders of the Company was RMB6,584,854,000, increased by RMB806,444,000 compared with that of the end of last year. It mainly due to profit attributable to shareholders of the Company for the first half of 2019 was RMB803,913,000.

As at 30 June 2019, the ratio of total liabilities to assets was 90.0%, comparing with 90.5% as at 31 December 2018.

B. Cash flow analysis

The main items of cash flow of the Company in the first half of 2019 and the first half of 2018 showed in the following table.

	For the six months ended 30 June	
	2019	2018
Main items of cash flow	RMB'000	RMB'000
Net cash outflow from operating activities	**(709,159)**	(3,515,042)
Net cash outflow from investing activities	**(697,409)**	(277,827)
Net cash inflow from financing activities	**1,116,539**	3,314,234
Net decrease in cash and cash equivalents	**(290,029)**	(478,635)
Cash and cash equivalents at the beginning of the year	**2,173,580**	2,523,356
Exchange gains/(loss) in cash and cash equivalents	**2,323**	167,484
Cash and cash equivalents at the end of the period	**1,885,874**	2,212,205

In the first half of 2019, the Group's net cash outflow from operating activities was RMB709,159,000, representing a decrease of cash outflow by RMB2,805,883,000 as compared with the corresponding period of last year. This was mainly due to the increase of the workload of the Group, which led to an increase of the net cash inflow from project settlements in the first half of 2019.

In first half of 2019, the Group's net cash outflow from investing activities was RMB697,409,000, an increase of cash outflow by RMB419,582,000 as compared with the corresponding period of last year. It was mainly due to the increase cash paid for the acquisition of long-term assets such as property, plant and equipment in the first half of 2019.

In the first half of 2019, the Group's net cash inflow from financing activities was RMB1,116,539,000, a decrease of cash inflow by RMB2,197,695,000 compared with the corresponding period of last year. It was mainly due to receipt of the funds raised by the non-public placement in the first half of last year and the use of part of the raised funds to repay loans.

C. Borrowings from Related Companies

As at 30 June 2019, the Group's borrowings from related companies were RMB19,841,327,000 (as at 31 December 2018: RMB18,142,373,000). These borrowings include the short-term borrowings of RMB19,428,845,000 and the long-term borrowings due more than one year of RMB412,482,000. As at 30 June 2019, approximately 82.9% of the borrowings were denominated in Renminbi (as at 31 December 2018: 80.5%) and approximately 17.1% were denominated in US Dollars (as at 31 December 2018: 19.5%).

D. Gearing ratio

As at 30 June 2019, the gearing ratio of the Group was 75.2 % (as at 31 December 2018: 74.6%). 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 2019, there was no pledge on the Group's assets.

F. Foreign Exchange Risk Management

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

Section V Significant Events

1. Summary of shareholders' meetings

During the reporting period, the Company held the annual general meeting for the year 2018 on 26 June 2019 in Beijing. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Disclosure date of resolutions
The annual general meeting for the year 2018	26 June 2019	www.sse.com.cn www.hkexnews.hk	27 June 2019

2. Profit distribution plan or plan to convert capital reserves into share capital

(1) Interim cash dividends plan for 2019 and plan to convert capital reserves into share capital

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 2019, and no issue of bonus shares by way of capitalization of capital reserves.

3. Performance of undertakings

The special undertakings made by the Company and its shareholders holding more than 5% of the shares of the Company and their performance of the undertakings as of 30 June 2019:

Undertaking background	Undertaking type	Undertaking party	Undertaking	Date and duration of the Undertaking	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
Undertaking 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.	Date of undertaking: 12 September 2014 Duration: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

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

4. The situation of appointment and dismissal of the accounting firms

The Company did not change its accounting firms during the reporting period.

As such, proposed by the eleventh meeting of the ninth session of the Board of Directors of the Company and approved by the shareholders at 2018 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 2019, and to further appoint Grant Thornton (special general partnership) as the Company's auditor regarding internal control for 2019.

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 2018 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.

√ Applicable ☐ Not applicable

On 16 August 2018, Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned overseas subsidiary of the Company (the "Brazil Subsidiary") applied for judicial reorganization to the Third State Court of Commercial Enterprises in Rio de Janeiro, Brazil (the "Court of Rio") according to the relevant local laws in Brazil. On 31 August 2018, the Brazil Subsidiary received ruling from Court of Rio, approved Brazil Subsidiary's entering into judicial reorganization and the law firm Nascimento & Rezende Advogados was appointed as the judicial reorganization administrator by Court of Rio. For details, please refer to the "Announcement regarding the Proposed Judicial Reorganization by an indirectly wholly-owned overseas Subsidiary" (P. 2018-056) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", www.sse.com.cn on 4 September 2018 and disclosed at www.hkexnews.hk on 3 September 2018.

On 15 July 2019 (Brazil Time), the Brazil Subsidiary received a ruling from the Court of Rio on the approval of the judicial reorganization plan of the Brazil Subsidiary. For details, please refer to the "Announcement on Approval of Judicial Reorganization Plan of an indirectly wholly-owned overseas Subsidiary by overseas Court" (P. 2019-032) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", www.sse.com.cn on 19 July 2019 and disclosed at www.hkexnews.hk on 18 July 2019.

7. The punishment or rectification situation suffered by the Company or its directors, supervisors, senior management, controlling shareholders and ultimate controllers

During the reporting period, none of the Company or its directors, supervisors, senior management, controlling shareholders or ultimate controllers were subject to any investigation by relevant authorities or enforcement by judicial or disciplinary departments or subject to criminal liability, or subject to investigation or administrative penalty by the CSRC, nor any denial of participation in the securities market or deemed unsuitability to act as directors thereby by other administrative authorities or any public censure made by a stock exchange.

8. The information on the integrity status of the Company and its controlling shareholders, ultimate controllers during the reporting period

☐ Applicable √ Not applicable

9. Company's share option incentive plan and its respective 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) Information on share options granted to directors, chief executives or major shareholders

The Company granted a total of 1.85 million shares of A-share options to ten persons, including, Director Mr. Lu Baoping, Deputy General Manager Mr. Zhang Yongjie, Deputy Secretary of Party Committee Mr. Liu Rushan, Deputy General Manager Mr. Zuo Yaojiu, Deputy General Manager Mr. Zhang Jinhong, Secretary to the Board Mr. Li Honghai, Former Vice Chairman and General Manager Mr. Sun Qingde, Former Director and Deputy General Manager Mr. Zhou Shiliang, Former Supervisor Mr. Huang Songwei and Former Chief Financial Officer Wang Hongchen, accounting for 3.8% of the total number of share options in the proposed Grant, and accounting for 0.0131% of the total share capital of the Company.

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

The Company granted a total of 47,200,000 share options to 467 key business personnel, accounting for 96.2% of the total amount of the share options in the proposed Grant, and accounting for 0.3337% of the total share capital of the Company.

(4) Exercise price of the Grant

According to the determining principal of exercise price, the exercise price of the Grant is RMB5.63 per share (If, during the validity period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares, rights issue 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%

(6) Exercise and cancellation under the Grant during the reporting period

As the performance of the Company has not fulfilled the condition for exercise of the options during the 1st exercise period under the First Grant of the A Share Option Incentive Scheme, the Participants can not exercise the Options. On 29 October 2018, the company convened the 7th meeting of the 9th session of the Board at which the "Resolution relating to non-fulfillment of the exercise conditions for the 1st exercise period under the first Grant of the A share Option Incentive Scheme" was considered and approved, the Board decided to cancel the 14,715,000 Share Options corresponding to the 1st exercise period which have been granted but not yet been exercised under the First Grant of the A Share Option Incentive Scheme.

Meanwhile, in view of a total of 24 Participants of the Company's A Share Option Incentive Scheme came across matters such as retirement, change in job positions, resignation and death, etc., according to the Share Incentive Plan Measures and the relevant provisions of the Share Option Scheme, as the above Participants have not meet the qualifications, the Company proposes to cancel a total of 2,163,000 Share Options that have been granted to but not yet been exercised by the above-mentioned personnel. After this adjustment, the Participants of the Company's A Share Option Incentives were adjusted from 477 to 453, and the number of A Share Options which have been granted but not yet been exercised were adjusted from 34,335,000 to 32,172,000.

For details, please refer to the "Announcement relating to Non-fulfillment of Exercise Conditions for the First Exercise Period and Adjustment to the List of Participants and the Number of Share Options under the First Grant of the A Share Option Incentive Scheme" (P. 2018-064) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", www.sse.com.cn on 30 October 2018 and disclosed at www.hkexnews.hk on 29 October 2018.

10. Information on connected transactions

The Company's material connected transactions for the six months ended 30 June 2019 are as follows:

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

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipment	China Petrochemical Corporation and its subsidiaries	4,519,246	35.1
Sales of products	China Petrochemical Corporation and its subsidiaries	67,337	30.2
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	18,199,681	60.7
Receiving of community services	China Petrochemical Corporation and its subsidiaries	181,912	100
Rental expenses	China Petrochemical Corporation and its subsidiaries	8,311	1.1
Interest expenses	China Petrochemical Corporation and its subsidiaries	384,288	78.7
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	16,917,831	100.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	15,224,918	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	40,321	100.0

The Company is of the view 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, which also constitutes 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, which is beneficial to the Company. The pricing of the above transactions were mainly based on the market price or contract price determined by open bidding or negotiation, reflecting the principle of fairness, justice and openness, which is 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 of the Company occurred.

(4) The related obligatory rights and debts during the reporting period are as follows:

Unit: RMB'000

Related parties	Related relation	Funds provided to related party			Funds provided to the Company by related party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	Controlling shareholder and its subsidiaries	7,729,550	-1,425,536	6,304,014	6,249,664	2,101,395	8,351,059
Sinopec Finance Company Limited	Subsidiary of the controlling shareholders	–	–	–	9,600,000	340,000	9,940,000
Sinopec Century Bright Capital Investment Limited	Subsidiary of the controlling shareholders	–	–	–	3,542,373	-141,046	3,401,327
Total		7,729,550	-1,425,536	6,304,014	19,392,037	2,300,349	21,692,386
Causes of related claims and debts							Normal production and operation
Influence of related claims and debts on the Company's performance and financial situation							No material adverse effects

During the reporting period, there was no appropriation of fund for non-operating purpose by the controlling shareholder 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 conform to 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.

11. Material contracts and performance

(1) Trusteeship, sub-contracting and leasing

A. Trusteeship, sub-contracting matters

☐ Applicable √ Not applicable

B. Leasing matters

√ Applicable ☐ Not applicable

Unit: RMB

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	Whether it is a connected transaction	Connected relation
TSFL	Shengli Petroleum Engineering Company	Machines and equipment used for drilling and downhole operations	RMB1 billion	8 February 2018	8 February 2026	RMB-174 million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the Company.

(2) Guarantee

√ Applicable ☐ Not applicable

Unit: RMB'000

External Guarantee of the Company (excluding Guarantees for Subsidiaries)		
Total Amount of Guarantees incurred during the Reporting Period (excluding Guarantees for Subsidiaries)		0
Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries)		0
The Guarantee of the Company and its Subsidiaries to the Subsidiaries		
Total Amount of Guarantees paid to Subsidiaries during the Reporting Period		-1,426,953
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)		12,580,914
Total Company Guarantee (including Guarantee for Subsidiaries)		
Total Guarantees(A+B)		12,580,914
Total Amount of Guarantees as a Percentage of the Company's Net Asset (%)		191.1
Among them:		
Amount of Guarantees provided to Subsidiaries, Actual Controllers and their related Parties (C)		0
Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)		12,580,914
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)		9,288,487
Sum of the three Guarantees above (C+D+E)		21,869,401
Statement of Unexpired Guarantees as potential subject to Joint Liability		None
Guarantee Statement	The guarantees provided by the Company are all provided performance of 2018 for the issuance of the guarantee letters by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting of the company.	

(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. Information on 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 and there was no insiders' illegal trading of the shares of the Company. During the reporting period, the board of directors of the Company re-adjusted the members of the special committee of the board of directors based on the professional knowledge and experience of the directors.

During the reporting period, there was a clear division of rights and responsibilities among the general meeting, the Board and the management of the Company, with specific duties and responsibilities and standard operation. The special committees of the Board carried out their work in accordance with their duties and responsibilities, and the independent directors played an active role in connected transactions, appointment of senior management and financial auditing, etc. The Company continued to improve the quality of information disclosure and investor relations management, and the information has been disclosed in a truthful, accurate, complete and timely manner. The Company also meticulously organized performance training 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 adheres to the development philosophy of safety, environmental protection and green and low-carbon, and has formulated relevant systems such as the Management Rules on Environmental Protection of Sinopec Oilfield Service Corporation and the Management Rules on Pollution Prevention of Sinopec Oilfield Service Corporation. The Company strictly complies with environmental protection regulations and requirements of the emission standards and international conventions in the countries where it operates. For hazardous waste, the Company conducts recycling and treatment by delivering the waste to the entities with treatment qualifications.

Currently, the pollutants discharged by the Company mainly include exhaust gas, domestic sewage, solid waste and oil-based rock chip, etc. Exhaust gas includes diesel engine exhaust and gas fuel exhaust, the emission indicators have met the local standards and requirements; domestic sewage includes the domestic sewage from fixed places and the domestic sewage from mobile construction sites, the domestic sewage from fixed production sites is transferred to municipal pipeline network for centralized treatment, the domestic sewage from mobile construction sites is recycled after on-site pre-treatment; solid wastes are mainly drilling waste mud and rock chip, and are organized and treated by the owners or through landfill after harmless treatment and comprehensive utilization after harmless treatment in accordance with the requirements of the owners, domestic wastes are treated by professional institutions; oil-based rock chip, which, according to the requirements of the owner, is delivered to the owner for organization and disposal, or is comprehensively utilized after harmless treatment by pyrolysis. In the first half of 2019, the Company disposed of 644,000 tons of general solid waste, 53,000 tons of oil-based waste rock chip, 251,000 cubic meters of drilling operation waste water and 165,000 cubic meters of domestic sewage according to laws and regulations.

The Company strengthened on-site energy efficiency management, implemented energy conservation management and technical measures, and vigorously implemented energy efficiency improvement projects. In the first half of the year, the comprehensive energy consumption for RMB10,000 industrial output value was 0.244 tons of standard coal, representing a year-on-year decrease of 7.2%. At the same time, the Company initiated the creating activities of green grassroots, formulated the "Three-Year Implementation Plan for Pollution Prevention and Control Work of Green Action Plan" and "the Implementation Plan for Action of Green Enterprises", prepared four professional indicators for creating green grassroots such as drilling, downhole operation, geophysical and construction sites, and the creating activities of green enterprises and green construction teams has been gradually deepened.

The Company has established an environmental emergency management system, improved the environmental emergency network, prepared and timely revised the environmental emergency plans according to the risk assessment results, and filed the environmental emergency plan according to the requirements. The Company has also established emergency rescue teams and conduct regular emergency plan training and drills.

(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 2019, 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 percent 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 percent 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 2019, changes in significant accounting policies of the Company are as follows:

In accordance with the Accounting Standard for Business Enterprises No. 21 – Leases (applicable from 1 January 2019), the new IFRS 16 "Lease" eliminates the classification by lessees of finance leases and operating leases from the perspective of lessees, requires lessees to recognize right-of-use assets and lease liabilities for all leases (except for short-term leases and low-value asset leases applicable for simplified treatment) in balance sheet based on contractual rights and obligations, and to recognize depreciation and interest expense separately. The Company will, on the commencement date of the lease term, recognize the lease with a term of not more than 12 months and not containing the purchase option as short-term lease; recognize the lease of a single leased asset with a new asset value of not more than RMB50,000 as low-value asset lease. For short-term leases and low-value asset leases, the right-of-use assets and lease liabilities are not recognized, but included in the relevant asset costs or current profit or loss on a straight-line basis over the lease terms, and contingent rentals are charged to profit or loss in the period in which they actually arise. In calculating the present value of lease payments, the Company adopts the implicit interest rate of the lease as the discount rate; if the implicit interest rate of the lease cannot be determined, the lessee's incremental borrowing rate is used as the discount rate.

From the perspective of the lessor, the accounting treatment requirements of the original HKAS 17 "Lease" are basically followed.

The Company made retrospective adjustments to the relevant items in the opening financial statements in accordance with the above changes in accounting policies, and did not adjust the information of the comparable periods. The effects of applying the new lease standard on items in financial statements are as follows:

Unit: RMB'000

	Amount shown in previous years	Amount adjusted in accordance with the new standard	Restated amounts
Balance sheet:			
Fixed assets	23,842,767	-71,599	23,771,168
Right-of-use assets	–	1,020,627	1,020,627
Intangible assets	237,275	-4,549	232,726
Non-current liabilities due within one year	156,559	310,302	466,861
Long-term payable	868,672	-29,118	839,554
Leases liabilities	–	663,295	663,295
Total:	25,105,273	1,888,958	26,994,231

For details of the changes in accounting policies, please refer to Note III.33 to 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

During the reporting period, there was no change in the total number of shares and the share capital structure of the Company.

(2) Changes in shares with selling restrictions

☐ Applicable √ Not Applicable

2. Information on Shareholders

(1) Number of shareholders

As at 30 June 2019, the number of shareholders of the Company was 143,985, including 143,643 holders of A shares and 342 registered holders of H shares. The Company has complied with requirement for minimum public float under 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 Names of shareholders	Nature of shareholders	Changes of shareholdings (shares)[1]	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	0	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	7,766	5,402,118,744	28.46	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	0	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
Hu Xucang	Domestic natural person	0	6,200,189	0.03	0	0
Hangzhou Binnuo Asset Management Ltd-Binnuodongqi No. 1 Private Equity Investment Fund	Others	4,804,051	4,804,051	0.03	0	0

Shareholdings of top ten shareholders of shares without selling restrictions Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
China Petrochemical Corporation	9,224,327,662	A Share
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")	2,806,331,757	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
Hu Xucang	6,200,189	A Share
Hangzhou Binnuo Asset Management Ltd-Binnuodongqi No. 1 Private Equity Investment Fund	4,804,051	A Share
Li Guangming	4,565,000	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.	

Notes
1. As compared with the number of shares held as of 31 December 2018.
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 of the Company.
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 2019, 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)	(%)	(%)	(%)	(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 2019, 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
Liu Zhongyun	Chairman	0	0	0	No Change
Chen Xikun	Vice Chairman, Secretary of Party Committee	0	0	0	No Change
Yuan Jianqiang	Director, General Manager	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
Xiao Yi	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
Du Jiangbo	Supervisor	0	0	0	No Change
Zhai Yalin	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
Chen Weiguo	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
Sun Qingde	Former Vice Chairman, General Manager	0	0	0	No Change
Zou Huiping	Former Supervisor	0	0	0	No Change

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

As at 30 June 2019, except the stock option incentive and Qi Xin Gong Ying Scheme disclosed below, none of the directors, supervisors or senior management 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 contained in Appendix 10 to the Listing Rules.

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

Name	Position	Number of share options held at the beginning of 2019	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
Zhang Yongjie	Deputy General Manager	133,000	0	0	0	133,000
Liu Rushan	Deputy Secretary of Party Committee	133,000	0	0	0	133,000
Zuo Yaojiu	Deputy General Manager	126,000	0	0	0	126,000
Zhang Jinhong	Deputy General Manager	126,000	0	0	0	126,000
Li Honghai	Secretary to the Board	98,000	0	0	0	98,000
Sun Qingde	Former Vice Chairman, General Manager	147,000	0	0	0	147,000
Total	/	763,000	0	0	0	763,000

(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 A shares with selling restrictions 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 Insurance Co., Ltd., 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 RMB60.65 million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. 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 senior management of the Company 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 senior management of the Company 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)	Subscription scheme shares under Qi Xin Gong Ying Scheme (shares)	Subscription Price (RMB/A Share)	Subscription of A share (share)
Chen Xikun	Vice Chairman, Secretary of Party Committee	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
Zhang Yongjie	Deputy General Manager	350,000	350,000	2.62	133,587
Zuo Yaojiu	Deputy General Manager	350,000	350,000	2.62	133,587
Zhang Jinhong	Deputy General Manager	350,000	350,000	2.62	133,587
Li Tian	Chief Financial Officer	350,000	350,000	2.62	133,587
Li Honghai	Secretary to the Board	300,000	300,000	2.62	114,503
Sun Qingde	Former Vice Chairman, General Manager	400,000	400,000	2.62	152,671
Huang Songwei	Former Supervisors	350,000	350,000	2.62	133,587
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	Vice Chairman	Elected	Elected by the Board of Directors
Yuan Jianqiang	General Manager	Appointed	Appointed by the Board of Directors
Yuan Jianqiang	Director	Elected	Elected by General Meeting of Shareholders
Xiao Yi	Director	Elected	Elected by General Meeting of Shareholders
Zhai Yalin	Supervisor	Elected	Elected by General Meeting of Shareholders
Chen Weiguo	Employee Representative Supervisor	Elected	Elected by Employee Representative Meeting
Chen Xikun	Deputy General Manager	Resigned	Adjustment of Work
Sun Qingde	Vice Chairman, General Manager	Resigned	Change of Work
Zou Huiping	Supervisor	Resigned	Change of Work

The thirteenth meeting of the ninth Session of the Board of Directors of the Company was held on 20 May 2019, Mr. Chen Xikun was elected as the Vice Chairman of the ninth Session of the Board of Directors of the Company, whose term of office commenced from 20 May 2019 due to the expiration of the ninth Session of the Board (February 2021). Nominated by the Chairman, Mr. Yuan Jianqiang was appointed as General Manager of the Company whose term of office commenced from 20 May 2019 due to the expiration of the ninth Session of the Board (February 2021).

The 2018 annual general meeting of the Company was held on 26 June 2019. Mr. Yuan Jianqiang and Mr. Xiao Yi were elected as directors of the ninth Session of the Board of Directors of the Company since 26 June 2019 due to the expiration of the ninth Session of the Board (February 2021); Mr. Zhai Yalin was elected as supervisor of the ninth Session of the Supervisory Committee since 26 June 2019 due to the expiration of the ninth Session of the Supervisory Committee (February 2021). Elected by employee representative meeting of the Company held on 30 May 2019, Mr. Chen Weiguo was appointed as the employee representative supervisor of the ninth Session of the Supervisory Committee since 30 May 2019 due to the expiration of the ninth Session of the Supervisory Committee (February 2021).

Mr. Sun Qingde, Vice Chairman and General Manager of the Company, ceased to serve as the Vice Chairman of the Board, Executive Director and Deputy Director of the Strategy Committee of the Board since 10 May 2019. Mr. Chen Xikun, Deputy General Manager, ceased to serve as Deputy General Manager of the Company since 20 May 2019 due to adjustment of work position. Mr Zou Huiping, Supervisor, ceased to serve as Supervisor of the Company since 30 May 2019 due to new working arrangement.

The Company would like to express its gratitude to Mr. Sun Qingde and Mr. Zou Huiping for their hard work and outstanding contribution to the Company.

3. Independent Non-executive Director and Audit Committee

As at 30 June 2019, 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, Mr. Chen Weidong, Mr. Dong Xiucheng and Mr. Xiao Yi. 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 financial results for the six-months ended on 30 June 2019.

Prepared in accordance with PRC Accounting Standards for Business Enterprises

CONSOLIDATED AND COMPANY BALANCE SHEET

As at 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

		As at 30/6/2019		As at 1/1/2019		As at 31/12/2018	
Item	Note	Consolidated	Company	Consolidated	Company	Consolidated	Company
Current assets:							
Cash at bank and on hand	V.1	1,929,045	170	2,203,441	58,679	2,203,441	58,679
Financial assets held for trading		—	—	—	—	—	—
Bills receivable	V.2	831,848	—	481,196	—	481,196	—
Accounts receivable	V.3	14,566,908	—	15,630,004	—	15,630,004	—
Prepayments	V.4	801,728	—	444,749	—	444,749	—
Other receivables	V.5, XV.1	1,944,476	4,415,764	1,712,575	4,357,230	1,712,575	4,357,230
Including: Interest receivables		—	—	—	—	—	—
Dividend receivables		—	—	188	—	188	—
Inventories	V.6	1,641,130	—	1,411,638	—	1,411,638	—
Contract assets	V.7	13,881,033	—	8,871,704	—	8,871,704	—
Assets classified as held for sale		—	—	—	—	—	—
Non-current assets due within one year	V.8	—	—	40,477	—	40,477	—
Other current assets	V.9	1,539,515	8	1,218,035	—	1,218,035	—
Total current assets		37,135,683	4,415,942	32,013,819	4,415,909	32,013,819	4,415,909
Non-current assets:							
Debt investments		—	—	—		—	—
Other debt investments		—	—	—		—	—
Long-term receivables		—	—	—		—	—
Long-term equity investments	V.10, XV.2	241,126	27,891,662	232,823	27,891,662	232,823	27,891,662
Other equity instrument investments	V.11	39,011	—	39,011	—	39,011	—
Other non-current financial assets		—	—	—	—	—	—
Investment property		—	—	—	—	—	—
Fixed assets	V.12	22,410,517	—	23,771,168	—	23,842,767	—
Construction in progress	V.13	730,369	—	365,414	—	365,414	—
Right-of-use assets	V.14	1,086,739	—	1,020,627	—	—	—
Intangible assets	V.15	192,526	—	232,726	—	237,275	—
Research and development expenditure		—	—	—	—	—	—
Long-term deferred expenses	V.16	3,738,074	—	3,681,168	—	3,681,168	—
Deferred income tax assets	V.17	490,793	—	492,438	—	492,438	—
Other non-current assets		—	—	—	—	—	—
Total non-current assets		28,929,155	27,891,662	29,835,375	27,891,662	28,890,896	27,891,662
Total assets		66,064,838	32,307,604	61,849,194	32,307,571	60,904,715	32,307,571

CONSOLIDATED AND COMPANY BALANCE SHEET (Continued)

As at 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	As at 30/6/2019		As at 1/1/2019		As at 31/12/2018	
		Consolidated	Company	Consolidated	Company	Consolidated	Company
Current liabilities:							
Short-term loans	V.18	19,265,502	—	17,606,082	—	17,606,082	—
Financial liabilities at fair value through profit or loss		—	—	—	—	—	—
Bills payable	V.19	4,278,090	—	3,797,742	—	3,797,742	—
Accounts payable	V.20	25,053,265	12,110	23,261,762	1,535	23,261,762	1,535
Advances from customers		—	—	—	—	—	—
Contract liabilities	V.21	3,362,264	—	4,390,293	—	4,390,293	—
Employee benefits payable	V.22	577,534	—	510,507	—	510,507	—
Taxes payable	V.23	894,230	26,450	1,053,477	26,371	1,053,477	26,371
Other payables	V.24	2,646,308	8	2,186,009	—	2,186,009	—
Including: Interest payable		30,934	—	12,893	—	12,893	—
Dividend payable		—	—	—	—	—	—
Non-current liabilities due within one year	V.25	673,748	—	466,861	—	156,559	—
Other current liabilities		—	—	917	—	917	—
Total current liabilities		56,750,941	38,568	53,273,650	27,906	52,963,348	27,906
Non-current liabilities:							
Long-term loans	V.26	412,482	—	536,291	—	536,291	—
Bonds payables		—	—	—	—	—	—
Lease liabilities	V.27	728,524	—	663,295	—	—	—
Long-term payables	V.28	846,119	—	839,554	—	868,672	—
Provisions	V.29	587,704	—	595,742	—	595,742	—
Deferred income	V.30	132,552	—	139,594	—	139,594	—
Deferred income tax liabilities	V.17	21,662	—	22,658	—	22,658	—
Other non-current liabilities		—	—	—	—	—	—
Total non-current liabilities		2,729,043	—	2,797,134	—	2,162,957	—
Total liabilities		59,479,984	38,568	56,070,784	27,906	55,126,305	27,906
Equity:							
Share capital	V.31	18,984,340	18,984,340	18,984,340	18,984,340	18,984,340	18,984,340
Capital reserve	V.32	11,713,294	14,563,537	11,710,763	14,561,006	11,710,763	14,561,006
Other comprehensive income	V.33	11,676	—	11,676	—	11,676	—
Special reserve	V.34	595,094	—	300,609	—	300,609	—
Surplus reserve	V.35	200,383	200,383	200,383	200,383	200,383	200,383
Retained earnings	V.36	-24,919,933	-1,479,224	-25,429,361	-1,466,064	-25,429,361	-1,466,064
Equity attributable to the parent company		6,584,854	32,269,036	5,778,410	32,279,665	5,778,410	32,279,665
Non-controlling interests		—	—	—	—	—	—
Total equity		6,584,854	32,269,036	5,778,410	32,279,665	5,778,410	32,279,665
Total liabilities and equity		66,064,838	32,307,604	61,849,194	32,307,571	60,904,715	32,307,571

Chairman: *Liu Zhongyun*   *General Manager:* *Yuan Jianqiang*   *Chief Financial Officer:* *Li Tian*   *Manager of Accounting Department:* *Pei Defang*

CONSOLIDATED AND COMPANY INCOME STATEMENT

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
		Consolidated	Company	Consolidated	Company
I.Revenue	V.37	30,256,030	—	23,650,777	—
Less:Cost of sales	V.37	27,487,631	—	22,258,048	—
Taxes and surcharges	V.38	125,352	—	117,568	—
Selling and distribution expenses	V.39	25,300	—	23,531	—
General and administrative expenses	V.40	1,060,520	17,371	1,082,012	2,428
Research and development expenses	V.41	479,782	—	240,196	—
Finance costs	V.42	455,088	-4,211	163,624	-39,576
Including: Interest expenses		488,160	—	283,464	—
Interest income		79,224	4,211	35,114	—
Add: Other income	V.43	102,036	—	518,074	—
Investment income (“-” for losses)	V.44	9,410	—	-2,969	—
Including: Income from investment in associates and joint ventures		9,410	—	-2,969	—
Gains from changes in fair value (“-” for losses)		—	—	—	—
Credit impairment losses (“-” for losses)	V.45	4,188	—	121,880	—
Impairment losses (“-” for losses)		—	—	—	—
Gains from assets disposal (“-” for losses)	V.46	-1,437	—	895	—
II.Operating profit (“-” for losses)		736,554	-13,160	403,678	37,148
Add: Non-operating income	V.47	24,355	—	166,712	—
Less: Non-operating expenses	V.48	18,132	—	21,324	—
III.Profit before income tax (“-” for losses)		742,777	-13,160	549,066	37,148
Less: Income tax expenses	V.49	233,349	—	148,117	—
IV.Net profit for the year (“-” for losses)		509,428	-13,160	400,949	37,148
(1) Classification according to operation continuity					
Including: Net profit from continuing operations (“-” for net loss)		509,428	—	400,949	—
Net profit from discontinued operations (“-” for net loss)		—	—	—	—
(2) Classification according to attribute					
Including: Shareholders of the company		509,428	-13,160	400,949	37,148
Non-controlling interests		—	—	—	—
V. Other comprehensive income, net of tax		—	—	—	—
Other comprehensive income (net of tax) attributable to shareholders of the company		—	—	—	—
A. Items that will not be reclassified to profit or loss		—	—	—	—
a.Share of other comprehensive income of the equity method investments	V.33	—	—	—	—
B. Items that may be reclassified to profit or loss		—	—	—	—
Other comprehensive income (net of tax) attributable to non-controlling interests		—	—	—	—
VI.Total comprehensive income for the year		509,428	-13,160	400,949	37,148
Attributable to: Shareholders of the company		509,428	-13,160	400,949	37,148
Non-controlling interests		—	—	—	—
VII.Earnings per share:					
(1) Basic earnings per share	XVI.2	0.027		0.022	
(2) Diluted earnings per share		0.027		0.022	

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	Yuan Jianqiang	Li Tian	Pei Defang

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
		Consolidated	Company	Consolidated	Company
I.Cash flows from operating activities:					
Cash received from the sales of goods and rendering of services		24,882,423	—	20,161,035	—
Refunds of tax		124,854	—	82,209	—
Cash received from other operating activities	V.50	1,274,279	1,005,906	1,202,578	1,120,373
Subtotal of cash inflow from operating activities		26,281,556	1,005,906	21,445,822	1,120,373
Cash paid for goods and services		17,744,728	—	16,466,696	—
Cash paid to employees and on behalf of employees		6,534,925	—	5,948,147	—
Taxes paid		811,637	—	724,656	—
Cash paid for other operating activities	V.50	1,899,425	1,064,415	1,821,365	153,759
Subtotal of cash outflow from operating activities		26,990,715	1,064,415	24,960,864	153,759
Net cash flow from operating activities	V.51	-709,159	-58,509	-3,515,042	966,614
II.Cash flows from investing activities:					
Cash received from disposal of investments		—	—	—	—
Cash received from the investment income		1,296	—	—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		19,230	—	30,708	—
Net cash received from disposal of subsidiaries and other business units		—	—	—	—
Cash received from other investing activities	V.50	—	—	—	—
Subtotal of cash inflow from investing activities		20,526	—	30,708	—
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		717,935	—	308,535	—
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	V.50	—	—	—	—
Subtotal of cash outflow from investing activities		717,935	—	308,535	7,719,955
Net cash flow from investing activities		-697,409	—	-277,827	-7,719,955

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT (Continued)

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
		Consolidated	Company	Consolidated	Company
III. Cash flows from financing activities:					
Cash received from the acquisition of investments		—	—	7,639,698	7,639,698
Including: Cash received from non-controlling shareholders of subsidiaries		—	—	—	—
Cash received from borrowings		16,917,831	—	16,559,753	—
Cash received from issuance of bonds		—	—	—	—
Cash received for other financing activities	V.50	—	—	500,176	176
Subtotal of cash inflow from financing activities		16,917,831	—	24,699,627	7,639,874
Cash paid for repayments of borrowings		15,224,918	—	17,343,880	—
Cash paid for distribution of dividend, profit or payments of interests		394,391	—	280,230	—
Including: Cash paid for the dividend to minority shareholders of subsidiaries		—	—	—	—
Cash paid for other financing activities	V.50	181,983	—	3,761,283	1,120,892
Including:Cash paid to minority shareholders by capital reduction of subsidiaries		—	—	—	—
Subtotal of cash outflow from financing activities		15,801,292	—	21,385,393	1,120,892
Net cash flow from financing activities		1,116,539	—	3,314,234	6,518,982
IV.Effect of exchange rate changes on cash and cash equivalents		2,323	—	167,484	82,240
V.Net increase in cash and cash equivalents		-287,706	-58,509	-311,151	-152,119
Add: Cash and cash equivalents at beginning of year/period	V.51	2,173,580	58,679	2,523,356	236,745
VI.Cash and cash equivalents at end of year/period	V.51	1,885,874	170	2,212,205	84,626

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	*Yuan Jianqiang*	*Li Tian*	*Pei Defang*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

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
I. Balance at 31/12/2018	18,984,340	11,710,763	–	11,676	300,609	200,383	-25,429,361	–	5,778,410
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–
Correction of prior period errors	–	–	–	–	–	–	–	–	–
Business combination under common control	–	–	–	–	–	–	–	–	–
II. Balance at 01/01/2019	18,984,340	11,710,763	–	11,676	300,609	200,383	-25,429,361	–	5,778,410
III. Changes in equity during the year ("-" for decrease)	–	2,531	–	–	294,485	–	509,428	–	806,444
(I) Total comprehensive income	–	–	–	–	–	–	509,428	–	509,428
(II) Shareholders' contributions and decrease of capital	–	2,531	–	–	–	–	–	–	2,531
1. Contribution by ordinary shareholders	–	–	–	–	–	–	–	–	–
2. Capital contributed by the holders of other equity instrument	–	–	–	–	–	–	–	–	–
3. Share payments recognised in equity	–	2,531	–	–	–	–	–	–	2,531
4. Others	–	–	–	–	–	–	–	–	–
(III) Appropriation of profits	–	–	–	–	–	–	–	–	–
1. Appropriation for surplus reserves	–	–	–	–	–	–	–	–	–
2. Distributions to shareholders	–	–	–	–	–	–	–	–	–
(IV) Transfer within equity	–	–	–	–	–	–	–	–	–
(V) Specific Reserve	–	–	–	–	294,485	–	–	–	294,485
1. Appropriation during the year	–	–	–	–	501,235	–	–	–	501,235
2. Utilisation during the year (expressed in "-")	–	–	–	–	-206,750	–	–	–	-206,750
(VI) Others	–	–	–	–	–	–	–	–	–
IV. Balance at 30/6/2019	18,984,340	11,713,294	–	11,676	595,094	200,383	-24,919,933	–	6,584,854

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	*Yuan Jianqiang*	*Li Tian*	*Pei Defang*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

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
I. Balance at 31/12/2017	14,142,661	8,907,868	—	—	202,477	200,383	-25,571,417	-1,372	-2,119,400
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—
II. Balance at 01/01/2018	14,142,661	8,907,868	—	—	202,477	200,383	-25,571,417	-1,372	-2,119,400
III. Changes in equity during the year ("-" for decrease)	4,841,679	2,794,664	—	—	214,782	—	400,949	1,372	8,253,446
(I) Total comprehensive income	—	—	—	—	—	—	400,949	—	400,949
(II) Shareholders' contributions and decrease of capital	4,841,679	2,794,664	—	—	—	—	—	1,372	7,637,715
1. Contribution by ordinary shareholders	4,841,679	2,796,036	—	—	—	—	—	—	7,637,715
2. Capital contributed by the holders of other equity instrument	—	—	—	—	—	—	—	—	—
3. Share payments recognised in equity	—	—	—	—	—	—	—	—	—
4. Others	—	-1,372	—	—	—	—	—	1,372	—
(III) Appropriation of profits	—	—	—	—	—	—	—	—	—
1. Appropriation for surplus reserves	—	—	—	—	—	—	—	—	—
2. Distributions to shareholders	—	—	—	—	—	—	—	—	—
(IV) Transfer within equity	—	—	—	—	—	—	—	—	—
(V) Specific Reserve	—	—	—	—	214,782	—	—	—	214,782
1. Appropriation during the year	—	—	—	—	347,266	—	—	—	347,266
2. Utilisation during the year (expressed in "-")	—	—	—	—	-132,484	—	—	—	-132,484
(VI) Others	—	—	—	—	—	—	—	—	—
IV. Balance at 30/6/2018	18,984,340	11,702,532	—	—	417,259	200,383	-25,170,468	—	6,134,046

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	Yuan Jianqiang	Li Tian	Pei Defang

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
I. Balance at 31/12/2018	18,984,340	14,561,006	—	—	—	200,383	-1,466,064	32,279,665
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
II. Balance at 01/01/2019	18,984,340	14,561,006	—	—	—	200,383	-1,466,064	32,279,665
III. Changes in equity during the year ("-" for decrease)	—	2,531	—	—	—	—	-13,160	-10,629
(I) Total comprehensive income	—	—	—	—	—	—	-13,160	-13,160
(II) Shareholders' contributions and decrease of capital	—	2,531	—	—	—	—	—	2,531
1. Contribution by ordinary shareholders	—	—	—	—	—	—	—	—
2. Capital contributed by the holders of other equity instrument	—	—	—	—	—	—	—	—
3. Share payments recognised in equity	—	2,531	—	—	—	—	—	2,531
4. Others	—	—	—	—	—	—	—	—
(III) Appropriation of profits	—	—	—	—	—	—	—	—
1. Appropriation for surplus reserves	—	—	—	—	—	—	—	—
2. Distributions to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(IV) Transfer within equity	—	—	—	—	—	—	—	—
(V) Specific Reserve	—	—	—	—	—	—	—	—
1. Appropriation during the year	—	—	—	—	—	—	—	—
2. Utilisation during the year (expressed in "-")	—	—	—	—	—	—	—	—
(VI) Others	—	—	—	—	—	—	—	—
IV. Balance at 30/6/2019	18,984,340	14,563,537	—	—	—	200,383	-1,479,224	32,269,036

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	Yuan Jianqiang	Li Tian	Pei Defang

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

For the six months ended 30 June 2019

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
I .Balance at 31/12/2017	14,142,661	11,764,970	—	—	—	200,383	-1,496,150	24,611,864
Add: Changes in accounting policies	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
II. Balance at 01/01/2018	14,142,661	11,764,970	—	—	—	200,383	-1,496,150	24,611,864
III. Changes in equity during the year ("-" for decrease)	4,841,679	2,796,036	—	—	—	—	37,148	7,674,863
(I) Total comprehensive income	—	—	—	—	—	—	37,148	37,148
(II) Shareholders' contributions and decrease of capital	4,841,679	2,796,036	—	—	—	—	—	7,637,715
1. Contribution by ordinary shareholders	4,841,679	2,796,036	—	—	—	—	—	7,637,715
2. Capital contributed by the holders of other equity instrument	—	—	—	—	—	—	—	—
3. Share payments recognised in equity	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(III) Appropriation of profits	—	—	—	—	—	—	—	—
1. Appropriation for surplus reserves	—	—	—	—	—	—	—	—
2. Distributions to shareholders	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(IV) Transfer within equity	—	—	—	—	—	—	—	—
(V) Specific Reserve	—	—	—	—	—	—	—	—
1. Appropriation during the year	—	—	—	—	—	—	—	—
2. Utilisation during the year (expressed in "-")	—	—	—	—	—	—	—	—
(VI) Others	—	—	—	—	—	—	—	—
IV. Balance at 30/6/2018	18,984,340	14,561,006	—	—	—	200,383	-1,459,002	32,286,727

Chairman:	General Manager:	Chief Financial Officer:	Manager of Accounting Department:
Liu Zhongyun	Yuan Jianqiang	Li Tian	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 referred to as "Yihua") on 31 December 1993. The Company's headquarter is located in the 22th North Street,Chaoyang District, Beijing.

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

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

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

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

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

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

Pursuant to "the Approval to matters in relation to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Subsequent A Share Placement" (SASAC Property Right [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and "the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement" (CSRC Permit [2014] No.1370) issued by China Securities Regulatory Committee,the Company implemented the material asset reorganization in 2014. The Company sold all of its assets and liabilities (hereinafter referred to as the ''Outgoing Business'') to Sinopec Corp., in exchange, would repurchase A shares of the Company held by Sinopec Corp. for cancellation, and issue shares to Sinopec Group in order to acquire 100% equity interest of Sinopec Oilfield Service Corporation (hereinafter referred to as "SOSC") held by Sinopec Group (hereinafter referred to as the ''Incoming Equities'' or "SOSC", hereinafter collectively referred to as the "Reorganisation''). The Company executed the Confirmation on Completion of Outgoing Business with Sinopec Corp., executed the Confirmation on Completion of Incoming Equities with Sinopec Group on 22 December 2014.According to the Confirmations,the Company transferred 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 Shengshihuazhang No. 2 Community Pension Management Fund.The non-public issuance of ordinary shares (A shares) was issued at RMB2.62 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.

I. COMPANY GENERAL INFORMATION (Continued)

1. Company Profile (Continued)

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

These financial statements and financial information notes have been approved for issue by the fifteenth meeting of the ninth term Board of Directors of the Company on 27 August 2019.

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 financial statements are prepared on a going concern basis. The Group's accumulated loss is RMB24,919,933 thousand, current liabilities exceed current assets of approximately RMB19,615,258 thousand as at 30 June 2019 (Current liabilities exceed current assets of RMB20,949,529 thousand in 2018),committed capital expenditures are approximately RMB219,269 thousand. 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 April 2019, the company obtained a credit line of RMB14 billion and an equivalent value of USD0.6 billion from subsidiaries of Sinopec Group, and line of credit promissory note of RMB7 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, 15, Note III, 18, Notes III, 21, Notes III, 19 and Notes III, 25.

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 30 June 2019 and the Company's and the consolidated operating results during at 30 June 2019.

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.

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

4. Functional currency

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

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

5. Business combinations

(1) Business combination involving entities under common control

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

Business combinations involving enterprises under common control and achieved in stages

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

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

(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.

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

5. Business combinations (Continued)

(3) Transaction fees attribution during the combination

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

6. Method of preparing consolidated financial statements

(1) Scope of consolidation

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

(2) Method of preparing of consolidated financial statements

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

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

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

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

(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:

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

These transactions can only achieve one complete business results;

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

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

In the separate financial statements, the difference between the related long term equity investment for each disposal of equity interest and received consideration are recognized in the profit or loss in the current period.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:

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

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

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:

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

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

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

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

(2) Classification and measurement of financial assets

Financial assets are classified into the following three categories depends on the Group's business mode of managing financial assets and cash flow characteristics of financial assets: 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.

Financial assets measured at amortised cost

The Group shall classify financial assets that meet the following conditions and are not designated as financial assets at fair value through profit or loss as financial assets measured at amortized cost:

- The Group's business model for managing the financial assets is to collect contractual cash flows;
- The terms of the financial asset contract stipulate that cash flows generated on a specific date are only payments of principal and interest based on the amount of outstanding principal.

After initial confirmation, the real interest rate method is used to measure the amortized cost of such financial assets. Profits or losses arising from financial assets measured at amortized costs and not part of any hedging relationship are included in current profits and losses when the recognition is terminated, amortized or impaired according to the Actual Interest Rate Law.

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

10. Financial instruments (Continued)

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

Financial assets at fair value through other comprehensive income

The Group shall classify financial assets that meet the following conditions and are not designated as financial assets measured at fair value and whose changes are recorded in current profits and losses as financial assets measured at fair value through other comprehensive income:

- The Group's business model for managing the financial assets is both to collect contractual cash flows and to sell the financial assets;
- The terms of the financial asset contract stipulate that cash flows generated on a specific date are only payments of principal and interest based on the amount of outstanding principal.

After initial recognition, financial assets are subsequently measured at fair value. Interest, impairment losses or gains and exchange gains calculated by the effective interest rate method are recognised in profit or loss, while other gains or losses are recognised in other comprehensive gains. When derecognized, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive gains and recorded in current profits and losses.

Financial assets at fair value through profit or loss

In addition to the aboving financial assets which are measured at amortized cost or at fair value a through other comprehensive income, the Group classifies all other financial assets as financial assets measured at fair value through profit or loss.When initial recognition, in order to eliminate or significantly reduce accounting mismatches, the Group irrevocably designates some financial assets that should have been measured at amortized cost or at fair value through other comprehensive gains as financial assets at fair value through profit or loss.

After initial recognition, the financial assets are subsequently measured at fair value, and the profits or losses (including interest and dividend income) generated from which are recognised in profit or loss, unless the financial assets are part of the hedging relationship.

However, for non-tradable equity instrument investment, when initially recognized, the Group irrevocably designates them as financial assets at fair value through other comprehensive gains. The designation is made on the basis of individual investment, and the relevant investment conforms to the definition of equity instruments from the issuer's point of view.

After initial confirmation, financial assets are subsequently measured at fair value. Dividend income that meets the requirements is recognised in profit and loss, and other gains or losses and changes in fair value are recognised in other comprehensive gains. When derecognized, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive gains to retained earnings.

The business model of managing financial assets refers to how the group manages financial assets to generate cash flow. The business model decides whether the source of cash flow of financial assets managed by the Group is to collect contract cash flow, sell financial assets or both of them. Based on objective facts and the specific business objectives of financial assets management decided by key managers, the Group determines the business model of financial assets management.

The Group evaluates the characteristics of the contract cash flow of financial assets to determine whether the contract cash flow generated by the relevant financial assets on a specific date is only to pay principal and interest based on the amount of unpaid principal. Among them, principal refers to the fair value of financial assets at the time of initial confirmation; interest includes the consideration of time value of money, credit risk related to the amount of unpaid principal in a specific period, and other basic borrowing risks, costs and profits. In addition, the Group evaluates the terms and conditions of the contracts that may lead to changes in the time distribution or amount of cash flow in financial asset contracts to determine whether they meet the requirements of the aboving contract cash flow's. characteristics.

Only when the Group changes its business model of managing financial assets, all the financial assets affected shall be reclassified on the first day of the first reporting period after the business model changes, otherwise, financial assets shall not be reclassified after initial confirmation.

In addition to accounts receivable without significant financing elements, financial assets are measured at fair value when initially recognized. For financial assets at fair value through profits and losses, the related transaction costs are directly recognized through profits and losses, and the related transaction costs of other types of financial assets are included in the initial recognition amounts. For accounts receivable without significant financing elements, the Group shall initially measure with the transaction price according to the accounting policies in Note III,27.

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

10. Financial instruments (Continued)

(3) Classification and Measurement of financial liabilities

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

Financial liabilities at fair value through profits and losses

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

Financial liabilities measured at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition or amortization is recognised in profit or loss for the current period.

Financial guarantee contract

Financial guarantee contract are not related to financial liabilities measured at fair value through profits and losses. They are measured at fair value on initial recognition, subsequently measured by the higher amount of the loss reserve of provisions determined by the expected credit losses model and the initial confirmation amount deducting the accumulated amortization.

Distinction between financial liabilities and equity instruments

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

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

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

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

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

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

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

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

(4) Derivative financial instruments and embedded derivatives

The Group's derivative financial instruments 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 the main contract belongs to financial asset, the hybrid instrument as a whole shall apply to the regulations of financial assets. If the main contract is not belongs to financial asset and the mixed instrument is not measured at fair value through profits and losses, 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.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets

On the basis of expected credit losses, the Group performs impairment assessment on the following items and confirms the loss provision.

- financial assets measured at amortized cost;
- debt investments at fair value through other comprehensive income;
- contract assets defined in Accounting Standards for Business Enterprises No. 14 – Revenue;
- lease receivables;
- Financial guarantee contract(except measured at fair value through profit or loss or formed by continuing involvement of transferred financial assets or the transfer does not qualify for derecognition).

Measurement of expected credit losses

The expected credit losses 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.

The Group separately measures the expected credit losses of financial instruments at different stages. The credit risk on a financial instrument has not increased significantly since initial recognition, which is in the first stage. The Group shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk of financial instruments has increased significantly since the initial recognition, but no credit impairment has occurred, which is in the second stage. The Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses. If the financial instrument has occurred credit impairment since initial recognition, which is in the third stage, and the Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with lower credit risk at the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition, and shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The lifetime expected credit losses,refer to the expected credit losses caused by all possible defaults during the whole expected lifetime. The 12-month expected credit losses,refer to the expected credit losses caused by all possible defaults during the 12-month after balance sheet date(if the expected duration of financial instrument is less than 12 months, then for the expected duration), which is part of the lifetime expected credit losses

When measure the expected credit loss, the longest contract period (including the option of renewal) that the group needs to consider is the longest contract period the enterprise facing credit risk.

For financial instruments in the first stages,second stages and with lower credit risk, the Group calculates interest income on the basis of their book balances without deduction of impairment provisions and actual interest rates. For financial instruments in the third stage, the Group calculates interest income according to their book balance minus the impairment provision and the actual interest rate.

For bills receivable, accounts receivable and contract assets, whether or not there are significant financing elements, the Group shall always measure the loss allowance for them at an amount equal to the lifetime expected credit losses.

According to the characteristics of credit risk, the group divides and combines bills receivable and accounts receivable, contract assets and leased receivables. On the basis of the combination, the group calculates the expected credit losses. The basis of determining the combination is as follows:

A. Bills receivable

- Bill receivable group 1: Bank acceptance bills
- Bill receivable group 2: Trade acceptance bills

B. Accounts receivable

- Accounts receivable group 1: Amount receivables of related parties
- Accounts receivable group 2: Amount receivables of other customers

C. Contract assets

- Contract assets group 1: Engineering services
- Contract assets group 2: Others

For the accounts receivable divided into group, the group refers to the historical credit losses, combines the current situation with the forecast of future economic situation, compiles a comparison table between the age of accounts receivable and the lifetime expected credit losses rate to calculate the expected credit losses.

For the bills receivables and contract assets divided into group, the Group refers to historical credit losses, with the current situation and the forecast of future economic situation, calculates the expected credit losses through the exposure on default and the lifetime expected credit losses rate.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Other receivables

According to the characteristics of credit risk, the group divides other receivables into group. On the basis of the combination, the group calculates the expected credit losses. The basis of determining the combination is as follows:

- Other receivables group 1: Amount receivables of related parties
- Other receivables group 2: Amount receivables of other customers

For other receivables a divided into group, the Group calculates the expected credit losses through the exposure on default and the lifetime expected credit losses rate.

Long-term receivables

Long-term receivables includes receivables for construction, installation receivables for providing services.

According to the characteristics of credit risk, the group divides receivables for construction, installation receivables for providing services into group. On the basis of the group, the group calculates the expected credit losses. The basis of determining the combination is as follows:

A. Long-term receivables

- Long-term receivables group1: Receivables for construction
- Long-term receivables group2: Installation receivables for providing services.
- Long-term receivables group3: Amount receivables of other customers

For receivables for construction and installation receivables for providing services, the Group refers to historical credit losses, with the current situation and the forecast of future economic situation, calculates the expected credit losses through the exposure on default and the lifetime expected credit losses rate.

For other receivables and long-term receivables divided into group expect receivables for construction and installation receivables for providing services, the Group calculates the expected credit losses through the exposure on default and the future 12-month or lifetime expected credit losses rate.

Debt investments, Other debt investments

For debt investments and other debt investments, the group calculates the expected credit losses through the exposure on default and the future 12-month or lifetime expected credit losses rate, according to the nature of the investment, the types of counterparty and risk exposure.

Assessment of Significant Increase in Credit Risk

By comparing the default risk of financial instruments on balance sheet day with that on initial recognition day, the Group determines the relative change of default risk of financial instruments during the expected life of financial instruments,to evaluate whether the credit risk of financial instruments has increased significantly since the initial recognition.

To determine whether credit risk has increased significantly since the initial recognition., the Group considers reasonable and valid information, including forward-looking information, that can be obtained without unnecessary additional costs or efforts. Information considered by the Group includes:

- The debtor can't pay principal and interest on the expiration date of the contract
- Serious deterioration of external or internal credit ratings (if any) of financial instruments that have occurred or are expected to occur;
- Serious deterioration of the debtor's operating results that have occurred or are expected to occur;
- Changes in the existing or anticipated technological, market, economic or legal environment will have a significant negative impact on the debtor's repayment capacity.

According to the nature of financial instruments, the Group evaluates whether credit risk has increased significantly on the basis of a single financial instrument or a combination of financial instruments. When assessing on the basis of the combination of financial instruments, the Group can classify financial instruments based on common credit risk characteristics, such as overdue information and credit risk rating.

If the delay exceeds 30 days, the Group determines that the credit risk of financial instruments has increased significantly.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Assessment of Significant Increase in Credit Risk (Continued)

The Group considers that financial assets default in the following circumstances

- The debtor is unlikely to full pay its arrears to the group, and the assessment does not take into account recourse actions taken by the group, such as liquidation of collateral (if held); or
- Financial assets have delay more than 90 days.

Financial assets that have occurred credit impairment

On the balance sheet date, the Group assesses whether credit impairment has occurred in financial assets measured at amortized cost and debt investments measured at fair value through other comprehensive income. When one or more events adversely affect the expected future cash flow of a financial asset occur, the financial asset becomes a financial asset with credit impairment. Evidence of credit impairment of financial assets includes the following observable information:

- Significant financial difficulties occurs to the issuer or debtor;
- The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;
- For economic or contractual considerations related to the financial difficulties of the debtor, the Group grants concessions to the debtor that will not be made under any other circumstances.
- The debtor is probable to go bankrupt or undergo other financial restructuring.
- Financial difficulties of issuer or debtor lead to the disappearance of financial assets active market

Presentation of expected credit losses reserve

In order to reflect the changes happened to the credit risk of financial instruments since the initial recognition, the Group recalculates the expected credit losses on each balance sheet day. The increase or reversal of the loss provision resulting therefrom is recognised as an impairment loss or gain in the current profit or loss.For financial assets measured at amortized cost, loss provision offsets the carrying amount of the financial assets shown on the balance sheet; for debt investments measured at fair value through other comprehensive income, the Group recognizes its loss provision through other comprehensive income and does not offset the financial assets' carrying amount.

Write off

If the Group no longer reasonably expects that the financial assets contract cash flow can be recovered fully or partially, the financial assets book balance will be reduced directly. Such reduction constitute the derecognition of the financial assets. What usually occurs when the Group determines that the debtor has no assets or sources of income to generate sufficient cash flows to pay the amount to be reduced. However, in accordance with the Group's procedures for recovering due payment, the financial assets reduced may still be affected by enforcement activities.

If the reduced financial assets are recovered later, the returns as impairment losses shall be included in the profits and losses of the recovery period.

(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.

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

10. Financial instruments (Continued)

(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.

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.

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. 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.

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

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

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

(4) Inventory system

The Group adopts perpetual inventory system.

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

13. Assets Held for sale and discontinued operations

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

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

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

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

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

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

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

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

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

A. 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

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

14. 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.

(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.

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

14. Long-term equity investment (Continued)

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

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, 13 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.20 for investment and the impairment provision of assets.

15. 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 cost 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	4.9-2.43
Oil engineering equipment and others	4-30	3	24.3-3.2

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, 20 for the impairment testing and the impairment provision of fixed assets.

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

15. 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.

16. 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, 20.

17. 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;

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.

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

17. Borrowing costs (Continued)

(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.

18. Intangible assets

Intangible assets include land use rights, patent rights and technology rights, and are measured at cost.

Intangible assets initially measured at cost. The intangible assets contributed by the State shareholders at the reorganization of the Company into a corporation are recognized based on the revaluated amounts as approved by the state-owned assets administration department. The group analyzes and judges the service life of intangible assets when obtained. An intangible asset with finite useful life shall be amortized over the expected useful life using method which can reflect the expected realization of the economic benefits related to the assets from when the intangible asset is available for use. An intangible asset whose expected realization can't be reliably determined is amortized using straight-line amortization; an intangible asset with indefinite useful life shall not be amortized.

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

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

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

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

For the impairment method of intangible assets, refer to Note III, 20.

19. 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.

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

20. 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.

21. 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.

22. Employee benefits

(1) The scope of employee benefits

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

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

(2) Short-term employee benefits

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

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

22. Employee benefits (Continued)

(3) Post-employment benefits

Post-employment benefit plans includes defined contribution plans or defined benefit plans. Among them 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. Defined benefit plans refers to post-employment benefit expect defined contribution plans. Post-employment benefit of outgoing business includes the basic pension insurance, unemployment insurance and annuity, which belongs to the defined contribution plans.

The basic pension insurance

The employees of the Group participate in the social basic pension insurance operated by the local labor and social security department. The group provides a monthly payment of pension insurance to the local community in basic pension insurance agency according to the local basic pension insurance base and rate. The local labor and social department are responsible for the payment of social pension to the retired employees after the employees retire.

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.

23. Provisions

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

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

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

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

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

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

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

24. 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.

(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 cancelled equity instruments granted.

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

25. Revenue

(1) General principle

The Group recognize revenue when the contract performance obligations have been fulfilled, the customer has gained control of the relevant goods and services.

If two or more performance obligations are included in the contract, the Group shall, on the commencement date of the contract, apportion the transaction price to the individual performance obligations according to the relative proportion of the individual selling prices of the commodities or services promised by the individual performance obligations, and measure the income according to the transaction price apportioned to the individual performance obligations.

If one of the following conditions is met, the Group shall be obliged to fulfil its performance obligations within a certain period; otherwise, it shall be obliged to fulfil its performance obligations at a certain point:

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 commodities produced by the Group in the course of its performance are irreplaceable and the Group has the right to collect payments for the part of performance that has been completed so far during the entire 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. 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.

For obligations performed at certain point, the Group recognize revenue when the customer gains control of the relevant goods and services. When judging whether customers have gained control of the relevant goods and services, the Group will consider the following signs:

① The group has obtained the current collection rights, the customer has obtained the current payment obligation.

② The Group have transferred the legal ownership of the commodity to the customer, the customer has obtained the legal ownership of the commodity.

③ The Group has transferred the physical commodity to the customer, the customer has possessed the commodity in kind.

④ The Group has transferred the ownership and accompanying risk and payment of goods to the customer, the customer has obtained the ownership and accompanying risk and payment of goods.

⑤ The customer has accepted the goods or services.

⑥ Other signs that customers have acquired the control of goods.

The Group has transferred goods or services to its customers and has the right to receive consideration (which depends on factors other than the passage of time) as its contract assets, which are deducted on the basis of expected credit losses (refer to Note III. 10 (6)). The unconditional (time-dependent) right to collect consideration from customers is shown as accounts receivable. The obligation to transfer goods or services to the customer after consideration received or receivable is shown as contract liabilities.

Contract assets and contract liabilities under the same contract shall be shown in net amount, if the net amount is debit balance,according to their liquidity, which shall be listed in the "contract assets" or "other non-current assets" project; if the net amount is credit balance, according to its liquidity, which shall be listed in the "contract liabilities" or "other non-current liabilities" project.

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

25. Revenue (Continued)

(2) The specific methods

The specific methods for the Group's revenue recognition are as follows:

Provide drilling engineering, geophysical exploration services and construction services

The Group recognizes revenue during the progress of providing the services of drilling, geophysical exploration and construction, and the progress of fulfilling its obligations is determined by the proportion of executed projects to the total contract value. If two or more performance obligations are included in the contract, the Group shall, on the commencement date of the contract, apportion the transaction price to the individual performance according to the relative proportion of the individual selling prices of the services. The individual selling prices of the services according to the price sold by the Group for each service separately.

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

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.

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.

Sale of goods

Revenue should be recognized at the point that the commodity is delivered to the customer and the customer has accepted the commodity, the customer gains control of the commodity.

or sales of goods with sales return clauses, the revenue recognized is limited to the amount of accumulated recognized revenue which is unlikely to result in significant return, the Group recognizes the liabilities according to the expected amount of refund, at the same time, recognizes the carrying amount of the goods returned at the time of transfer deducting the estimated cost of recovering the goods.as an asset (including the loss of the value of the returned commodity).

26. Contract cost

Contract costs include incremental costs incurred to obtain a contract and costs to fulfil a contract.

Incremental costs incurred to obtain a contract refer to the costs (such as sales commissions) that the Group will not incur without obtaining contracts. If the cost is expected to be recovered, the Group shall recognizes it as an asset as contract acquisition cost. Expenditures incurred by the Group for the purpose of obtaining contracts, other than incremental costs expected to be recovered, are recorded in current profits and losses when incurred.

The costs to fulfil a contract, which does not fall within the scope of other CASBE such as inventory and meets the following conditions at the same time, the Group recognizes it as an asset for the costs to fulfil a contract:

① This cost is directly related to a current or expected contract, including direct labor cost, direct materials cost, manufacturing costs (or similar costs), costs clearly borne by the customer, and other costs incurred solely for the contract;

② This cost increases the group's future resources for fulfilling its performance obligations.

③ The cost is expected to be recovered.

Assets recognized from contract acquisition cost and contract performance cost (hereinafter referred to as "assets related to contract cost") are amortized on the same basis as revenue recognition of goods or services related to the assets and are recorded in current profits and losses. If the amortization period does not exceed one year, the profits and losses of the current period shall be included when it occurs.

When the carrying amount of the assets related to contract cost is higher than the difference between the following two items, the Group shall make provision for impairment in excess of the assets and shall consider the impairment loss of the assets as follows:

① The residual consideration that the Group expect to obtain for transferring goods or services related to the asset;

② The cost estimated to be incurred for transferring the relevant goods or services.

The contract performance cost recognized as assets shall be listed in the "inventory" project, if the amortization period is not exceeding one year or a normal business cycle at initial recognition, and shall be listed in the "other non-current assets" project, if the amortization period exceeding one year or a normal business cycle at initial recognition.

The contract acquisition cost recognized as assets shall be listed in the "other current assets" project, if the amortization period is not exceeding one year or a normal business cycle at initial recognition, and shall be listed in the "other non-current assets" project, if the amortization period exceeding one year or a normal business cycle at initial recognition.

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 RMB1 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 reduce the book value of related assets, or 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. Leases (Applicable from January 1, 2019)

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

For contracts that contain a lease component and one or more additional lease components, the Group splits the contract and separates the leases for accounting treatment. The right to use the identified asset constitutes a separate lease in the contract if the following conditions are met:

① The lessee may profit from using the asset alone or in conjunction with other resources that are readily available;

② There is no high dependence or high correlation between the asset and other assets in the contract.

For a contract that is, or contains, a lease, the Group shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

(1) As a lessee

The Group has lease contracts for various items of property, machinery, vehicles and other equipment.

① Initial measurement

At the commencement date, the Group shall recognize its right to use the leased asset over the lease term as the right-of-use asset, and shall recognize the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and leases for which the underlying asset is of low value. The lease payments shall be discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group shall use the lessee's incremental borrowing rate.

The Group shall determine the lease term as the non-cancellable period of a lease, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Group shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change

② Subsequent measurement

The Group uses the straight-line method to depreciate the right-of-use assets. If it is reasonable to determine the ownership of the leased asset by the end of the lease term, the Group shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group shall depreciate the right-of-use asset during the shorter period between the lease term and the remaining useful life of the leased asset.

The Group calculates the interest expense of the lease liability for each period of the lease term based on the constant periodic interest rate and recognizes it in profit or loss for the current period.

The variable lease payments that are not included in the measurement of the lease liabilities are recognized in profit or loss when incurred.

After the commencement date, the Group shall remeasure the lease liability if either:

(a) there is a change in the amounts expected to be payable under a residual value guarantee. The Group shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

(b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

The Group shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, The Group shall recognize any remaining amount of the remeasurement in profit or loss.

③ Lease modifications

The lease modification is a change in the scope of lease or the consideration for a lease lease scope. Including adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

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

29. Leases (Applicable from January 1, 2019) (Continued)

(1) As a lessee (Continued)

③ ***Lease modifications*** (Continued)

The Group shall account for a lease modification as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets;

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

(a) determine the lease term of the modified lease;

(b) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the Group's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group shall account for the remeasurement of the lease liability by:

(a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.

(b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

④ ***Short-term leases and leases of low-value assets***

The Group defining a short-term lease as a lease that, at the commencement date, has a maximum possible term of 12 months or less without purchase option. The Group recognizes a lease with a value of not more than 50,000 yuan when the individual leased assets are new assets as lease of low-value assets. If the Group subleases or expects to sublease the leased assets, the original lease is not recognized as a low-value asset lease. The Group does not recognize the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. During the lease term, the relevant cost shall be included in asset cost or current profit and loss on straight-line basis. The contingent rents shall be recognized in profit or loss when occurred.

(2) As a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. As a lessor, the Group classifies the sub-leasing based on the right-of-use assets generated by the original lease.

As a lessor under operating leases

The rental income from operating leases is recognized in profit or loss in the period on straight-line basis. The contingent rents shall be recognized in profit or loss when occurred.

The Group shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(3) Sale and leaseback transactions

The Group shall apply the requirements for determining when a performance obligation is satisfied in Note III. 25 Revenue to determine whether the transfer of an asset is accounted for as a sale of that asset.

If the transfer of assets in the sale and leaseback transactions is a sale, the Group, as the lessee, shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Group shall recognize only the amount of any gain or loss that relates to the rights transferred to the lessor. If the transfer of assets in the sale and leaseback transactions is not a sale, the Group, as the lessee, shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds in accordance with Note III. 17 Borrowing costs.

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

30. Safety costs

The Group 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.

32. Significant accounting judgments and estimates

Estimates as well as underlying assumptions involved are reviewed on an ongoing basis, based on historical experience and other factors, including reasonableness of estimation about future events.

The significant accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are listed as follows:

(1) Classification of financial assets

The Group's major judgments in determining the classification of financial assets include the analysis of business models and the characteristics of contract cash flows.

At the level of financial asset group, the Group determines the business model for managing financial assets, taking into account factors such as the way to evaluate and report financial assets performance to key managers, the risks affecting financial assets performance and their management methods, and the way in which relevant business managers are paid.

In assessing whether the contract cash flow of financial assets is consistent with the basic lending arrangements, the Group has the following judgments: whether the principal's time distribution or amount may change during the lifetime for early repayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of advance payment only reflect the unpaid principal and interest based on the unpaid principal, and reasonable compensation paid for the early termination of the contract.

(2) Measurement of Expected Credit Loss of Receivables

The Group calculates the expected credit losses of accounts receivable by default risk exposure and expected credit losses rate of accounts receivable, and determines the expected credit losses rate based on default probability and default loss rate. In determining the expected credit losses rate, the Group uses internal historical credit loss and other data, and adjusts the historical data with current situation and forward-looking information. In considering forward-looking information, the indicators used by the Group include the risks of economic downturn, external market environment, technological environment and changes in customer conditions. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses.

(3) Provision for diminution in value of inventories

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.

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

32. Significant accounting judgments and estimates (Continued)

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

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

(5) Development costs

When determining the amount of capitalization, management must make assumptions about the expected cash flow of assets in the future, the discount rate to be applied and the expected benefit period.

(6) Revenue recognition

The Group recognize the revenue related to the provision of oilfield service over a period of time. The recognition of the relevant revenue and profits depends on the Group's estimates of the contract results and the performance progress. The Group uses the expected value method or the most likely amount to estimate the total revenue of the contract, and evaluates the estimated total cost of the contract based on historical experience and construction plan. In view of the construction service contract cycle may span multiple accounting periods, the Group will review and revise the contract revenue and contract cost estimation in the budget periodically as the contract's completion schedule. If the total revenue and total cost actually incurred are higher or lower than the estimated value of management, it will affect the revenue and profit recognition amount of the Group in the future.

(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.

(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.

(10) Lease term

The Group shall determine the lease term as the non-cancellable period of a lease, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, the Group shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

The Group believes that the contract terms and conditions during the renewal of the option period are more favorable than the market price. Therefore, the lease term includes the period covered by the renewal option. Furthermore, significant leasehold improvements expected to be undertaken over the term of the contract that are expected to have significant economic benefit for the Group when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable.

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

33. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

① According to "Notice related to revising and issuing the financial statements format in 2019 for general enterprises" (Caikuai [2019] No.6), the Company revised the financial statements format as follows:

A. Balance sheet

The "Bills receivable and accounts receivable" was split into "Bills receivable" and "Accounts receivable";

The "Bills payable and accounts payable" was split into "Bills payable" and "Accounts payable";

B. Income statement

In addition to the expense expenditure incurred in the research and development costs, the "R&D Expenses" also includes the amortization of self-developed intangible assets.

Above changes in accounting policies are adjusted retrospectively.

The revisions of the financial statement format have no impact on the Group's total assets, total liabilities, net profit, the other comprehensive income and so on.

② According to "Interpretation related to the financial statements format in 2018 for general enterprises" issued by the MOF, as the withholding agent for the individual income tax, the Group recognized the received handling fee according to "Individual Income Tax Law of the People's Republic of China" in "Other income". The Company adjusted the comparative figure for comparable periods, "Other income" for the six months ended 30 June 2018 was adjusted up by RMB2,225 thousand,"Other revenue" for the six months ended 30 June 2018 was adjusted down by RMB2,225 thousand.

③ New Lease Standard

In 2018, the Ministry of Finance issued the revised "Accounting Standards for Business Enterprises No. 21 – Leases" (referred to as "new lease standards"). The new lease standard adopts a single model similar to the current accounting treatment of finance leases, requiring the lessee to recognize right-of-use assets, lease liabilities and relevant depreciation and interest expenses for all leases other than short-term leases and low-value asset leases.

The Group adopted the new Lease Standard with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated.

(a) For the finance leases before the first implementation date, the Group measures the right-of-use assets and lease liabilities separately according to the carrying value of the finance leased assets and the obligations under finance leases.

(b) For the operating leases before the first implementation date, the Group measures the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate ("IBR") at the date of initial application. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019.

(c) Refer to Note III.20 for the impairment provision of right-of-use assets.

The Group adopted a simplified method to measure the operating leases before the first implementation date which were classified as low-value assets or would be completed within 12 months. Under this method, the right-of-use assets and lease liabilities do not have to be recognized. The Group has adopted the following simplified method for operating leases prior to the first implementation date:

(a) In the measurement of lease liability, a lease with similar characteristics may adopt the same discount rate; and the measurement of the right-of-use assets is not required to include initial direct costs.

(b) In the event of option of renewal or termination of the lease option, the Group may, on the basis of the actual exercising of the option before the first day of implementation and other latest situation, determine the lease term.

(c) As an alternative to the impairment test of the right-of-use assets, the Group may assess whether the contract containing the lease is a loss contract before the first day of implementation according to the Accounting Standards for Business Enterprises No. 13—Contingencies, and adjust the right-of-use assets on the basis of the reserves for losses included in the balance sheet before the first day of implementation.

(d) In the event of lease change before the beginning of the year when these Standards are implemented for the first time, the Group shall conduct accounting treatment on the basis of the ultimate arrangements for the lease change.

For the sublease which is classified as an operating lease before the first implementation date and continues to exist after the first implementation date, the Group is required to classify the sublease by reference to the remaining contract term. For the sublease which is reclassified as a finance lease, the Group accounts as a new finance lease. In addition, there is no adjustment for sublease.

The Group shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in Note III.25 to be accounted for as a sale.

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)

If a sale and leaseback transaction before the date of initial application was accounted for as a sale and a finance lease, the Group (the seller-lessee) shall:

(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) continue to amortise any gain or loss on sale over the lease term.

If a sale and leaseback transaction before the date of initial application was accounted for as a sale and operating lease, the Group (the seller-lessee) shall:

(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

Operating lease commitments as at 31 December 2018	382,990
Less:Recognition exemptions	144,507
Including:Short-term leases	144,507
Leases with remaining lease term of less than 12 months	
Leases with remaining lease term of less than 12 months and low-value	
Add:Extension option reasonably certain to be exercised	825,742
Add:Finance leases obligation as at 31 December 2018	59,520
Add(or Less):Other adjustment	
The minimum lease payments recognized at 1 January 2019	1,123,745
Discounting using incremental borrowing rate as at 1 January 2019	4.83%
Total lease liabilities recognized at 1 January 2019	997,619
Less:Non-current lease liabilities due within one year	334,324
Lease liabilities recognized at 1 January 2019	663,295

The impacts on the Consolidated Balance Sheet arising from the adoption of new standard as at 1 January 2019 are as follows

Item	Amount of financial statement	Assume amount of used standard	Impacts
Fixed assets	23,771,168	23,842,767	-71,599
Right-of-use assets	1,020,627		1,020,627
Intangible assets	232,726	237,275	-4,549
Non-current liabilities due within one year	466,861	156,559	310,302
Lease liabilities	663,295		663,295
Long-term payables	839,554	868,672	-29,118

The impacts on the Consolidated Balance Sheet arising from the adoption of new standard as at 30 June 2019 are as follows

Item	Amount of financial statement	Assume amount of used standard	Impacts
Fixed assets	22,410,517	22,477,829	-67,312
Right-of-use assets	1,086,739		1,086,739
Intangible assets	192,526	197,002	-4,476
Non-current liabilities due within one year	673,748	326,579	347,169
Lease liabilities	728,524		728,524
Long-term payables	846,119	869,788	-23,669

The impacts on the Consolidated Income Statement arising from the adoption of new standard for the six months ended 30 June 2019 are as follows

Item	Amount of financial statement	Assume amount of used standard	Impacts
Operating costs	167,761	181,462	-13,701
Selling and distribution expenses	40	41	-1
General and administrative expenses	10,317	10,416	-99
Research and development expenses	25	26	-1
Financial expenses	26,168	1,758	24,410
Net profit	509,428	520,036	-10,608

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

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

(2) Changes in accounting estimates

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

(3) As at 1 January 2019, impacts from the Group's first implementation of the New Leases Standard on the Group's assets, liabilities and shareholders' equity were summarized as follows:

Consolidated Balance Sheet

Item	2018.12.31	2019.01.01	Adjustment
Current assets:			
Cash at bank and on hand	2,203,441	2,203,441	
Bills receivable	481,196	481,196	
Accounts receivable	15,630,004	15,630,004	
Prepayments	444,749	444,749	
Other receivables	1,712,575	1,712,575	
Including: Interest receivable			
Dividend receivable	188	188	
Inventories	1,411,638	1,411,638	
Contract assets	8,871,704	8,871,704	
Non-current assets due within one year	40,477	40,477	
Other current assets	1,218,035	1,218,035	
Total current assets	32,013,819	32,013,819	
Non-current assets:			
Long-term equity investments	232,823	232,823	
Other equity instrument investments	39,011	39,011	
Fixed assets	23,842,767	23,771,168	-71,599
Construction in progress	365,414	365,414	
Right-of-use assets	1,020,627	1,020,627	
Intangible assets	237,275	232,726	-4,549
Long-term deferred expenses	3,681,168	3,681,168	
Deferred tax assets	492,438	492,438	
Total non-current assets	28,890,896	29,835,375	944,479
Total assets	60,904,715	61,849,194	944,479

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

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

(3) As at 1 January 2019, impacts from the Group's first implementation of the New Leases Standard on the Group's assets, liabilities and shareholders' equity were summarized as follows: (Continued)

Item	2018.12.31	2019.01.01	Adjustment
Current liabilities:			
Short-term loans	17,606,082	17,606,082	
Bills payable	3,797,742	3,797,742	
Accounts payable	23,261,762	23,261,762	
Contract liabilities	4,390,293	4,390,293	
Employee benefits payable	510,507	510,507	
Taxes payable	1,053,477	1,053,477	
Other payables	2,186,009	2,186,009	
Including: Interest payable	12,893	12,893	
Dividend payable			
Non-current liabilities due within one year	156,559	466,861	310,302
Other current liabilities	917	917	
Total current liabilities	52,963,348	53,273,650	310,302
Non-current liabilities:			
Long-term loans	536,291	536,291	
Lease liabilities		663,295	663,295
Long-term payables	868,672	839,554	-29,118
Provisions	595,742	595,742	
Deferred income	139,594	139,594	
Deferred tax liabilities	22,658	22,658	
Total non-current liabilities	2,162,957	2,797,134	634,177
Total liabilities	55,126,305	56,070,784	944,479
Shareholders' equity			
Share capital	18,984,340	18,984,340	
Capital reserve	11,710,763	11,710,763	
Other comprehensive income	11,676	11,676	
Specific reserve	300,609	300,609	
Surplus reserve	200,383	200,383	
Retained earnings	-25,429,361	-25,429,361	
Total equity attributable to shareholders of the Company	5,778,410	5,778,410	
Non-controlling interests			
Total shareholders' equity	5,778,410	5,778,410	
Total liabilities and shareholders' equity	60,904,715	61,849,194	944,479

Ⅳ. TYPES OF TAXES AND TAX RATES

1. Major taxes and tax rate

Type of taxes	Tax base	Tax rate %
Value added tax (Before 1 April 2019)	Taxable value added(for the calculation of the output VAT and deducted by the input VAT)	3, 6, 10 or 16
Value added tax (After 1 April 2019)	Taxable value added(for the calculation of the output VAT and deducted by the input VAT)	3, 6, 9 or 13
Urban maintenance and construction tax	Turnover tax payable	1, 5, 7
Educational surtax	Turnover tax payable	5
Income tax	Tax payable	25

Corporate income tax:

Taxpayer	Tax rate %
Sinopec Shengli Petroleum Engineering Company Limited	15
Sinopec Jianghan Petroleum Engineering Company Limited	15
Sinopec South West Petroleum Engineering Company Limited	15, 25
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 tax

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

In accordance to "PRC Enterprise Income Tax Law" and "Notice on Implementing Income Tax Preferences for High-tech Enterprises" (Circular[2009] No. 203) issued by State Taxation Administration, Sinopec Shengli Petroleum Engineering Company Limited, Sinopec Jianghan Petroleum Engineering Company Limited, Sinopec Oil Engineering geophysical Company Limited, Sinopec Zhongyuan Oil Engineering Design Company Limited and Sinopec Henan Oil Engineering Design Company Limited have 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 2019			As at 31 December 2018		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	—	—	8,330	—	—	8,114
RMB	—	—	836	—	—	553
USD	468	6.8747	3,217	476	6.8632	3,267
EUR	34	7.8170	263	38	7.8473	295
BRL	72	1.7887	130	21	1.7741	38
DZD	7,319	0.0579	424	11,290	0.0580	655
SAR	121	1.8331	222	314	1.8287	574
KWD	15	22.6328	336	21	22.5726	474
KZT	27,995	0.0180	504	30,936	0.0185	572
XAF	38,543	0.0119	459	18,230	0.0119	218
BOB	206	0.9949	205	81	0.9932	81
Others	—	—	1,734	—	—	1,387
Cash at banks:	—	—	1,916,931	—	—	2,186,785
RMB	—	—	358,622	—	—	335,668
USD	146,456	6.8747	1,006,838	171,988	6.8632	1,180,389
EUR	215	7.8170	1,682	209	7.8473	1,638
BRL	52	1.7887	93	98	1.7741	173
DZD	1,031,447	0.0579	59,762	862,705	0.0580	50,067
SAR	41,827	1.8331	76,673	106,345	1.8287	194,469
KWD	8,642	22.6328	195,586	6,140	22.5726	138,588
KZT	184,410	0.0180	3,323	854,247	0.0185	15,804
XAF	1,285,452	0.0119	15,315	566,629	0.0119	6,763
BOB	66,599	0.9949	66,259	70,216	0.9932	69,740
KES	15,741	0.0673	1,059	147,596	0.0674	9,949
Others	—	—	131,719	—	—	183,537
Among cash at bank: Related parties	—	—	722,908	—	—	1,058,840
Including:RMB	—	—	87,208	—	—	60,455
USD	66,712	6.8747	458,624	106,655	6.8632	731,993
SAR	8,023	1.8331	14,707	88,023	1.8287	160,965
KWD	7,110	22.6328	160,912	4,610	22.5726	104,052
EUR	170	7.8170	1,332	165	7.8473	1,293
Others	—	—	125	—	—	82
Other monetary funds:	—	—	3,784	—	—	8,542
RMB	—	—	901	—	—	901
USD	—	—	—	—	—	—
AED	131	1.8737	246	131	1.8706	246
DZD	8,454	0.0579	490	8,454	0.0580	491
KZT	—	—	—	—	—	—
BOB	—	—	—	—	—	—
Others	—	—	2,147	—	—	6,904
Total:	—	—	1,929,045	—	—	2,203,441
Amount deposited abroad:	—	—	1,406,610	—	—	1,693,181

At 30 June 2019, the Group's restricted cash such as margin deposit is RMB43,171 thousand (At 31 December 2018: RMB29,861 thousand), including frozen deposit is RMB35,587 thousand (At 31 December 2018: RMB26,255 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable

Type	As at 30 June 2019			As at 31 December 2018		
	Ending balance	Provision	Carrying amount	Ending balance	Provision	Carrying amount
Bank acceptance bills	528,225		528,225	394,009		394,009
Trade acceptance bills	303,623		303,623	87,187		87,187
Total	831,848		831,848	481,196		481,196

Notes: Management does not expect that the bills receivable will be any significant losses from default by banks or other drawers.

(1) There is no pledged or overdue notes receivable at 30 June 2019 and 31 December 2018.

(2) At 30 June 2019, the endorsed undue bills receivable.

Type	Recognized amount at 30 June 2019	Derecognized amount at 30 June 2019
Bank acceptance bills	1,199,013	
Trade acceptance bills	440,505	
Total	1,639,518	

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

(3) There is no bill transferred to accounts receivable due to non-performance of the issuers as at 30 June 2019.

3. Accounts receivable

(1) The details of accounts receivable is as follows:

Category	As at 30 June 2019
Within 1 year	13,230,848
Including:	
No overdue	11,216,105
Overdue within 1 year	2,014,743
Subtotal of within 1 year	13,230,848
1 – 2 years	1,361,833
2 – 3 years	571,385
3 – 4 years	1,329,511
4 – 5 years	173,087
Over 5 years	367,041
Subtotal:	17,033,705
Less: provision for bad debts	2,466,797
Total:	14,566,908

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by bad debt provision:

Type	As at 30 June 2019					As at 31 December 2018				
	Cost		Bad debt provision			Cost		Bad debt provision		
	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount
Provision made on an individual basis	1,173,897	6.89	1,168,281	99.52	5,616	1,180,800	6.50	1,180,800	100.00	
Provision for bad and doubtful debts collectively:	15,859,808	93.11	1,298,516	8.19	14,561,292	16,974,395	93.50	1,344,391	7.92	15,630,004
Including:										
Related party grouping	6,205,886	36.43	115,612	1.86	6,090,274	7,682,527	42.32	122,102	1.59	7,560,425
Third party grouping	9,653,922	56.68	1,182,904	12.25	8,471,018	9,291,868	51.18	1,222,289	13.15	8,069,579
Total	17,033,705	100.00	2,466,797	14.48	14,566,908	18,155,195	100.00	2,525,191	13.91	15,630,004

Provision made on an individual basis

Name	As at 30 June 2019			Provision reason
	Amount	Bad debt provision	Expected credit loss (%)	
Entity A	1,024,737	1,024,737	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity B	45,808	41,755	91.15	The debtor is short of funds and the funds have not been recovered for a long time.
Entity C	42,715	42,715	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Others	60,637	59,074	97.42	The debtor is short of funds and the funds have not been recovered for a long time.
Total	1,173,897	1,168,281	99.52	

Provision for bad and doubtful debts collectively:

Provision for bad debt as at 30 June 2019

As at 30 June 2019	Related party grouping			Third party grouping		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	5,322,480	21,484	0.4	7,729,405	73,773	1
Including:						
No overdue	4,534,376	13,603	0.3	6,653,121	19,959	0.3
Overdue within 1 year	788,104	7,881	1	1,076,284	53,814	5
1 – 2 years	641,197	32,060	5	671,254	167,814	25
2 – 3 years	127,810	12,781	10	402,105	201,052	50
3 – 4 years	58,620	11,724	20	411,326	329,061	80
4 – 5 years	23,537	11,769	50	143,138	114,510	80
Over 5 years	32,242	25,794	80	296,694	296,694	100
Total	6,205,886	115,612	1.86	9,653,922	1,182,904	12.25

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by bad debt provision: (Continued)

Provision for bad debt as at 31 December 2018

	Related party grouping			Third party grouping		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	6,832,696	21,613	0.32	7,236,137	89,569	0.51
Including:						
No overdue	6,673,453	20,020	0.30	5,792,299	17,377	0.30
Overdue within 1 year	159,243	1,593	1	1,443,838	72,192	5
1 – 2 years	507,011	25,351	5	822,863	205,716	25
2 – 3 years	209,514	20,951	10	377,086	188,543	50
3 – 4 years	77,409	15,482	20	411,320	329,057	80
4 – 5 years	20,040	10,020	50	175,284	140,227	80
Over 5 years	35,857	28,685	80	269,178	269,177	100
Total	7,682,527	122,102	1.59	9,291,868	1,222,289	13.15

(3) Provision, recovery or reversal of bad debt

	Bad debt provision
As at 31 December 2018	2,525,191
Provision	182,164
Recovery or reversal	238,854
Written-off	1,704
As at 30 June 2019	2,466,797

(4) 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	5,322,771	31.25	79,783
Entity B	1,345,130	7.90	49,154
Entity C	1,024,737	6.02	1,024,737
Entity D	838,568	4.92	66,679
Entity E	716,292	4.21	31,866
Total	9,247,498	54.29	1,252,219

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Prepayments

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

Ageing	As at 30 June 2019 Amount	As at 30 June 2019 Proportion %	As at 31 December 2018 Amount	As at 31 December 2018 Proportion %
Within 1 year	769,111	95.93	431,000	96.91
1 – 2 years	17,760	2.22	13,027	2.92
2 – 3 years	3,122	0.39	654	0.15
Over 3 years	11,752	1.46	68	0.02
Total	801,745	100.00	444,749	100.00

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

The total amount of the five largest prepayments is 336,469 thousand, which contributed 41.97% of the total ending balance amount of prepayments.

Company Name	Amount	Percentage of total prepayments
Entity A	98,295	12.26
Entity B	92,226	11.50
Entity C	51,559	6.43
Entity D	47,900	5.97
Entity E	46,488	5.80
Total	336,469	41.97

5. Other receivables

Items	As at 30 June 2019	As at 31 December 2018
Dividends receivable		188
Other receivables	1,944,476	1,712,387
Total	1,944,476	1,712,575

(1) Dividends receivable

Items	As at 30 June 2019	As at 31 December 2018
Entity A		188
Subtotal		188
Less: Bad debts		
Total		188

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables (Continued)

(2) Other receivable

① *The ageing analysis is as follows:*

Ageing	As at 30 June 2019
Within 1 year	1,588,405
1 – 2 years	222,407
2 – 3 years	281,464
3 – 4 years	184,789
4 – 5 years	36,008
Over 5 years	283,719
Subtotal	2,596,792
Less: provision for bad debts	652,316
Total	1,944,476

② *Other receivables disclosed by nature:*

Items	As at 30 June 2019			As at 31 December 2018		
	Ending balance	Provision	Carrying amount	Ending balance	Provision	Carrying amount
Imprest	24,353		24,353	22,440		22,440
Guarantee	697,730	196,694	501,036	668,383	175,072	493,311
Amount paid on behalf	818,452	115,803	702,649	676,630	130,600	546,030
Temporary payment	742,914	286,194	456,720	622,173	260,252	361,921
Escrow funds	9,370	5,859	3,511	9,738	5,756	3,982
Deposits	46,572	4,564	42,008	40,709	5,297	35,412
Export tax refund receivable	13,231	2,632	10,599	28,671	1,664	27,007
Others	244,170	40,570	203,600	242,159	19,875	222,284
Total	2,596,792	652,316	1,944,476	2,310,903	598,516	1,712,387

③ *Provision for bad debts*

Accounts receivable disclosed by bad debt provision:

Type	As at 30 June 2019					As at 31 December 2018				
	Cost		Bad debt provision			Cost		Bad debt provision		
	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount
Provision made on an individual basis										
Provision for bad and doubtful debts collectively:										
Including:Related party grouping	194,026	7.47	14,407	7.43	179,619	188,525	8.16	13,470	7.14	175,055
Imprest	122,324	4.71			122,324	64,455	2.79			64,455
Third party grouping	2,280,442	87.82	637,909	27.97	1,642,533	2,057,923	89.05	585,046	28.43	1,472,877
Subtotal	2,596,792	100.00	652,316		1,944,476	2,310,903	100.00	598,516	25.90	1,712,387
Total	2,596,792	100.00	652,316		1,944,476	2,310,903	100.00	598,516	25.90	1,712,387

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Other receivables (Continued)

(2) Other receivable (Continued)

③ ***Provision for bad debts*** (Continued)

Provision for bad and doubtful debts collectively:

Provision for bad debt as at 30 June 2019

	Related party grouping			Third party grouping		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	131,519	1,315	1.00	1,334,562	70,300	5.00
1 – 2 years	31,433	3,143	10.00	190,975	47,744	25.00
2 – 3 years	15,014	3,003	20.00	266,450	106,580	40.00
3 – 4 years	13,891	5,557	40.00	170,897	102,538	60.00
4 – 5 years	1,950	1,170	60.00	34,058	27,247	80.00
Over 5 years	219	219	100.00	283,500	283,500	100.00
Total	194,026	14,407		2,280,442	637,909	

Provision for bad debt as at 31 December 2018

	Related party grouping			Third party grouping		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	123,288	1,233	1.00	1,171,607	59,924	5.00
1 – 2 years	38,034	3,803	10.00	197,772	49,443	25.00
2 – 3 years	13,808	2,762	20.00	266,118	106,447	40.00
3 – 4 years	12,264	4,906	40.00	115,407	69,244	60.00
4 – 5 years	912	547	60.00	35,157	28,126	80.00
Over 5 years	219	219	100.00	271,862	271,862	100.00
Total	188,525	13,470		2,057,923	585,046	

④ ***Provision, recovery or reversal of bad debt***

	Bad debt provision
As at 31 December 2018	598,516
Provision	115,463
Recovery or reversal	61,663
As at 30 June 2019	652,316

⑤ ***The five largest other receivable are analyzed as follows:***

Company Name	Nature of payment	Amount	Ageing	Percentage of total other receivable %	Ending balance of bad debt provision
Entity A	Amount paid on behalf	457,346	1 – 3 years	17.61	34,727
Entity B	Temporary payment	270,692	1 – 3 years	10.42	96,466
Entity C	Guarantee	166,657	1 – 5 years	6.42	11,460
Entity D	Temporary payment	166,339	Over 5 years	6.41	166,339
Entity E	Amount paid on behalf	134,973	1 – 5 years	5.20	77,052
Total		1,196,007		46.06	386,044

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

(1) Inventories by categories

Items	As at 30 June 2019			As at 31 December 2018		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	**1,110,577**	**56,485**	**1,054,092**	1,136,487	58,808	1,077,679
Work in progress	**7,371**	**1,671**	**5,700**	11,986	1,987	9,999
Finished goods	**187,581**	**3,002**	**184,579**	124,201	3,290	120,911
Turnover materials	**10,310**		**10,310**	8,734		8,734
Costs to fulfil a contract	**386,449**		**386,449**	194,315		194,315
Total	**1,702,288**	**61,158**	**1,641,130**	1,475,723	64,085	1,411,638

As at 30 June 2019 and 31 December 2018 the cost of inventories didn't include capitalized interest. In addition, the inventories haven't been used for mortgage or guarantee.

(2) Provision for diminution in value of inventories

Category	Increase during the period			Written back during the period		
	As at 1 January 2019	Provision	Others	Reversal or Write-off	Others	As at 30 June 2019
Raw materials	58,808			2,323		56,485
Work in progress	1,987			316		1,671
Finished goods	3,290			288		3,002
Total	64,085			2,927		61,158

7. Contract assets

Items	As at 30 June 2019	As at 31 December 2018
Contract assets	**13,922,443**	8,898,229
Less: Impairment of contract assets	**41,410**	26,525
Subtotal	**13,881,033**	8,871,704
Less: Contract assets listed in other non-current assets		
Total	**13,881,033**	8,871,704

(1) The petroleum engineering services provided by the Group are usually settled in installments according to the contractual completion schedule, and the Group will receive project fee in 30 to 180 days after settlement. Engineering construction business will reserve quality guarantee as 5% of progress billings, and have an unconditional right to receive the guarantee after guarantee period.

There are no significant changes of contract assets when the revenue has additional adjustment in the period.

(2) Provision for impairment of contract assets

Type	As at 30 June 2019					As at 31 December 2018				
	Cost		Provision for impairment			Cost		Provision for impairment		
	Amount	Proportion(%)	Amount	Expected credit loss (%)	Net carrying amount	Amount	Proportion(%)	Amount	Expected credit loss (%)	Net carrying amount
Provision for bad and doubtful debts collectively										
Including:										
Petroleum Engineering	7,189,693	51.64	21,495	0.3	7,168,198	3,258,460	36.62	9,776	0.3	3,248,684
Construction Engineering	6,732,750	48.36	19,915	0.3	6,712,835	5,639,769	63.38	16,749	0.3	5,623,020
Total	13,922,443	100.00	41,410	0.3	13,881,033	8,898,229	100.00	26,525	0.3	8,871,704

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Non-current assets due within one year

Items	As at 30 June 2019	As at 31 December 2018
Long-term receivables due within one year	—	40,477
Total	—	40,477

9. Other current assets

Items	As at 30 June 2019	As at 31 December 2018
Prepaid VAT	445,628	353,291
Value-added tax to be certified	60,837	29,772
Excess value-added tax paid	1,025,763	827,769
Prepaid income tax	7,287	7,203
Total	1,539,515	1,218,035

10. Long-term equity investments

	The fluctuation of this period										
Name of company	As at 31 December 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 2019	The ending balance of impairment
① Joint venture											
SinoFTS Petroleum Services Ltd. (SinoFTS)	194,921			10,256						205,177	
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	8,962			-1,154						7,808	
Sinopec Gulf Petroleum Engineering Services, LLC	13,383									13,383	
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,547			308						1,855	
Subtotal	218,813			9,410						228,223	
② Associates											
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	4,540						850			3,690	
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,865									2,865	
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,209						257			1,952	
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	1,723									1,723	
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	2,673									2,673	
Subtotal	14,010						1,107			12,903	
Total	232,823			9,410			1,107			241,126	

Notes: There is no restriction on sale of the long-term equity investments held by the Group. The information of the Group's joint venture and associates refer to Note VII.2.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Other equity instrument investments

Item	As at 30 June 2019	As at 31 December 2018
Sinopec&Tharwa Drilling Company	29,712	29,712
Shengli oilfield Niuzhuang Petroleum Development Co., Ltd	9,142	9,142
Dongying Kewei Intelligent Technology Co., Ltd	157	157
Total	39,011	39,011

As Sinopec&Tharwa Drilling Company and other equity instruments are planned long-term holdings for strategic purposes, thus the Group specify them as financial assets measured at fair value through other comprehensive income.

12. Fixed assets

Category	As at 30 June 2019	As at 1 January 2019
Fixed assets	22,407,281	23,769,159
Disposal of fixed assets	3,236	2,009
Total	22,410,517	23,771,168

(1) Fixed assets

① Fixed assets by categories

Items	Buildings	Equipment and others	Total
I. Cost:			
1. At 1 January 2019	1,545,881	59,113,951	60,659,832
2. Increase in the year		128,175	128,175
(1) Purchase		60,369	60,369
(2) Transferred from construction in progress		67,806	67,806
(3) Purchase from related parties			
3. Written back during the year	1,069	201,960	203,029
(1) Disposal or retirement	1,069	201,960	203,029
4. At 30 June 2019	1,544,812	59,040,166	60,584,978
II. Accumulated depreciation:			
1. At 1 January 2019	500,517	35,009,215	35,509,732
2. Increase in the year	26,038	1,448,664	1,474,702
(1) Depreciation	26,038	1,448,664	1,474,702
(2) Purchase from related parties			
3. Written back during the year	1,037	185,960	186,997
(1) Disposal or retirement	1,037	185,960	186,997
4. At 30 June 2019	525,518	36,271,919	36,797,437
III. Provision for impairment			
1. At 1 January 2019	8,436	1,372,505	1,380,941
2. Increase in the year			
(1) Purchase from related parties			
3. Written back during the year		681	681
(1) Disposal or retirement		681	681
4. At 30 June 2019	8,436	1,371,824	1,380,260
IV. Net carrying amount			
1. At 30 June 2019	1,010,858	21,396,423	22,407,281
2. At 1 January 2019	1,036,928	22,732,231	23,769,159

Notes:

A. At 30 June 2019, the net amount of the Group's fixed assets were pledged is RMB890,006 thousand (At 31 December 2018: RMB925,727 thousand).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed assets (Continued)

(1) Fixed assets (Continued)

② Fixed assets rented out under operating leases

Items	Net carrying amount
Buildings	2,671
Machineries	37,664
Electronic equipment	110,585
Transportation Equipment	1,529
Total	152,449

③ The situation of premises without qualified ownership certificates

There had been a total amount of 19 premises without qualified ownership certificates up to 30 June 2019, totaling amount in cost of 170,134 thousand, in accumulated depreciation of 22,998 thousand and net book value of 147,136 thousand.

(2) Disposal of fixed assets

Items	As at 30 June 2019	As at 1 January 2019	Reasons for moving to disposal
Equipment	**3,236**	2,009	Written off
Total	**3,236**	2,009	

As at 30 June 2019, no disposal of fixed assets were turned in more than a year.

13. Construction in progress

Category	As at 30 June 2019	As at 31 December 2018
Construction in progress	**730,369**	365,414
Construction materials		
Total	**730,369**	365,414

(1) Construction in progress

① Details of construction in progress

	As at 30 June 2019			As at 31 December 2018		
Items	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	**109,332**	**3,502**	**105,830**	108,832	3,502	105,330
Major Materials and equipment procurement projects	**685,758**	**68,232**	**617,526**	320,801	68,232	252,569
Other construction projects	**7,013**		**7,013**	7,515		7,515
Total	**802,103**	**71,734**	**730,369**	437,148	71,734	365,414

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 31 December 2018	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	As at 30 June 2019
	A	B	C	D		E=A+B-C-D
Long-term pipeline construction equipment of Xinyuezhe	4,800					4,800
DISCOVERER 2's geophysical exploration equipment replacement	269					269
Production and living base construction of Zhuangxi oceaneering	36,767	2,242				39,009
Modification of ZJ90DB Drilling Rig	36,650					36,650
Liquidation station renovation project	24,852					24,852
Geophysics-Construction equipment purchase project of Saudi S84 3D geophysical exploration		427,990				427,990
Total	103,338	430,232				533,570

Continued:

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
Long-term pipeline construction equipment of Xinyuezhe	91,380	72.38	72.38	Fundraising
DISCOVERER 2's geophysical exploration equipment replacement	79,290	51.92	51.92	Self-raised
Production and living base construction of Zhuangxi oceaneering	42,150	92.55	92.55	Self-raised
Modification of ZJ90DB Drilling Rig	36,850	99.00	99.00	Self-raised
Liquidation station renovation project	31,930	77.83	77.83	Self-raised
Geophysics-Construction equipment purchase project of Saudi S84 3D geophysical exploration	499,630	85.66	85.66	Self-raised
Total	—	—	—	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Right-of-use assets

Items	Buildings	Equipment	Land	Others	Total
I. Cost:					
1. At 1 January 2019	439,690	452,232	121,315	7,390	1,020,627
2. Increase in the year	111,207	127,359	3,855	1,834	244,255
(1) Addition	111,207	127,359	3,855	1,834	244,255
(2) Business combination involving entities not under common control					
(3) Others					
3. Written back during the year					
(1) Be classified as held for sale					
(2) Disposal or retirement					
(3) Others					
4. At 30 June 2019	550,897	579,591	125,170	9,224	1,264,882
II. Accumulated depreciation:					
1. At 1 January 2019					
2. Increase in the year	89,311	67,423	18,926	2,483	178,143
(1) Depreciation	89,311	67,423	18,926	2,483	178,143
(2) Business combination involving entities not under common control					
(3) Others					
3. Written back during the year					
(1) Be classified as held for sale					
(2) Disposal or retirement					
(3) Others					
4. At 30 June 2019	89,311	67,423	18,926	2,483	178,143
III. Provision for impairment					
1. At 1 January 2019					
2. Increase in the year					
(1) Depreciation					
(2) Business combination involving entities not under common control					
(3) Others					
3. Written back during the year					
(1) Be classified as held for sale					
(2) Disposal or retirement					
(3) Others					
4. At 30 June 2019					
IV. Net carrying amount					
1. At 30 June 2019	461,586	512,168	106,244	6,741	1,086,739
2. At 1 January 2019	439,690	452,232	121,315	7,390	1,020,627

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Computer software	Contract revenue right	Others	Total
I. Cost:					
1. At 1 January 2019	135,704	159,914	233,563	9,162	538,343
2. Increase in the year	516	370			886
(1) Purchase		370			370
(2) Construction completed	516				516
3. Written back during the year					
(1) Reclassification					
4. At 30 June 2019	136,220	160,284	233,563	9,162	539,229
II. Accumulated amortization:					
1. At 1 January 2019	21,918	118,552	161,210	3,937	305,617
2. Increase in the year	1,746	6,086	32,871	383	41,086
(1) Provision	1,516	6,086	32,871	383	40,856
(2) Reclassification	230				230
3. Written back during the year					
(1) Reclassification					
4. At 30 June 2019	23,664	124,638	194,081	4,320	346,703
III. Provision for impairment					
1. At 1 January 2019					
2. Increase in the year					
3. Written back during the year					
4. At 30 June 2019					
IV. Carrying amount					
1. At 30 June 2019	112,556	35,646	39,482	4,842	192,526
2. At 1 January 2019	113,786	41,362	72,353	5,225	232,726

Notes:

① At 30 June 2019, no internal research form intangible assets.

② At 30 June 2019, the above intangible assets were not pledged.

(2) There was no land use right without qualified ownership certificates.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Long-term deferred expenses

Items	As at 31 December 2018	Increase in the year	Decrease in the year		As at 30 June 2019
			Amortization in the year	Other decreases	
Special tools of petroleum engineering	2,718,769	589,021	589,723	1,716	2,716,351
Other tools of Petroleum engineering	649,685	172,570	116,016	4,528	701,711
Camping house	274,459	87,988	73,400	286	288,761
Other long-term deferred expenses	38,255	4,955	10,707	1,252	31,251
Total	3,681,168	854,534	789,846	7,782	3,738,074

17. 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 2019		As at 31 December 2018	
	Deductible/taxable temporary differences	Deferred income tax assets/liabilities	Deductible/taxable temporary differences	Deferred income tax assets/liabilities
Deferred income tax assets				
Provision for assets impairment and influence on depreciation	1,494,331	289,261	1,494,331	289,261
Provision for bad debts	867,667	186,259	874,990	187,904
Deferred income	101,818	15,273	101,818	15,273
Subtotal	2,463,816	490,793	2,471,139	492,438
Deferred income tax liabilities				
Revaluation of assets	74,385	18,206	78,535	19,202
Depreciation of fixed assets	2,039	510	2,039	510
Changes in fair value through other comprehensive income	14,881	2,946	14,881	2,946
Subtotal	91,305	21,662	95,455	22,658

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

The tax losses of the Group can be carried forward to subsequent 5 years for deduction of the taxable profit in accordance with the PRC tax laws. According to the accounting policy of the Group, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available in the future.

Tax losses that are not recognized as deferred tax assets are analysed as follows:

Items	As at 30 June 2019	As at 31 December 2018
Deductible temporary differences	2,930,132	2,704,729
Tax losses	16,091,197	19,576,148
Total	19,021,329	22,280,877

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

Years	As at 30 June 2019	As at 31 December 2018	Note
year 2019	—	1,192,966	
year 2020	239,149	633,847	
year 2021	10,066,497	11,216,550	
year 2022	5,288,426	6,160,927	
year 2023	265,580	371,858	
year 2024	231,545	—	
Total	16,091,197	19,576,148	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Short-term loans

(1) Classification of short-term loans

Items	Currency	As at 30 June 2019	As at 31 December 2018
Unsecured borrowings from related parties	RMB	16,440,000	14,600,000
	USD	2,825,502	3,006,082
Total		19,265,502	17,606,082

As at 30 June 2019, no assets of the Group were pledged.

As at 30 June 2019, the Group has no overdue short-term borrowings.

As at 30 June 2019, the interest rate range of short-term borrowings is 2.24%-3.92% (31 December 2018: 3.30%-3.98%).

19. Bills payable

Category	As at 30 June 2019	As at 31 December 2018
Bank acceptance bills	4,168,566	3,481,297
Trade acceptance draft	109,524	316,445
Total	4,278,090	3,797,742

Notes: There is no unpaid bills and bank deposit pledged for bills payable at 30 June 2019.

20. Accounts payable

Items	As at 30 June 2019	As at 31 December 2018
Payables for materials	7,150,405	5,710,618
Payables for construction	6,946,029	7,186,037
Payable for labour cost	7,182,146	6,987,172
Payables for equipment	2,573,740	2,740,517
Others	1,200,945	637,418
Total	25,053,265	23,261,762

Important accounts payable aged over one year:

Items	As at 30 June 2019	Overdue reasons
Entity A	53,893	Retention money, Unsettled
Entity B	30,215	Retention money, Unsettled
Entity C	29,619	Retention money, Unsettled
Entity D	28,977	Retention money, Unsettled
Entity E	28,004	Retention money, Unsettled
Total	170,708	

21. Contract liabilities

Items	As at 30 June 2019	As at 31 December 2018
Petroleum Engineering	1,904,239	2,507,146
Construction Engineering	1,458,025	1,883,147
Total	3,362,264	4,390,293

The balance of contract liabilities as at 1 January 2019 is RMB4,390,293 thousand, in which RMB2,846,063 thousand was recognized as revenue during the period.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Employee benefits payable

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 30 June 2019
Short term employee benefits	510,507	5,814,339	5,761,834	563,012
Post-employment benefits		844,937	830,415	14,522
Termination benefits		6,079	6,079	
Total	510,507	6,665,355	6,598,328	577,534

(1) Short-term employee benefits

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 30 June 2019
Wages or salaries, bonuses, allowances and subsidies	361,879	3,900,398	3,892,645	369,632
Staff welfare		394,760	394,760	
Social security contributions	16	465,072	456,503	8,585
Including: 1. Basic medical insurance		345,126	338,141	6,985
2. Supplementary medical insurance		47,816	47,816	
3. Work-related injury insurance		28,463	27,201	1,262
4. Birth insurance		18,884	18,556	328
5. Other insurance	16	24,783	24,789	10
Housing funds	1,656	420,613	411,897	10,372
Labor union and employee education funds	139,330	108,010	93,510	153,830
Others	7,626	525,486	512,519	20,593
Total	510,507	5,814,339	5,761,834	563,012

As at 30 June 2019, no defaulted payables are included in the employee benefits payable, and the balance is expected to be distributed and used in 2019.

(2) Post-employment benefits

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 30 June 2019
Basic pension insurance	—	646,894	632,891	14,003
Unemployment insurance	—	24,566	24,120	446
Annuity	—	173,477	173,404	73
Total	—	844,937	830,415	14,552

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

During this report, the Group paid 6,097 thousand compensation to the resigning employee for terminating labor relation.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Taxes payable

Items	As at 30 June 2019	As at 31 December 2018
VAT	321,935	486,166
Urban maintenance and construction tax	38,007	43,746
Education surtax	22,802	27,207
Corporate income tax	361,692	261,753
Individual income tax	43,315	114,721
Withholding tax	25,840	30,969
Others	80,639	88,915
Total	894,230	1,053,477

24. Other payables

Items	As at 30 June 2019	As at 31 December 2018
Interest payable	30,934	12,893
Other payables	2,615,374	2,173,116
Total	2,646,308	2,186,009

(1) Interest payable

Items	As at 30 June 2019	As at 31 December 2018
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	1,852	1,802
Interest payable of short term loan	29,082	11,091
Total	30,934	12,893

The Group have no overdue interest to pay at 30 June 2019.

(2) Other payables

Items	As at 30 June 2019	As at 31 December 2018
Guarantee	742,684	724,468
Deposits	58,772	64,712
Amount paid on behalf	936,444	601,140
Temporary receipts	571,502	458,704
Escrow payments	57,052	66,355
Withheld payments	22,934	48,657
Others	225,986	209,080
Total	2,615,374	2,173,116

As at 30 June 2019, other payables with aging over 1 year with a carrying amount of 776,489 thousand (31 December 2018: 793,474 thousand). Those are mainly construction projects retention money, deposits, guarantee and so on. Those payables are unsettled due to the guarantee period isn't end or not yet reached the settlement period.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Non-current liabilities due within one year

Items	As at 30 June 2019	As at 1 January 2019
Long-term payables within one year	147,952	132,537
Long-term loans within one year	163,343	
Lease liabilities within one year	362,453	334,324
Total	673,748	466,861

(1) Long-term payables within one year

Items	As at 30 June 2019	As at 1 January 2019
Obligations under finance leases	142,245	125,000
Other long-term payables	5,707	7,537
Total	147,952	132,537

(2) Long-term loans within one year

Items	As at 30 June 2019	As at 1 January 2019
Loans on credit	163,343	
Total	163,343	

(3) Lease liabilities within one year

Items	As at 30 June 2019	As at 1 January 2019
Lease liabilities within one year	362,453	334,324
Total	362,453	334,324

26. Long-term loans

Items	As at 30 June 2019	Range of interest rate	As at 31 December 2018	Range of interest rate
Loans on credit	575,825	8.43%-8.8%	536,291	7.35%-8.80%
Subtotal	575,825		536,291	
Less: Long-term loans within one year	163,343			
Total	412,482		536,291	

Notes: The Group has no overdue long-term loans.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Lease liabilities

Items	As at 30 June 2019	As at 1 January 2019
The minimum lease payment:		
Within 1 year	379,570	363,966
1 – 2 years	275,667	241,378
2 – 5 years	506,875	453,289
Over 5 years	61,459	65,112
Subtotal	1,223,571	1,123,745
Less: Future finance costs of lease liabilities	132,594	126,126
The present value of Lease liabilities:		
Within 1 year	362,453	334,324
1 – 2 years	251,970	222,158
2 – 5 years	429,890	390,467
Over 5 years	46,664	50,670
Subtotal	1,090,977	997,619
Less: Lease liabilities due within 1 year	362,453	334,324
Total	728,524	663,295

28. Long-term payables

Items	As at 30 June 2019	As at 1 January 2019
Long-term payables	846,119	839,554
Special payables		
Total	846,119	839,554

(1) Long-term payables

Items	As at 30 June 2019	As at 1 January 2019
Payables of finance lease	892,245	937,500
Others	101,826	34,591
Subtotal	994,071	972,091
Less: Long-term payables within one year	147,952	132,537
Total	846,119	839,554

29. Provisions

Items	As at 30 June 2019	As at 31 December 2018	Reasons
Executory onerous contracts	112,428	120,466	Expected loss of construction contract
Expected loss of judicial restructuring	475,276	475,276	Estimated payment of judicial restructuring
Total	587,704	595,742	

30. Deferred income

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 30 June 2019
Government grants related to income	136,276	19,457	26,120	129,613
Government grants related to assets	3,318	27	406	2,939
Total	139,594	19,484	26,526	132,552

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Share capital (Unit: ten thousand shares)

Items	As at 31 December 2018	Changes in current (+, -)			As at 30 June 2019
		Issued shares	Others	Subtotal	
Held by state-owned legal person (A share)	11,786,046				11,786,046
RMB public shares (A share)	1,783,333				1,783,333
Foreign shares listed overseas (H share)	5,414,961				5,414,961
Total	18,984,340				18,984,340

At 31 December 2018:

Items	As at 31 December 2017	Changes in current (+, -)			As at 31 December 2018
		Issued shares	Others	Subtotal	
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

32. Capital reserve

Items	As at 1 January 2019	Increase for the period	Decrease for the period	As at 30 June 2019
Share premium	11,629,142			11,629,142
Other capital reserve	81,621	2,531		84,152
Total	11,710,763	2,531		11,713,294

At 31 December 2018:

Items	As at 1 January 2018	Increase for the period	Decrease for the period	As at 31 December 2018
Share premium	8,844,329	2,796,036	11,223	11,629,142
Other capital reserve	81,621			81,621
Total	8,925,950	2,796,036	11,223	11,710,763

Notes: The increase in capital reserve is mainly due to provision for unpaid share payment of share option incentive scheme. Details refer to Note XI.

33. Other comprehensive income

Items	As at 31 December 2019[1]	For the six months ended 30 June 2019					As at 30 June 2019(3)=(1)+(2)
		Pre-tax income for the period	Less: previously recognized amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Company (2)	Net-of-tax amount attributable to non-controlling interests	
Ⅰ. Items that will not be reclassified to profit or loss							
1. Changes in fair value through other equity instrument investments	11,676						11,676
Ⅱ. Items that may be reclassified to profit or loss							
Total	11,676						11,676

34. Special reserve

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 30 June 2019
Safety costs	300,609	501,235	206,750	595,094
Total	300,609	501,235	206,750	595,094

In accordance with PRC regulations, the Group appropriated production safety fund of RMB501,235 thousand to specific reserve for the year ended 30 June 2019 (For the year ended 30 June 2018: RMB347,266 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 30 June 2019, the Group utilised production safety fund amounting to RMB206,750 thousand (For the year ended 30 June 2018: RMB132,484 thousand) which was of expenditure nature.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Surplus reserve

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 30 June 2019
Statutory surplus reserve	200,383			200,383
Discretionary surplus reserve				
Total	200,383			200,383

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

36. Retained earnings

Items	For the six months ended 30 June 2019	For the year ended 31 December 2018	Appropriation/ distribution ratio
Retained earnings at 31 December 2018 before adjustment	-25,429,361	-25,571,417	
Adjustment of total retained earnings at 31 December 2018 (Increase in "+", decrease in "-")			
Retained earnings at 31 December 2018 after adjustment	-25,429,361	-25,571,417	
Add: Net profit attributable to parent company	509,428	142,056	
Less: Withdrawal of statutory surplus reserves			10%
Retained earnings at 30 June 2019	-24,919,933	-25,429,361	
Including: Surplus reserve attributable to parent company extracted by subsidiaries		16,993	

37. Revenue and cost of sales

Items	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue	Cost	Revenue	Cost
Major business	30,009,996	27,250,852	23,325,407	21,958,742
Other business	246,034	236,779	325,370	299,306

Notes: The analysis information of the Group's revenue and cost by industry and region refer to Note XIV No.5.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Revenue and cost of sales (Continued)

(1) Income decomposition information

The Group has six reportable segments, they are geophysics, drilling engineering, logging and mud logging, special down-hole operations, engineering construction and others. The Group expects that classify and disclose revenue according to customer type, major business area and revenue recognition time can reflect the impact of relevant economic factors on the nature, amount, time distribution and uncertainty of enterprise income and cash flow.

Reporting policy	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Total
Major areas of business							
PRC	1,672,061	12,169,536	1,031,483	2,964,230	5,529,791	633,588	24,000,689
Other countries or regions	197,845	4,609,920	17,045	233,038	951,459		6,009,307
Total	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	633,588	30,009,996
Customer types							
Related party	1,655,983	10,023,288	740,079	2,052,530	3,921,843	243,855	18,637,578
Third party	213,923	6,756,168	308,449	1,144,738	2,559,407	389,733	11,372,418
Total	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	633,588	30,009,996
Time of revenue recognition							
Recognized (outputs) at a certain time		16,359			18,077	16,622	51,058
Recognized (services) over time	1,869,906	16,763,097	1,048,528	3,197,268	6,463,173	616,966	29,958,938
Total	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	633,588	30,009,996

(2) Statement of performance obligations

The Group's accounting policies for revenue is set out in Note III, No.25. The Group signs petroleum engineering technical service contracts or construction engineering contracting contracts with customers to provide geophysical, drilling engineering, logging and mud logging, special down-hole operations and engineering construction, and usually completes labor services or delivers construction within the agreed period. The customer settles the completed workload in installments during the contract performance period, and pays the progress payment within 30-180 days after settlement. The final settlement and payment are made after the completion of the project and the completion acceptance.

According to the contractual stipulations and legal provisions, etc., the Group's engineering construction business provides quality assurance for the construction. This type of quality assurance is a guarantee quality assurance to the customer that the construction meet the established standards and does not constitute an individual performance obligation. The Group accounts in accordance with the accounting policies described in Note III. No.23.

The Group determines whether the Group's identity is the major principal or agent when engaging in a transaction based on whether it has control over the goods or services before transferring the goods or services to the customers. If the Group is able to control the goods or services before transferring goods or services to customers, the Group is the major principal and recognizes revenue according to the total amount received or receivable; otherwise, the Group is an agent and recognizes revenue in accordance with the amount of commission or poundage expected to be recognized. The amount is determined by the net amount of deducting to the payable of other related parties from the total amount received or receivable, or according to the established commission amount or proportion.

(3) Information related to residual performance obligations

The Group signs engineering service contracts with several customers to provide petroleum engineering technical services and construction engineering contracting services, and will perform them in a certain period of time. These contracts usually constitute an individual performance obligation. As at 30 June 2019, some of the Group's petroleum engineering technical services and construction projects are still in the course of performance, and the total transaction price allocated to the unfulfilled obligations is approximately 24.16 billion. The amount is related to performance of each contract and will be recognized as revenue based on the progress of the performance in the future performance period of each contract.

38. Tax and surcharges

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Urban maintenance and construction tax	19,124	7,684
Education surtax	15,004	6,258
Overseas tax	32,022	40,791
Land use tax	33,252	41,664
Vehicle usage tax	15,541	9,872
Others	10,409	11,299
Total	125,352	117,568

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Selling and distribution expenses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Freight	656	1,030
Staff costs	19,420	16,907
Depreciation	145	225
Travel expenses	1,652	1,977
Sales service fees	118	1,283
Business promotion fee	91	171
Rental expenses	592	411
Office expense	884	911
Others	1,742	616
Total	25,300	23,531

40. General and administrative expenses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Repair and maintenance	149,206	83,574
Staff costs	476,627	414,421
Integrated service	192,827	464,445
The information system runs maintenance fees	52,225	
Business entertainment	13,009	9,911
Travel expenses	22,676	19,293
Rental expenses	26,934	7,084
Depreciation and amortization	21,727	12,061
Consultation	6,772	3,940
Property insurance	1,453	4,583
Others	97,064	62,700
Total	1,060,520	1,082,012

41. Research and development expenses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Staff costs	144,176	6,683
Material cost	105,483	50,985
Technical collaboration fee	15,545	12,539
Experimental expenses	5,542	431
Depreciation	8,528	673
Others	200,508	168,885
Total	479,782	240,196

42. Finance costs

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Interest expenses	488,160	283,464
Less: Interest capitalized		
Interest income	79,224	35,114
Exchange losses/(gains)	18,761	-115,868
Bank charges and others	27,391	31,142
Total	455,088	163,624

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Other income

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Related to assets/ income
Subsidy funds for resettlement	—	352,014	Related to income
National research grants	13,722	17,891	Related to income
Subsidy of heavy-polluting vehicles	2	812	Related to income
Subsidies of stable post	1,294	6,563	Related to income
Self-use consumption tax refund	4,466	131,330	Related to income
Vehicle purchase tax refund	—	276	Related to income
Compensation of relocation	—	4,680	Related to income
Government incentives	442	1,884	Related to income
Recurrent funding subsidies	5,218	—	Related to income
Additional input VAT credit	378	—	Related to income
Labor protection fee refund	266	—	Related to income
Non-profit compensation of relocation	27	—	Related to income
National special research related to assets	379	399	Related to asset
Gains from debt restructuring	75,509	—	Related to income
Return of individual income tax fee	333	2,225	Related to income
Total	102,036	518,074	

Notes:

(1) The analysis information of the government grants refer to Note XIV No.8.

(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. For the six months ended 30 June 2019, the Self-use consumption tax refund of 4,466 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.

44. Investment income

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Investment income from long-term equity	9,410	-2,969
Total	9,410	-2,969

45. Credit impairment losses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Losses from impairment of accounts receivable ("-" for losses)	19,073	121,880
Losses from impairment of contract assets ("-" for losses)	-14,885	
Total	4,188	121,880

46. Disposal income on assets

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Gains from disposal of fixed assets ("-" for losses)	-2,675	-1,819
Others ("-" for losses)	1,238	2,714
Total	-1,437	895

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Non-operating income

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Recognised as non-recurring income
Penalty income	3,845	664	3,845
Waived payables	14,709	10,001	14,709
Gains from debt restructuring	—	147,330	—
Compensation received	3,466	329	3,466
Others	2,335	8,388	2,335
Total	24,355	166,712	24,355

48. Non-operating expenses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Recognised as non-recurring income
Fixed assets written off	87	418	87
Penalty	4,074	2,911	4,074
Compensation	2,310	7,320	2,310
Others	11,661	10,675	11,661
Total	18,132	21,324	18,132

49. Income tax expense

(1) Details of income taxes expenses

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Current tax in accordance with tax laws and related regulations	232,700	149,113
Deferred income tax	649	-996
Total	233,349	148,117

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

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Profit before income tax	742,777	549,066
Taxation calculated at the statutory tax rate	185,694	137,267
Effect of other tax rates used by certain subsidiaries	144,697	-14,165
Adjustments of current tax in previous years	33,819	10,507
Equity method accounting for the joint venture and associates' profit or loss	-2,322	742
Non-deductible costs, expenses and losses	80,746	1,954
Effect of the change in statutory tax rate on opening balance of deferred tax	—	—
Effect of utilization of unrecognised tax losses and deductible temporary differences (expressed in "-")	-193,232	-205,239
Effect of unrecognised tax losses and deductible temporary differences	68,961	45,619
Tax effect on research and development expenses (expressed in "-")	-85,014	—
Others	—	171,432
Income tax expense	233,349	148,117

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Amount paid on behalf	98,408	224,857
Government grants	14,686	501,847
Temporary receipt and payment	199,498	49,979
Guarantee	692,585	361,267
Compensation	38,059	44,502
Others	231,043	20,126
Total	1,274,279	1,202,578

(2) Cash paid for other operating activities

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Temporary receipt and payment	152,930	256,159
Guarantee	403,564	503,450
Research and development expenses	149,208	240,196
Integrated service	381,887	464,445
Repair and maintenance expenses	192,827	83,613
Other period expenses	563,302	113,872
Others	55,707	159,630
Total	1,899,425	1,821,365

(3) Cash received from other financing activities

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Finance lease expenses		500,000
Interest received from selfraised funds special deposit		176
Total		500,176

(4) Cash paid for other financing activities

Items	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Finance lease expense	80,582	17,965
Notes acceptance fees	6,542	7,224
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	4,015	15,202
Principal and interest payable on lease liabilities	90,844	
Others		610
Total	181,983	3,761,283

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	For the six months ended 30 June 2019	For the six months ended 30 June 2018
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	509,428	400,949
Add: Credit impairment losses	-4,188	-121,880
Depreciation of fixed assets	1,474,702	1,514,752
Depreciation of right-of-use assets	178,143	—
Amortization of intangible assets	40,856	40,563
Amortization of long-term deferred expenses	789,846	678,093
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	1,437	-895
Losses on retirement of fixed assets (Gain as in "-")	-72	418
Fair value losses (Gain as in "-")	—	—
Finance costs (Income as in "-")	519,458	260,827
Investment losses (Income as in "-")	-9,410	2,969
Decrease in deferred tax income assets (Increase as in "-")	1,645	—
Increase in deferred income tax liabilities (Decrease as in "-")	-996	-996
Decrease in inventories (Increase as in "-")	-229,492	-3,014,951
Decrease in operating receivables (Increase as in "-")	-5,219,734	3,001,456
Increase in operating payables (Decrease as in "-")	942,202	-6,491,129
Safety costs	294,485	214,782
Others	2,531	—
Net cash flows from operating activities	-709,159	-3,515,042
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	1,885,874	2,212,205
Less: Opening balance of cash	2,173,580	2,523,356
Add: Closing balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net decrease/(increase) in cash and cash equivalents	-287,706	-311,151

(2) Composition of cash and cash equivalents

Items	As at 30 June 2019	As at 1 January 2019
1. Cash	1,885,874	2,173,580
Including:Cash in hand	8,330	8,114
Cash at bank	1,877,376	2,160,530
Other monetary funds	168	4,936
2. Cash equivalents		
3. Closing balance of cash and cash equivalents	1,885,874	2,173,580
4. Restricted funds	43,171	29,861
5. Balance of cash on hand and at bank	1,929,045	2,203,441

52. Assets with restrictive ownership title or right of use

Item	As at 30 June 2019	Reason for restriction
Cash at bank and on hand	43,171	Guarantee and funds that are blocked frozen
Fixed assets	890,006	Sale-leaseback assets
Total	933,177	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Foreign currency items

(1) Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,568,686
Including: USD	146,923	6.8747	1,010,054
DZD	1,047,220	0.0579	60,676
KWD	8,657	22.6328	195,922
KZT	212,405	0.0180	3,828
SAR	41,948	1.8331	76,894
BOB	66,806	0.9949	66,465
Others			154,847
Accounts receivable			6,724,971
Including: USD	756,172	6.8747	5,198,452
DZD	476,613	0.0579	27,614
KWD	31,180	22.6328	705,696
KZT	7,455,682	0.0180	134,351
SAR	135,997	1.8331	249,297
BOB	16,212	0.9949	16,129
Others			393,432
Other receivables			1,411,070
Including: USD	110,924	6.8747	762,569
DZD	64,469	0.0579	3,735
KWD	7,331	22.6328	165,920
KZT	3,805,027	0.0180	68,567
SAR	158,114	1.8331	289,839
BOB	27,268	0.9949	27,129
Others			93,311
Accounts payable			1,983,665
Including: USD	173,417	6.8747	1,192,190
DZD	689,671	0.0579	39,960
KWD	4,353	22.6328	98,526
KZT	1,145,403	0.0180	20,640
SAR	163,822	1.8331	300,303
BOB	3,415	0.9949	3,397
Others			328,649
Other payables			1,073,018
Including: USD	106,294	6.8747	730,739
DZD	611,807	0.0579	35,448
KWD	3,073	22.6328	69,550
KZT	5,812,544	0.0180	104,742
SAR	59,125	1.8331	108,382
BOB	960	0.9949	955
Others			23,202
Interest payable			
Including: USD	269	6.8747	1,852
Short-term loans			
Including: USD	411,000	6.8747	2,825,502
Long-term loans			
Including: USD	83,760	6.8747	575,825

VI. CHANGE OF CONSOLIDATION SCOPE

There are no changes in scope of consolidation for the year ended 30 June 2019.

VII. INTEREST IN OTHER ENTITIES

1. Interests 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	Puyagn,Henan	Petroleum Engineering	100		Business combination under common control
Sinopec Jianghan Petroleum Engineering Corporation	China	Qianjiang,Hubei	Petroleum Engineering	100		Business combination under common control
Sinopec East China Petroleum Engineering Corporation	China	Nanjing,Jiangsu	Petroleum Engineering	100		Business combination under common control
Sinopec North China Petroleum Engineering Corporation	China	Zhengzhou,Henan	Petroleum Engineering	100		Business combination under common control
Sinopec South West Petroleum Engineering Corporation	China	Chengdu,Sichuan	Petroleum Engineering	100		Business combination under common control
Sinopec Geophysical Corporation	China	Beijing	Geophysical prospecting	100		Business combination under common control
Sinopec Petroleum Engineering and Construction Corporation	China	Beijing	Engineering and Construction	100		Business combination under common control
Sinopec Offshore Petroleum Engineering Corporation	China	Shanghai	Offshore Petroleum Engineering	100		Business combination under common control
Sinopec International Petroleum Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

				% of shareholding held		
Name	Place of major operational activities	Place of registration	Nature of business	Directly	Indirectly	Method of accounting
①Joint ventures						
SinoFTS Petroleum Services Ltd. (SinoFTS)	China	Beijing	Petroleum service	55.00		Equity method
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	China	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.

Ⅶ. INTEREST IN OTHER ENTITIES (Continued)

2. Equities in joint ventures and associates (Continued)

(2) Financial information of principal joint ventures

Items	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	Closing balance	Opening balance	Closing balance	Opening balance
Current assets	227,133	239,569	16,982	23,905
Including: Cash and cash equivalents	65,657	75,772	7,144	3,335
Non-current assets	198,544	208,933	5,003	5,366
Total assets	425,677	448,502	21,985	29,271
Current liabilities	50,145	91,617	6,339	11,316
Non-current liabilities				
Total liabilities	50,145	91,617	6,339	11,316
Net assets	375,532	356,885	15,646	17,955
Equity attributable to shareholders of the Company	206,542	196,286	7,823	8,977
Adjustments	-1,365	-1,365	-15	-15
Including: Goodwill				
Others	-1,365	-1,365	-15	-15
Carrying amount of equity investment in joint ventures	205,177	194,921	7,808	8,962
Fair value of investments in joint ventures which have quoted market price				

Continued:

Items	SinoFTS		Zhong Wei Energy Service Co. Ltd.	
	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Revenue	97,025	54,143	61	1,635
Finance costs	47	242	-27	-36
Income tax expense	6,330			
Net profit	18,647	-2,463	-2,307	-4,144
Other comprehensive income				
Total comprehensive income	18,647	-2,463	-2,307	-4,144
Dividend received from joint ventures				

(3) Financial information of other joint ventures and associates

Items	For the current period and the closing balance	For the previous period and the opening balance
Joint ventures		
Total investment from the Group	15,238	14,930
Equity contributed to the Group		
Net profit	308	458
Other comprehensive income		
Total comprehensive income	308	458
Associates:		
Total investment from the Group	12,903	14,010
Equity contributed to the Group:		
Net profit		
Other comprehensive income		
Total comprehensive income		

(4) No material restrictions on transfers of funds from investees to the Group.

(5) The Group has signed the investment contract and remains RMB129,625 thousand on 30 June 2019.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The major financial instruments of the Group include cash at bank and on hand, bills receivable and accounts receivable, other receivables, non-current assets due within one year, other current assets, other equity instrument investments, long-term receivables, bills payable and accounts payable, other payables, short-term loans, non-current liabilities due within one year, long-term loans, 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 credit risk, liquidity risk and market risk. (Including currency risk and interest rate risk.)

The board of directors is responsible for planning and establishing the risk management structure of the Group, formulating the Group's risk management policies and related guidelines, supervising the implementation of risk management measures. The Group has established risk management policies to identify and analyze the risks faced by the Group. These risk management policies clearly define specific risks, covering market risk, credit risk and liquidity risk. The Group regularly assesses changes in the market environment and the Group's operating activities to determine whether update risk management policies and systems. The risk management of the Group is carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee identifies, evaluates and circumvents related risks through close cooperation with other departments of the Group. The internal audit department of the Group reviews regularly on risk management controls and procedures, then reports the audit results to the audit committee of the Group.

The Group diversifies the risk of financial instruments through appropriate diversified investments and business combinations, and reduces the risk of concentration in a single industry, a specific region or a specific counterparty by developing appropriate risk management policies.

(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, bills receivable and accounts receivable, other receivables, contract assets, long-term receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank since it is deposited or will be accepted by the sate-owned banks and other medium or large size listed banks.

In addition, the Group has policies to limit the credit risk exposure on bills receivable and accounts receivable, other receivables, contract assets and long-term 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, 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 debtors of the Group's accounts receivable are customers distributed in different industries and regions. The Group continues to perform credit assessments on the financial status of the receivables, and purchases credit guarantee insurance in due course.

The highest credit risk exposed to the Group is limited to the carrying amount of each financial instrument illustrated in the balance sheet. The Group would not provide any guarantee that might cause credit risk to the Group.

Among the bills receivable and accounts receivable of the Group, the bills receivable and accounts receivable of the top five customers accounted for 58.37% (As at 31 December 2018: 58.64%); among the other receivable of the Group, the other receivable of the top five customers accounted for 46.06% (As at 31 December 2018: 46.92%).

(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 Sinopec Finance Co., LTD and major financial institute to meet the short-term and long-term liquidity requirements. In addition, the Group will also consider negotiating with suppliers to reduce the amount of debt to reduce the company's cash flow pressure.

The Group raises working capital from its operations, bank and other borrowings. As at 30 June 2019, the amount of bank loans not yet used by the Group is 4,783,493 thousand. (As at 31 December 2018: 5,773,675 thousand).

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, off-balance-sheet guarantee items of the Group at 30 June 2019 are analyzed by their maturity date below at their undiscounted contractual cash flows:

	As at 30 June 2019				
Items	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total amount**
Financial assets:					
Cash and cash equivalents	**1,929,045**				**1,929,045**
Bills receivable	**831,848**				**831,848**
Accounts receivable	**14,566,908**				**14,566,908**
Other receivables	**1,944,476**				**1,944,476**
Other current assets	**1,539,515**				**1,539,515**
Total assets	**20,811,792**				**20,811,792**
Financial liabilities:					
Short-term loans	**19,265,502**				**19,265,502**
Bills payable	**4,278,090**				**4,278,090**
Accounts payable	**25,053,265**				**25,053,265**
Other payables	**2,646,308**				**2,646,308**
Non-current liabilities due within 1 year	**673,748**				**673,748**
Long-term loans		**412,482**			**412,482**
Long-term payables		**125,000**	**375,000**	**346,119**	**846,119**
Financial lease payables of unrecognized financial expenses	**15,027**	**27,568**	**53,774**	**11,671**	**108,040**
Lease liabilities		**251,970**	**429,890**	**46,664**	**728,524**
Future financial costs of lease liabilities	**17,117**	**23,697**	**76,985**	**14,795**	**132,594**
Total liabilities	**51,949,057**	**840,717**	**935,649**	**419,249**	**54,144,672**

The financial assets and liabilities, off-balance-sheet guarantee items of the Group at 31 December 2018 are analyzed by their maturity date below at their undiscounted contractual cash flows:

	As at 31 December 2018				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,203,441				2,203,441
Bills receivable	481,196				481,196
Accounts receivable	15,630,004				15,630,004
Other receivables	1,712,575				1,712,575
Long-term receivables					
Other current assets	1,218,035				1,218,035
Non-current assets due within one year	40,477				40,477
Total assets	21,285,728				21,285,728
Financial liabilities:					
Short-term loans	17,606,082				17,606,082
Bills payable and accounts payable	27,059,504				27,059,504
Other payables	2,186,009				2,186,009
Non-current liabilities due within 1 year	156,559				156,559
Other current liabilities	917				917
Long-term loans		536,291			536,291
Long-term payables		134,779	393,219	340,674	868,672
Financial lease payables of unrecognized financial expenses	37,987	31,737	62,324	17,699	149,747
Guarantee provided to other entities					
Total liabilities	47,047,058	702,807	455,543	358,373	48,563,781

The amount of financial liabilities disclosed in the above table is undiscounted contractual cash flow and may differ from the carrying amount in the balance sheet.

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 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 closely monitors the impact of changes in interest rates on the Group's interest rate risk. The Group currently does not adopt an interest rate hedging policy. However, management is responsible for monitoring interest rate risk and will consider hedging significant interest rate risk when it will be needed. 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 six months ended 30 June 2019 and the year ended 31 December 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-19	31-Dec-18
Fixed interest rate financial instruments		
Financial assets		
including: Cash and cash equivalents	72,101	161,363
Long-term receivables		40,477
Financial liabilities		
Including: Short-term borrowings	16,440,000	14,600,000
Long-term borrowings		
Lease liabilities	728,524	
Long-term payables	875,000	990,640
Floating interest rate financial instruments		
Financial assets		
including: Cash and cash equivalents	1,856,944	2,042,078
Financial liabilities		
Including: Short-term borrowings	2,825,502	3,006,082
Long-term borrowings	575,825	536,291

As at 30 June 2019, 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 RMB12,755 thousand (As at 31 December 2018: RMB13,284 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 and Kuwait dinars.

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at 30 June 2019:

	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
Items	**As at 2019/6/30**	As at 2018/12/31	**As at 2019/6/30**	As at 2018/12/31
USD	**5,326,108**	4,772,398	**6,971,075**	6,430,789
SAR	**408,685**	490,601	**616,030**	857,262
KWD	**168,076**	94,834	**1,067,538**	720,132
Others	**556,993**	347,711	**1,050,084**	979,330
Net exposure in RMB	**6,459,862**	5,705,544	**9,704,727**	8,987,513

The Group closely monitors the impact of changes in interest rates on the Group's interest rate risk. The Group's management is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange agreements or currency swap agreements to mitigate the foreign currency risk. The Group has not entered into any forward exchange agreements or currency swap agreements in the year ended 30 June 2019 and the year ended 31 December 2018.

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	**2019**		2018	
Appreciation in USD	**5%**	**61,686**	5%	62,190
Depreciation in USD	**-5%**	**-61,686**	-5%	-62,190
Appreciation in SAR	**5%**	**7,775**	5%	13,750
Depreciation in SAR	**-5%**	**-7,775**	-5%	-13,750
Appreciation in KWD	**5%**	**33,730**	5%	23,449
Depreciation in KWD	**-5%**	**-33,730**	-5%	-23,449

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 non-controlling interest and equity attributed to the parent company.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

2. Capital management (Continued)

As at the date of balance sheet, the debt to equity ratio is as below:

Items	As at 30 June 2019	As at 31 December 2018
Short-term borrowings	19,265,502	17,606,082
Long-term borrowings due within 1 year	163,343	
Long-term payables due within 1 year	147,952	150,142
Lease liabilities due within 1 year	362,453	
Long-term borrowings	412,482	536,291
Long-term payables	846,119	840,498
Lease liabilities	728,524	
Less: cash and cash equivalents	1,885,874	2,173,580
Net debt	20,040,501	16,959,433
Shareholder's equity	6,584,854	5,778,410
Total equity	26,625,355	22,737,843
Debt to equity ratio	75.27	74.59

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.

(1) Fair value of assets and liabilities measured at fair value

As at 30/6/2019, assets and liabilities measured at fair value are shown as follows:

Items	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I. Recurring fair value measurement				
Other equity instrument investments			39,011	39,011
Total assets measured at fair value on a recurring basis			39,011	39,011
Total liabilities measured at fair value on a recurring basis				

The Group recognises transfers between different levels at the end of the current reporting period during which such transfers are made. During 2018, there were no transfers between different levels of the Group's other assets and liabilities.

For financial instruments with active market, the Group measures fair value at quoted price in active market; for financial instrument without active market, the Group measures fair value using valuation techniques. Valuation models used are mainly cash flow discount model and market comparable entity model. Inputs include non-risk interest rate, base rate, foreign exchange rate, credit spread, liquidity premium, lack of liquidity discount, etc.

IX. FAIR VALUE (Continued)

(2) Quantitative information about the unobservable inputs used in the fair value measurement that are significant and are reasonably available.

Items	Fair value As at 31/12/2018	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instrument investments:				
Unlisted equity investments		Net assets	N/A	N/A

(3) Reconciliation between carrying amount at the beginning of the year and that at the end of the year for items measured at recurring Level 3 fair value measurements

				Total gains or losses for the year		Purchases, issues, sales and settlements					
	As at 31/12/2018	Transfer into Level 3	Transfer out of Level 3	Included in profit or loss	Included in other comprehensive income	Purchases	Issues	Sales	Settlements	As at 30/6/2019	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
Other equity instrument investments	39,011									39,011	
Total	39,011									39,011	

				Total gains or losses for the year		Purchases, issues, sales and settlements					
	As at 31/12/2017	Transfer into Level 3	Transfer out of Level 3	Included in profit or loss	Included in other comprehensive income	Purchases	Issues	Sales	Settlements	As at 31/12/2018	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
Other equity instrument investments		24,389			14,622					39,011	
Total		24,389			14,622					39,011	

(4) Fair values of assets and liabilities not measured at fair value

Financial assets and financial liabilities measured at amortized cost include: cash at bank and on hand, bills receivable and accounts receivable, other receivables, short-term loans, bills payable and accounts payable, other payables, long-term loans due within one year, long-term payables, long-term loans and debentures payable, etc.

All financial instruments are carried at amounts not materially different from their fair value except as follows:

	As at 30 June 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Accounts receivable with fixed interest rate			40,477	45,796

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.	274.9 billion	56.51	70.18

The Company's ultimate controlling party is Sinopec Group.

2. Subsidiaries

Details of subsidiaries refer to Note VII.1.

X. RELATED PARTIES AND TRANSACTION (Continued)

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

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
Taiping Petrochemical Financial Lease Co. Ltd	Joint ventures of the Sinopec Group
Director, General Manager, Chief Financial Office And the Secretary of the Board of Directors	Key Managers

X. RELATED PARTIES AND TRANSACTION (Continued)

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	Pricing policy and procedure for decision-making	For the 6 months ended 30 June 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	**4,519,246**	2,029,979
Sinopec Group and its subsidiaries	Right-of-use assets	Based on normal commercial terms or relevant agreements	**15,624**	
Joint ventures and associates of the Group	Right-of-use assets	Based on normal commercial terms or relevant agreements	**92,241**	

② Sales of goods and provision of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the 6 months ended 30 June 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	**67,337**	7,798
Joint ventures and associates of the Group	Sales of goods	Based on normal commercial terms or relevant agreements	**3**	43

(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 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	**18,199,681**	13,265,680
Joint ventures and associates of the Group	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	**367,752**	
Joint ventures and associates	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	**21,383**	

② Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the 6 months ended 30 June 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Services	Based on normal commercial terms or relevant agreements	**208,480**	
Joint ventures and associates of the Group	Services	Based on normal commercial terms or relevant agreements	**553,637**	
Joint ventures and associates	Services	Based on normal commercial terms or relevant agreements	**788,510**	391,869

(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 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	**181,912**	464,445
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	**42,208**	

(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 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	**69,604**	83,000

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(5) Details of related party leases

① The Group as a lessor

Lessee	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	Buildings	Based on normal commercial terms or relevant agreements	286	

② 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	4,395	12,907
Sinopec Group's subsidiaries	Operating leases	Based on normal commercial terms or relevant agreements	3,916	
Joint ventures and associates of the Group	Operating leases	Based on normal commercial terms or relevant agreements	3,735	

(6) Related party guarantees

① 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 107,000 thousand	June 2013	April 2019	Complete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD 588,000 thousand	December 2015	December 2020	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD 61,830 thousand	September 2015	December 2024	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 2019	For the 6 months ended 30 June 2018
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms	1,390	702
	Loan interest expense	Based on normal commercial terms or relevant agreements	375,754	275,566
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	16,917,831	16,559,753
	Payment of the loan	Based on normal commercial terms or relevant agreements	15,224,918	17,343,880
Joint ventures and associates of the Group	Interest expense	Based on normal commercial terms or relevant agreements	36,412	6,071
Sinopec Group and its subsidiaries	Lease liability interest expense	Based on normal commercial terms or relevant agreements	8,534	
Joint ventures and associates of the Group	Lease liability interest expense	Based on normal commercial terms or relevant agreements	11,033	

As at 30 June 2019, the balance of borrowings from Sinopec Group and its subsidiaries was 19,841,327 thousand.

(8) Security funds

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the 6 months ended 30 June 2019	For the 6 months ended 30 June 2018
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	40,321	41,550
	Return on security fund	Based on normal commercial terms or relevant agreements	25,681	24,489

(9) Remuneration of key management personnel

Item	For the 6 months ended 30 June 2019	For the 6 months ended 30 June 2018
Remuneration	5,202	4,557
Retirement scheme contribution	241	260
Share options	2531	
Total	7,974	4,817

X. RELATED PARTIES AND TRANSACTION (Continued)

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

		As at 30 June 2019		As at 31 December 2018	
Item	Related party	Amount	Provision for bad debts	Amount	Provision for bad debts
Bank deposit	Sinopec Finance Co., LTD	84,144		53,605	
	Sinopec Century Bright Capital Investment Limited	638,765		1,005,234	
	CITIC Bank	1		1	
Accounts receivable	Sinopec Group and its subsidiaries	6,039,062	111,649	7,539,486	119,488
	Joint ventures of the Group	5,347	30	14,854	48
	Joint ventures and associates of Sinopec Group	161,477	3,933	128,187	2,566
Prepayments	Sinopec Group and its subsidiaries	98,295		28,064	
	Joint ventures and associates of the Group	111			
	Joint ventures and associates of Sinopec Group	14,364			
Other receivables	Sinopec Group and its subsidiaries	166,657	11,460	162,000	10,732
	Joint ventures of the Group	10,919	109	11,015	110
	Joint ventures and associates of Sinopec Group	16,450	2,837	15,510	2,628

(2) Payables to related parties

Item	Related party	As at 30 June 2019	As at 31 December 2018
Accounts payable	Sinopec Group and its subsidiaries	1,813,906	1,208,415
	Joint ventures and associates of the Group	1,825	14,950
	Joint ventures and associates of Sinopec Group	171,320	75,055
Other payables	Sinopec Group and its subsidiaries	37,153	41,249
Short-term borrowings	Sinopec Finance Co., LTD	9,940,000	9,600,000
	Sinopec Century Bright Capital Investment Limited	2,825,502	3,006,082
	Sinopec Group	6,500,000	5,000,000
Interest payable	Sinopec Group and its subsidiaries	30,934	12,893
Long-term loan	Sinopec Century Bright Capital Investment Limited	575,825	536,291
Long-term payable	Joint ventures and associates of Sinopec Group	892,245	959,900

Ⅺ. PAYMENT OF SHARE OPTION

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.

XI. PAYMENT OF SHARE OPTION (Continued)

As at 30 June 2019, 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 2020	5.63	19,620,000

1. Changes of share options for 2019

	For the 6 months ended 30 June 2019
Number of share options at 1 January 2019	19,620,000
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	19,620,000

2. Calculation of the fair value of the share options on the Grant Date

The Company has elected the Black-Scholes option pricing model to calculate the fair value of the share option. On the Grant Date of the Share Options, the principle figures are as follows:

Exercise price for the Proposed Grant (RMB: yuan)	5.63
Validity period of the share options (year)	3-5
Closing price of A share (RMB: yuan)	3.96
Expected volatility	46.17%
Expected dividend yield ratio	0
Risk-free rate of interest during the validity period	2.3407%-2.4518%

The fair value of share options calculated with the figures above is 54,229,200 thousand. At 30 June 2019, the fair value of the 19,620 thousand share options that were not exercised was 25,343 thousand.

3. The impact on financial condition and operating results under the Share Option Scheme:

	Amount
The cost of equity-settled share-based payment within the period	—
The accumulated amount of equity-settled share-based payment in capital reserves	—

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 2019	As at 31 December 2018
Construction of long-term assets commitments	**219,269**	136,467

(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 2019	As at 31 December 2018
Within one year	**262,587**	322,639
Between one and two years		16,633
Between two and three years		14,187
After three years		29,531
Total	**262,587**	382,990

XII. COMMITMENTS AND CONTINGENCIES (Continued)

1. Principle commitments (Continued)

(3) Investment commitments

As at 30 June 2019, the outstanding commitment in respect of the Group's investment in associates which is not provided in the financial statements is RMB129,625 thousand. (31 December 2018: RMB129,625 thousand).

(4) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2018.

(5) Other commitments

As at 30 June 2019, there is no other commitment to be disclosed.

2. Contingency

(1) Contingent liabilities due to pending actions

The Group might involve in disputes, litigations and claims for compensation with customers, sub-contractors and suppliers in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, litigations or other proceedings and believes that any resulting liabilities will not have material adverse effect on the financial position, operating results or cash flow of the Group.

China National Chemical Engineering No.11 Construction Co., Ltd. ("No.11 Construction") as a subcontractor of the Group undertook the construction of the "Package C project"of "Saudi Yanbu-Medina Phase III Pipeline Project" on 16 August 2012. On 29 May 2018, No.11 Construction submitted an arbitration application to the China International Economic and Trade Arbitration Commission because of contract dispute, requesting the Group to pay RMB456,810 thousand for the project fee and the accrued interest, RMB145,968 thousand for the loss due to stoppage of work and the accrued interest, RMB38,018 thousand for the advance payment under the letter of guarantee and the accrued interest, and RMB500 thousand for attorney fee and the arbitration fees for the case. The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018. As the case is still under trial, it is currently impossible to determine its impact on the current or future profits of the Group. The Group will make active response and safeguard the legitimate rights and interests of the company.

(2) Judicial reorganization and financial impact of the Brazil subsidiary

On 16 August 2018, Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned overseas subsidiary of the Company (the "Brazilian Subsidiary") applied for judicial reorganization to the Third State Court of Commercial Enterprises in Rio de Janeiro, Brazil (the "Court of Rio") according to the relevant local laws in Brazil. On 31 August 2018, the Brazil subsidiary received ruling from Court of Rio, approved Brazil Subsidiary's entering into judicial reorganization and the law firm Nascimento & Rezende Advogados was appointed as the judicial reorganization manager by Court of Rio.

On 15 July, 2019, local time in Brazil, the Brazilian subsidiary received a ruling from the Court of Rio to approve the scheme for the judicial restructuring of the Brazilian subsidiary in accordance with the relevant laws.

The Brazil Subsidiary's reorganization plan shall include fully settling the amount due to employees in respect of the Project, repaying a proportion of debt due to Three Suppliers, and paying legal fees, fees on judicial authorities and other services fees in relation to the implementation of legal reorganization procedure. Such payments amount is estimated to be approximately RMB475,276 thousand.

(3) Contingent liabilities guarantee provided for other entities and its financial effects

As at 30 June 2019, there is no contingent liability from guarantee provided for other entities.

As at 30 June 2019, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD753,759 thousand and THB3,142,900 thousand guarantee to its subsidiaries (31 December 2018: USD860,759 thousand and THB3,142,900 thousand).

(4) 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 thousand (equivalent to USD24,289,800 thousand), including tax of BRL36,467,100 thousand, interest of BRL13,929,800 thousand and tax penalties of BRL30,062,200 thousand. 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.

XII. COMMITMENTS AND CONTINGENCIES (Continued)

2. Contingency (Continued)

(5) 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 as at 30 June 2019. 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.

As at 30 June 2019, there are no other contingent liabilities to be disclosed in the Group.

XIII. POST BALANCE SHEET DATE EVENTS

On 13 August 2019, the Company's wholly subsidiary, Sinopec Oilfield Service Co., Ltd. ("SSC"), completed an acquisition of 45% equity interest in SinoFTS Petroleum Services Limited ("SinoFTS") from FTS Netherlands International Company Limited for a cash consideration of USD26,902,400 (tax exclusive, equivalent to RMB189,952,500). Applicable taxes in the PRC with respect to the transactions amounting to RMB1,738,500 was borne and paid by SSC. Therewith, SinoFTS became a wholly subsidiary of SSC.

As at 27 August 2019, 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

The Group restructured the debts with the creditors in the current period by modifying the debt principal. The total amount of profits recognized in the current period due to debt restructuring was 75,509 thousand. There is no individually significant debt restructuring during the period.

3. The main contents and major changes of pension plan

The main contents of pension plan refer to Note. III. 22(3).

4. Discontinued operation

There is no discontinued operation during the reporting period.

5. Segment information

The Group has identified five reportable segments based on the internal structure, management requirements and internal reporting policy. The reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, engineering construction. The segment information is prepared based on the financial information of the Company's daily management requirements. The Company's executive management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

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

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

The segment information is disclosed in accordance with the accounting policies and measurement standards reported to management by each segment. These accounting policies and measurement standards are consistent with the accounting policies and measurement standards of preparation of the financial statements.

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities

For the year ended 30 June 2019 and as at 30 June 2019	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	1,873,782	17,561,805	1,322,438	3,343,699	6,603,078	1,558,997	-2,007,769	30,256,030
Including:External revenue	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622		30,256,030
Inter-segment revenue	3,876	782,349	273,910	146,431	121,828	679,375	-2,007,769	
Including: Major business revenue	1,873,782	17,561,805	1,322,438	3,343,699	6,603,078	1,312,963	-2,007,769	30,009,996
Cost of sales	1,779,930	15,732,222	1,105,020	3,093,055	6,073,847	1,711,326	-2,007,769	27,487,631
Including: Major business cost	1,779,930	15,892,222	1,105,020	3,093,055	6,073,847	1,314,547	-2,007,769	27,250,852
Operating expenses	128,239	810,617	98,985	123,625	389,868	590,520		2,141,854
Operating profit/(loss)	-34,359	1,046,250	115,899	127,518	86,213	-604,967		736,554
Total assets	4,732,609	40,662,886	2,996,913	7,314,510	22,946,351	23,120,590	-35,709,021	66,064,838
Total liabilities	3,454,012	28,817,367	1,779,903	4,036,474	22,846,579	34,254,670	-35,709,021	59,479,984
Supplementary information:								
Capital expenditure	437,077	82,408	10,062	120,181	63,838	24,189		737,755
Depreciation and amortization	204,883	1,539,993	113,278	306,277	126,777	192,339		2,483,547
Impairment loss on assets	-873	38,107	-8,588	-4,445	-34,161	5,772		-4,188

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	1,764,074	-1,480,674	23,650,777
Including:External revenue	2,552,187	12,390,817	695,110	2,043,193	5,291,485	677,985		23,650,777
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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(2) Other segment information

① External revenue of goods and services

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Geophysics	1,869,906	2,552,187
Drilling engineering	16,779,456	12,390,817
Logging and mud logging	1,048,528	695,110
Special down-hole operations	3,197,268	2,043,193
Engineering construction	6,481,250	5,291,485
Others	879,622	677,985
Total	30,256,030	23,650,777

② Geographical information

For the six months ended 30 June 2019 and as at 30 June 2019	PRC	Other countries or regions	Total
External revenue	24,246,723	6,009,307	30,256,030
Non-current assets	23,521,366	5,407,789	28,929,155

For the six months ended 30 June 2018 and as at 31 December 2018	PRC	Other countries or regions	Total
External revenue	17,497,164	6,153,613	23,650,777
Non-current assets	25,004,467	3,886,429	28,890,896

③ The dependence of principle customers

The Group obtained over 50% of the total geophysics, drilling engineering, logging and mud logging, special down-hole operations and engineering construction revenue from a single customer.

XIV. OTHER SIGNIFICANT EVENTS (Continued)

6. Government grants

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

Government grants projects	category	As at 31 December 2018	Increase in current year	Amount recognized in current profit or loss	As at 30 June 2019	Presentation item in current income statements	Related to assets/ income
Special funds for national scientific research	Financial appropriation	136,276	5,663	13,722	128,217	Other income	Related to income
Subsidies for yellow label cars	Financial appropriation		2	2		Other income	Related to income
Subsidies for recurring funding	Financial appropriation		5,218	5,218		Other income	Related to income
Subsidies for enterprises' development	Financial appropriation		1,384			Other income	Related to income
Stabilization allowance	Financial appropriation		1,294	1,294		Other income	Related to income
Consumption tax refund of self-used refined oil	Financial appropriation		4,466	4,466		Other income	Related to income
Additional input VAT credit	Financial appropriation		390	378	12	Other income	Related to income
Government incentives	Financial appropriation		442	442		Other income	Related to income
Labor protection fee refund	Financial appropriation		266	266		Other income	Related to income
Compensation for public welfare relocation	Compensation for public welfare relocation		27	27		Other income	Related to assets
National special research related to assets	Financial appropriation	3,318		379	2,939	Other income	Related to assets
Total		139,594	19,152	26,194	132,552		

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 2019, the company received refund of consumption tax (RMB4,466 thousand) from MOF, which was recognized as other income.

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. RMB13,722 thousand was recognized as other income in 2019.

(2) The government subsidy of RMB26,194 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

① Other receivables disclosed by aging

Aging	As at 30 June 2019
Within 1 year	1,088,656
1-2 years	160,668
2-3 years	176,390
3-4 years	2,291,173
4-5 years	698,877
Over 5 years	
Subtotal	4,415,764
Less: provision for bad debts	
Total	4,415,764

② Other receivables disclosed by nature:

Items	As at 30 June 2019			As at 31 December 2018		
	Book value	Provision for bad debts	Carrying amount	Book value	Provision for bad debts	Carrying amount
Current account of wholly-owned subsidiaries	4,415,764		4,415,764	4,357,230		4,357,230
Total	4,415,764		4,415,764	4,357,230		4,357,230

③ The five largest other accounts receivable are analyzed as follows:

Company Name	Nature of payment	Amount	Aging	Percentage of total accounts receivable	Ending balance of bad debt provision
Sinopec oilfield service corporation	Current account	4,415,764	Within 1 year	100	
Total		4,415,764		100	

2. Long-term equity investment

Item	As at 30 June 2019			As at 31 December 2018		
	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	27,891,662		27,891,662
Total	27,891,662		27,891,662	27,891,662		27,891,662

Investment in subsidiary

Investee	As at 31 December 2018	Increase during the period	Decrease during the period	As at 30 June 2019
Sinopec oilfield service corporation	27,891,662			27,891,662
Total	27,891,662			27,891,662

There is no restriction on sale of the long-term equity investments held by the Company.

XVI. SUPPLEMENTARY INFORMATION

1. Details of non-recurring gains or losses

Items	For the six months ended 30 June 2019	Notes
Gain or loss on disposal of non-current assets	-1,437	
Government grants recognized in profit or loss for the year/period	21,728	
Gain or loss on debt restructuring	75,509	
Non-operating income/(expenses) except the above	6,223	
Total non-recurring gains or losses	102,023	
Less: Effects of income tax on non-recurring gains or losses	22,655	
Net non-recurring gains or losses	79,368	
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	79,368	

2. Return on net assets and earnings per share ("EPS")

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 shareholders	8.44	0.027	0.027
Net profit attributable to the Company's ordinary shareholders after deduction of non-recurring profit or loss	7.13	0.023	0.023

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 2019	For the six months ended 30 June 2018	As at 30 June 2019	As at 31 December 2018
Based on CASBE	509,428	400,949	6,584,854	5,778,410
Adjusted items and amounts in accordance with IFRS:				
Special reserve	294,485	214,782		
Based on IFRS	803,913	615,731	6,584,854	5,778,410

(2) Related notes

In accordance to CASBE, provision of safety fund according to the PRC regulation is recognised to the profit or loss in the current period and at the same time included in the "special reserve" account. When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognised as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods. According to IFRSs, expenditure in cost nature is recognised in the profit or loss and expenditure in capital nature is recognised as fixed assets when incurred and depreciate in the corresponding depreciation method.

Sinopec Oilfield Service Corporation

27 August 2019

Prepared in accordance with International Financial Reporting Standards

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 123 to 152, which comprises the condensed consolidated statement of financial position as at 30 June 2019, 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

27 August 2019

Shaw Chi Kit

Practising Certificate No.: P04834

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	**30,256,030**	23,653,002
Cost of sales and taxes and surcharges		**(27,318,498)**	(22,160,834)
Gross profit		**2,937,532**	1,492,168
Selling expenses		**(25,300)**	(23,531)
General and administrative expenses		**(1,060,520)**	(1,082,012)
Research and development expenses		**(479,782)**	(240,196)
Finance expenses – net	5	**(455,088)**	(163,624)
Reversal of expected credit loss – net	6	**4,188**	121,880
Share of profit/(loss) from joint ventures		**9,410**	(2,969)
Operating profit		**930,440**	101,716
Other income	7	**127,629**	685,275
Other expenses	8	**(20,807)**	(23,143)
Profit before income tax	9	**1,037,262**	763,848
Income tax expense	10	**(233,349)**	(148,117)
Profit for the period		**803,913**	615,731
Other comprehensive income for the period, net of tax		—	—
Profit attributable to owners of the Company and total comprehensive income for the period		**803,913**	615,731
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	11		
Basic and diluted		**0.042**	0.034

Note:
The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.1.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019	As at 31 December 2018
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	22,247,644	24,206,172
Right-of-use assets	15	2,089,301	—
Other non-current assets		3,717,292	3,654,512
Prepaid land leases	16	—	118,335
Intangible assets		79,970	118,940
Interests in joint ventures		228,223	218,813
Interests in associates		12,903	14,010
Financial assets at fair value through other comprehensive income		39,011	39,011
Deferred tax assets		490,793	492,438
Total non-current assets		28,905,137	28,862,231
Current assets			
Inventories	20	1,254,681	1,217,323
Notes and trade receivables	17	15,398,756	16,111,200
Prepayments and other receivables	18	4,309,737	3,444,501
Contract assets	19	14,267,482	9,066,019
Restricted cash		43,171	29,861
Cash and cash equivalents		1,885,874	2,173,580
Total current assets		37,159,701	32,042,484
Total assets		66,064,838	60,904,715
Equity			
Share capital	21	18,984,340	18,984,340
Reserves		(12,399,486)	(13,205,930)
Total equity		6,584,854	5,778,410
Liabilities			
Non-current liabilities			
Long term borrowings	25	1,891,006	1,377,909
Deferred income		132,552	139,594
Deferred tax liabilities		21,662	22,658
Provisions		587,704	595,742
Total non-current liabilities		2,632,924	2,135,903
Current liabilities			
Notes and trade payables	23	29,331,355	27,059,504
Other payables	24	3,858,206	3,523,748
Contract liabilities	19	3,362,264	4,390,293
Short term borrowings	25	19,933,543	17,755,104
Current income tax payable		361,692	261,753
Total current liabilities		56,847,060	52,990,402
Total liabilities		59,479,984	55,126,305
Total equity and liabilities		66,064,838	60,904,715
Net current liabilities		(19,687,359)	(20,947,918)
Total assets less current liabilities		9,217,778	7,914,313

Chairman: LIU Zhongyun

Director and General Manager: YUAN Jianqiang

Note:
The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.1.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	Total equity
	RMB'000 (Note 21)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	18,984,340	11,622,283	88,480	200,383	300,609	11,676	(25,429,361)	5,778,410
Profit and total comprehensive income for the period	—	—	—	—	—	—	803,913	803,913
Transactions with owners:								
Appropriation of specific reserve	—	—	—	—	501,235	—	(501,235)	—
Utilisation of specific reserve	—	—	—	—	(206,750)	—	206,750	—
Equity settled share-based transaction (Note 22)	—	—	2,531	—	—	—	—	2,531
Total transactions with owners	—	—	2,531	—	294,485	—	(294,485)	2,531
At 30 June 2019 (Unaudited)	18,984,340	11,622,283	91,011	200,383	595,094	11,676	(24,919,933)	6,584,854

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	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Cash flows from operating activities		
Cash flows used in operations	(655,622)	(3,352,315)
Interest received	79,224	35,114
Income tax paid	(132,761)	(197,841)
Net cash used in operating activities	(709,159)	(3,515,042)
Cash flows from investing activities		
Purchases of property, plant and equipment	(717,565)	(308,535)
Purchases of intangible assets	(370)	—
Proceeds from disposal of property, plant and equipment	10,210	16,272
Proceeds from disposal of other non-current assets	9,020	14,436
Dividends received from joint venture	1,296	—
Net cash used in investing activities	(697,409)	(277,827)
Cash flows from financing activities		
Proceeds from borrowings	16,917,831	17,059,753
Repayments of borrowings	(15,224,918)	(17,343,880)
Payment of lease liabilities/finance lease liabilities	(171,426)	(17,965)
Interests paid	(404,948)	(302,487)
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	1,116,539	3,314,234
Net decrease in cash and cash equivalents	(290,029)	(478,635)
Effect of foreign exchange rate changes on cash and cash equivalents	2,323	167,484
Cash and cash equivalents at the beginning of the period	2,173,580	2,523,356
Cash and cash equivalents at the end of the period	1,885,874	2,212,205

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

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 中石化石油工程技術服務有限公司 from Sinopec Group, which was satisfied by the issuance of shares to Sinopec Group (hereinafter collectively referred to as the "Reorganisation").

Upon completion of the Reorganisation, the principal activities of the Group changed to the provision of onshore and offshore oil, natural gas and other mineral prospecting, exploration, drilling and exploitation and provision of general contracting, design and construction services for the oil and gas and other types of construction projects.

On 31 December 2018, the Group completed acquisition of entire equity interests in Jiangsu Oilfield Service and Construction Corporation ("Jiangsu Oilfield"). As Jiangsu Oilfield is also ultimately controlled by Sinopec Group, the business combination was regarded as under common control. The interim financial information of the Group have been prepared using the merger accounting basis as if the current group structure had been in existence throughout the periods presented. Refer to note 2.2 for the details.

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 27 August 2019.

2 BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

As at 30 June 2019, the Group had net current liabilities of approximately RMB19,687,359,000 (31 December 2018: RMB20,947,918,000) and capital commitments of approximately RMB219,269,000; and it had a net profit of RMB803,913,000 for the period then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In April 2019, the Group obtained a line of credit of RMB14 billion and USD0.6 billion (Total: approximately RMB18.2 billion), and line of credit promissory note of RMB7 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, 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 2019 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, as modified by the revaluation of financial assets at fair value through other comprehensive income, which are carried at fair value.

On 28 December 2018, Sinopec Oilfield Service Co., Ltd. ("SOSC"), a wholly-owned subsidiary of the Company, and Nanjing Weinuo Oil & Gas Well Logging Engineering Co., Ltd. ("Nanjing Weinuo") entered into an equity transfer agreement (the "Agreement"). Pursuant to the Agreement, SOSC agreed to acquire and Nanjing Weinuo agreed to dispose of the entire equity interest in Jiangsu Oilfield Service and Construction Corporation ("Jiangsu Oilfield") for a cash consideration of approximately RMB7,388,000. The acquisition was completed on 31 December 2018. As SOSC and Jiangsu Oilfield are ultimately controlled by Sinopec Group, the business combination was regarded as under common control. The consolidated financial statements of the Group have been prepared using the merger accounting basis as if the current group structure had been in existence throughout the periods presented. Since financial statements of Jiangsu Oilfield as at 30 June 2018 does not have material impact to the interim financial information, the comparative information in this interim financial information has not been restated.

Certain comparative figures have been reclassified to conform to current period's presentation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

3.1 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 2019 for the preparation of the Group's interim financial information:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 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.

IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations IFRIC-Int 4 "Determining whether an Arrangement contains a Lease", SIC – Int 15 "Operating Leases-Incentives" and SIC – Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of equity for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC-Int 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC-Int 4. The Group has already reclassified assets under finance lease and prepaid land leases for leasehold land where the Group is a lessee to "right-of-use assets".

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Group has applied the practical expedient not to recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.83%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (note 26(ii)) to the lease liabilities recognised at 1 January 2019:

	At 1 January 2019
	RMB'000
Total operating lease commitments disclosed at 31 December 2018 (Note 26(ii))	382,990
Less: Recognition exemptions:	
– Leases with remaining lease term of less than 12 months	(144,507)
Add: Extension option reasonably certain to be exercised	825,742
Total minimum lease payment under IFRS 16 at 1 January 2019	1,064,225
Less: Total future interest expenses	(119,746)
	944,479
Add: Minimum lease payment of finance lease liabilities at 31 December 2018	990,640
Lease liabilities recognised under IFRS 16 at 1 January 2019	**1,935,119**

Lease liabilities	RMB'000
Current	459,324
Non-current	1,475,795
Lease liabilities recognised under IFRS 16 at 1 January 2019	**1,935,119**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

3.1 Application of new and amendments to IFRSs (Continued)

IFRS 16 "Leases" (Continued)

The following table summarises the impact of transition to IFRS 16 on the Group's condensed consolidated statement of financial position:

	Carrying amount on 31 December 2018	Capitalisation of operating lease	Reclassification	Carrying amount on 1 January 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	—	944,479	1,115,660	2,060,139
Property, plant and equipment	24,206,172	—	(997,325)	23,208,847
Prepaid land leases	118,335	—	(118,335)	—
Total non-current assets	28,862,231	944,479	—	29,806,710
Short term borrowings (note (a))	17,755,104	310,302	—	18,065,406
Current liabilities	52,990,402	310,302	—	53,300,704
Long term borrowings (note (b))	1,377,909	634,177	—	2,012,086
Non-current liabilities	2,135,903	634,177	—	2,770,080
Total equity	5,778,410	—	—	5,778,410

Note:

(a) At 31 December 2018, finance leases liabilities under "Short term borrowings" (note 25) amounting to RMB149,022,000 had been reclassified to lease liabilities under "Short term borrowings" (note 25).

(b) At 31 December 2018, finance leases liabilities under "Long term borrowings" (note 25) amounting to RMB841,618,000 had been reclassified to lease liabilities under "Long term borrowings" (note 25).

3.2 Significant accounting policies

The interim financial information have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2018, except for the effects of applying IFRS 16.

Leases

(i) The Group as a lessee

Applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

(i) the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

(ii) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

(iii) the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

(i) The Group as a lessee **(Continued)**

Applicable from 1 January 2019 (Continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in "property, plant and equipment" and the corresponding liabilities, net of finance charges, are recorded as "finance lease liabilities".

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Operating leases

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

(ii) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Geophysics	**1,869,906**	2,552,187
Drilling engineering	**16,779,456**	12,390,817
Logging and mud logging	**1,048,528**	695,110
Special downhole operations	**3,197,268**	2,043,192
Engineering construction	**6,481,250**	5,291,485
Others	**879,622**	680,211
	30,256,030	23,653,002

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.

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain right-of-use assets, certain prepaid land leases, certain intangible assets, certain other non-current assets, certain inventories, certain contract assets, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred tax assets.

All liabilities are allocated to reportable segments other than certain borrowings, certain deferred income, certain deferred tax liabilities, certain notes and trade payables, certain other payables, 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 2019 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 2019 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622	—	30,256,030
Inter-segment revenue	3,876	782,349	273,910	146,431	121,828	679,375	(2,007,769)	—
Reportable segment revenue	1,873,782	17,561,805	1,322,438	3,343,699	6,603,078	1,558,997	(2,007,769)	30,256,030
Reportable segment (loss)/profit	(36,158)	1,215,590	142,319	128,386	75,372	(595,069)	—	930,440
Other income	4,118	37,128	1,211	801	52,600	31,771	—	127,629
Other expenses	(2,411)	(6,065)	(5,163)	(1,539)	(4,710)	(919)	—	(20,807)
(Loss)/Profit before income tax	(34,451)	1,246,653	138,367	127,648	123,262	(564,217)	—	1,037,262
Income tax expense								(233,349)
Profit for the period								803,913
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	169,518	791,275	85,533	190,521	96,500	105,635	—	1,438,982
– Right-of-use assets	14,539	93,631	8,186	46,994	20,930	31,099	—	215,379
– Other non-current assets	20,817	622,477	18,707	68,472	5,913	53,460	—	789,846
– Intangible assets	9	32,610	852	290	3,434	2,145	—	39,340
Capital expenditure								
– Property, plant and equipment	436,573	26,097	1,046	22,156	3,263	3,995	—	493,130
– Right-of-use assets	504	56,311	9,016	97,655	60,575	20,194	—	244,255
– Intangible assets	—	—	—	370	—	—	—	370
(Reversal of provision)/Provision for ECL on trade receivables, net	(358)	25,702	(9,536)	(6,042)	(67,936)	1,480	—	(56,690)
(Reversal of provision)/Provision for ECL on other receivables, net	(30)	6,496	87	367	30,610	87	—	37,617
(Reversal of provision)/Provision for ECL on contract assets	(485)	5,909	861	1,230	3,165	4,205	—	14,885
As at 30 June 2019 (Unaudited)								
Assets								
Segment assets	4,732,609	40,662,886	2,996,913	7,314,510	22,946,351	23,120,590	(35,709,021)	66,064,838
Liabilities								
Segment liabilities	3,454,012	28,817,367	1,779,903	4,036,474	22,846,579	34,254,670	(35,709,021)	59,479,984

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

As at 31 December 2018 and for the six months ended 30 June 2018, 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 amortization								
– 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
(Reversal of provision)/Provision for ECL on trade receivables, net	(3,889)	(10,830)	(3,753)	(1,751)	(131,400)	4,180	—	(147,443)
(Reversal of provision)/Provision for ECL on other receivables, net	(1,224)	4,104	235	162	20,697	1,589	—	25,563
As at 31 December 2018 (Audited)								
Assets								
Segment assets	5,155,309	35,314,230	2,124,388	5,471,270	23,430,227	27,336,770	(37,927,479)	60,904,715
Liabilities								
Segment liabilities	4,004,200	28,583,953	1,527,149	2,833,859	23,366,680	32,737,943	(37,927,479)	55,126,305

4 REVENUE AND SEGMENT INFORMATION (Continued)

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, right-of-use assets, 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	**24,246,723**	17,499,389
Middle East	**3,481,141**	3,555,372
Other countries	**2,528,166**	2,598,241
	30,256,030	23,653,002

	Specified non-current assets	
	As at 30 June 2019	As at 31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	**22,987,213**	24,470,738
Other countries	**5,388,120**	3,860,044
	28,375,333	28,330,782

(c) Major customer

For the six months ended 30 June 2019 and 2018, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	**18,336,908**	13,273,478

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction accounted for 61% (2018: 56%) of the Group's revenue.

(d) Analysis on revenue from contracts

For the six months ended 30 June 2019, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:							
At a point in time	—	16,359	—	—	18,077	209,912	244,348
Over time	1,869,906	16,763,097	1,048,528	3,197,268	6,463,173	669,710	30,011,682
Total	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622	30,256,030

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts (Continued)

For the six months ended 30 June 2018, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:							
At a point in time	—	8,768	—	2,292	1,922	99,781	112,763
Over time	2,552,187	12,382,049	695,110	2,040,901	5,289,563	580,429	23,540,239
Total	2,552,187	12,390,817	695,110	2,043,193	5,291,485	680,210	23,653,002

5 FINANCE EXPENSES – NET

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income		
– Sinopec Group's subsidiaries	**1,390**	702
– Third-party and other financial institutions	**77,834**	34,412
Exchange gains, net	—	115,868
	79,224	150,982
Finance expenses		
Interest expenses on loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	**(375,754)**	(275,566)
– Third-party and other financial institutions	**(56,427)**	(1,827)
Interest expenses on lease liabilities/ (2018: Interest expenses on finance lease liabilities)		
– Sinopec Group and its subsidiaries	**(8,534)**	—
– Associates and joint ventures of Sinopec Group	**(47,445)**	(6,071)
Exchange losses, net	**(18,761)**	—
Bank and other charges	**(27,391)**	(31,142)
	(534,312)	(314,606)
	(455,088)	(163,624)

6 REVERSAL OF EXPECTED CREDIT LOSS (“ECL”) – NET

	For the six months ended 30 June	
	2019	2018
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Reversal of ECL on trade and other receivables, net	**(19,073)**	(121,880)
ECL on contract assets	**14,885**	—
	(4,188)	(121,880)

7 OTHER INCOME

	For the six months ended 30 June	
	2019	2018
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Gain on disposal of other non-current assets, net	**1,238**	2,714
Government grants (Note)	**26,194**	515,849
Waived payables	**14,709**	10,001
Penalty income	**3,845**	664
Compensation received	**3,466**	329
Gain on debt restructuring	**75,509**	147,330
Others	**2,668**	8,388
	127,629	685,275

Note:
For the six months ended 30 June 2019 and 2018, government grants 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.

8 OTHER EXPENSES

	For the six months ended 30 June	
	2019	2018
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment, net	**2,675**	1,819
Loss on scraps of assets	**87**	418
Penalty	**4,074**	2,911
Compensation	**2,310**	7,320
Others	**11,661**	10,675
	20,807	23,143

9 PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Staff costs, including directors and supervisors emoluments	7,479,293	6,811,475
Retirement benefit plan contribution (including in the above mentioned staff costs)		
– Municipal retirement scheme costs	646,194	622,855
– Supplementary retirement scheme costs	173,261	165,038
Share options granted to directors and employees (including in the above mentioned staff costs)	2,531	—
Changes in inventories of finished goods and work in progress	59,369	50,985
Raw materials and consumables used	8,373,042	5,350,016
Depreciation and amortisation		
– Property, plant and equipment	1,438,982	1,514,752
– Right-of-use assets (note)	215,379	—
– Other non-current assets	789,846	678,093
– Prepaid land leases (note)	—	1,580
– Intangible assets	39,340	38,983
Operating lease expenses		
– Property, plant and equipment held under operating leases (note)	—	682,308
– Short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16	780,946	—
Provision/(Reversal of provision) for ECL – net		
– Trade and other receivables	(19,073)	(121,880)
– Contract assets	14,885	—
Rental income from property, plant and equipment after relevant expenses	(19,470)	(12,263)
Loss on disposal/write-off of property, plant and equipment, net	2,675	1,819
Gain on disposal/write-off of other non-current assets, net	(1,238)	(2,714)
Exchange losses/(gains), net	18,761	(115,868)

Note:
The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.1.

10 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax	**40,073**	17,161
Overseas enterprise income tax	**192,627**	131,952
	232,700	149,113
Deferred tax		
Origination and reversal of temporary difference	**649**	(996)
Income tax expense	**233,349**	148,117

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2019 and 2018 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 2019 and 2018, 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.

11 EARNINGS PER SHARE

(a) Basic

For the six months ended 30 June 2019 and 2018, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company (RMB'000)	**803,913**	615,731
Weighted average number of ordinary shares in issue (Shares)	**18,984,340,033**	18,352,229,243
Basic earnings per share (RMB)	**0.042**	0.034

(b) Diluted

For the six months ended 30 June 2019 and 2018, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares during the periods.

12 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2019 (2018: Nil).

13 EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Salaries, wages and other benefits	6,657,307	6,023,582
Retirement benefit plan contribution (note)		
—Municipal retirement scheme costs	646,194	622,855
—Supplementary retirement scheme costs	173,261	165,038
Share options granted to directors and employees (note 22)	2,531	—
	7,479,293	6,811,475

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 2019, the Group and the employees pay 20% and 8% (31 December 2018: 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.

14 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2019

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Balance at 1 January 2019	1,545,881	59,218,964	437,148	61,201,993
Adjustment under IFRS 16 (note 3.1)	—	(1,326,667)	—	(1,326,667)
Additions	—	60,369	432,761	493,130
Disposals/Write-off	(1,069)	(201,960)	—	(203,029)
Transferred from construction in progress	—	67,806	(67,806)	—
At 30 June 2019	1,544,812	57,818,512	802,103	60,165,427
Accumulated depreciation				
Balance at 1 January 2019	500,517	35,042,629	—	35,543,146
Adjustment under IFRS 16 (note 3.1)	—	(329,342)	—	(329,342)
Depreciation	26,038	1,412,944	—	1,438,982
Disposals/Write-off	(1,037)	(185,960)	—	(186,997)
At 30 June 2019	525,518	35,940,271	—	36,465,789
Accumulated impairment loss				
Balance at 1 January 2019	8,436	1,372,505	71,734	1,452,675
Disposals/Write-off	—	(681)	—	(681)
At 30 June 2019	8,436	1,371,824	71,734	1,451,994
Carrying amounts				
At 30 June 2019 (Unaudited)	1,010,858	20,506,417	730,369	22,247,644
At 31 December 2018 (Audited)	1,036,928	22,803,830	365,414	24,206,172

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

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
Reclassification	—	—	(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

15 RIGHT-OF-USE ASSETS

The Group leases assets including buildings, oil engineering equipment and others, lands and prepaid land leases. Information about leases for which the Group is a lessee is presented below.

	Buildings	Oil engineering equipment and others	Lands	Prepaid land leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019 (adjustment under IFRS 16) (note (a))	439,690	1,385,348	116,766	118,335	2,060,139
Reclassification	—	—	4,549	(4,263)	286
Additions	111,207	129,193	3,855	—	244,255
Depreciation	(89,311)	(105,626)	(18,926)	(1,516)	(215,379)
At 30 June 2019 (Unaudited)	461,586	1,408,915	106,244	112,556	2,089,301

Note：

(a) The Group has initially applied IFRS 16 at 1 January 2019 to adjust the opening balance, by using the modified retrospective approach.

(b) During the six months ended 30 June 2019, the recognised right-of-use assets include related party transactions: Sinopec Group and its subsidiaries amounting at RMB15,624,000, the associates and joint ventures of Sinopec Group amounting at RMB92,241,000.

(c) Prepaid land leases represent prepayments made by the Group for the land use right located in the PRC which are held on leases term between 20 years to 50 years.

16 PREPAID LAND LEASES

	2019	2018
	RMB'000	RMB'000
At 1 January	118,335	118,540
Reclassification to right-of-use assets (note 15)	(118,335)	—
Amortisation	—	(1,580)
At 30 June (Unaudited)	—	116,960

17 NOTES AND TRADE RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables		
– Sinopec Group and its subsidiaries	6,039,062	7,539,486
– Joint ventures and associates of the Group	5,347	14,854
– Joint ventures and associates of Sinopec Group	161,477	128,187
– Third parties	10,827,819	10,472,668
	17,033,705	18,155,195
Less: ECL allowance	(2,466,797)	(2,525,191)
Trade receivables – net	14,566,908	15,630,004
Notes receivables	831,848	481,196
Notes and trade receivables – net	15,398,756	16,111,200

As at 30 June 2019 and 31 December 2018, 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 2019 and 31 December 2018, 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 notes and trade receivables net of ECL allowance based on invoice date is as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	13,889,349	14,438,847
1 to 2 years	1,111,173	1,098,807
2 to 3 years	288,652	377,106
Over 3 years	109,582	196,440
	15,398,756	16,111,200

The movements of ECL allowance on trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	2,525,191	2,320,747
ECL allowance	182,164	745,861
Reversal	(238,854)	(893,304)
Receivables written-off as uncollectable	(1,704)	—
At 30 June (Unaudited)	2,466,797	2,173,304

18 PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Prepayments (note (a))	801,745	460,949
Other receivables (note (b))		
Petty cash funds	24,353	22,440
Guarantee deposits	697,730	668,383
Disbursement of funds	818,452	676,630
Temporary payment	742,914	622,173
Escrow payments	9,370	9,738
Deposits	46,572	40,709
Export tax refund receivables	13,231	28,671
Excess value-added tax paid	1,025,763	827,769
Value added tax to be certified	60,837	29,772
Prepaid value-added tax	445,628	353,291
Prepaid income tax	7,287	7,203
Others	268,188	311,489
	4,962,070	4,059,217
Less: ECL allowance	(652,333)	(614,716)
Prepayments and other receivables – net	4,309,737	3,444,501

Note:

(a) As at 30 June 2019, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB98,295,000 (31 December 2018: RMB28,064,000) and the joint ventures and associates of the Group amounting at RMB111,000 (31 December 2018: Nil) and the joint ventures and associates of Sinopec Group amounting at RMB14,364,000 (31 December 2018: Nil).

(b) As at 30 June 2019, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB166,657,000 (31 December 2018: RMB162,000,000), the joint ventures and associates of the Group amounting at RMB10,919,000 (31 December 2018: RMB11,015,000) and the joint ventures and associates of Sinopec Group amounting at RMB16,450,000 (31 December 2018: RMB15,510,000).

(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 2019 and 31 December 2018 approximate their fair values.

The movements of ECL allowance on prepayments and other receivables are as follows：

	2019 RMB'000	2018 RMB'000
At 1 January	614,716	629,319
ECL allowance	115,480	148,737
Reversal	(77,863)	(123,174)
At 30 June (Unaudited)	652,333	654,882

19 CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Contract assets arising from construction and service contracts	14,308,892	9,092,544
Less: ECL allowance	(41,410)	(26,525)
	14,267,482	9,066,019

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction and service contracts include payment schedules which require progress payments over the construction period once certain specified milestones are reached. Approximate 5% of progress billings of engineering construction service would be retained as quality guarantee. This amount is included in contract assets and the Group's entitlement to this final payment until the end of guarantee period.

The amount of contract assets that is expected to be recovered after more than one year is RMB318,735,000 (31 December 2018: RMB218,966,000).

(b) Contract liabilities

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Contract liabilities arising from construction and service contracts	3,362,264	4,390,293

Note：
The balance of contract liabilities as at 1 January 2019 is RMB4,390,293,000, in which RMB2,846,063,000 was recognised as revenue during the period.

Unsatisfied performance obligation:

The group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 30 June 2019, part of the Group's petroleum engineering and technical service and construction engineering contracts were still in the process, and the total transaction price apportioned to the unsatisfied performance obligation was RMB24.49 billion, the amount of which was related to the progress of the performance of each contract, and will be recognised as revenue in accordance with the percentage of work performed in the future, which is expected to be completed in the coming 60 months.

20 INVENTORIES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Raw materials	1,110,577	1,136,487
Finished goods	187,581	124,201
Work in progress	7,371	11,986
Turnover materials	10,310	8,734
	1,315,839	1,281,408
Less: Provision for impairment/Write off	(61,158)	(64,085)
	1,254,681	1,217,323

For the periods ended 30 June 2019 and 2018, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB8,432,411,000 and RMB5,401,001,000 respectively. For the six months ended 30 June 2019, no provision for inventories (for the six months ended 30 June 2018: Nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB2,927,000 (31 December 2018: RMB8,371,000).

21 SHARE CAPITAL

	As at 30 June 2019		As at 31 December 2018	
	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	11,786,045,218	11,786,046
– 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	5,414,961,482	5,414,961
	18,984,340,033	18,984,340	18,984,340,033	18,984,340

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 2019, 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 options
1 November 2020	5.63	19,620,000

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 2019, the Company have 19,620,000 share options has not been exercised with a total fair value of RMB25,343,000 at the grant date.

The movement of share options are as follows:

	No. of share options
Outstanding shares at 31 December 2017 and 1 January 2018	34,335,000
Lapsed during the year	(14,715,000)
Outstanding shares at 31 December 2018, 1 January 2019 and 30 June 2019	19,620,000

22 SHARE-BASED PAYMENTS (Continued)

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB3.96
Exercise price	RMB5.63
Expected volatility	46.17%
Maturity (years)	3-5 years
Risk-free interest rate	2.34% – 2.45%
Expected dividend yield	0%

Share-based payment of RMB2,531,000 have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2019 (For the six months ended 30 June 2018: Nil). For the six months ended 30 June 2019, no share option had been exercised.

As at 30 June 2019, under the current capital structure, fully exercise of the outstanding shares will lead to issue of 19,620,000 (31 December 2018: 19,620,000) extra ordinary A share and increase in share capital of RMB19,620,000 (31 December 2018: RMB19,620,000), before issue expenses.

23 NOTES AND TRADE PAYABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade payables		
– Sinopec Group and its subsidiaries	**1,813,906**	1,208,415
– Joint ventures and associates of the Group	**1,825**	14,950
– Joint ventures and associates of Sinopec Group	**171,320**	75,055
– Third parties	**23,066,214**	21,963,342
	25,053,265	23,261,762
Notes payables	**4,278,090**	3,797,742
	29,331,355	27,059,504

As at 30 June 2019 and 31 December 2018, 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 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	**26,929,235**	22,716,227
1 and 2 years	**1,101,195**	2,564,414
2 and 3 years	**532,376**	752,327
Over 3 years	**768,549**	1,026,536
	29,331,355	27,059,504

24 OTHER PAYABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Salaries payables	577,534	510,507
Other tax payables	532,538	791,724
Output valued-added tax to be certified	—	917
Interest payables (note (a))	30,934	12,893
Other payables (note (b))		
Guarantee deposits	742,684	724,468
Deposits	58,772	64,712
Disbursement of funds	936,444	601,140
Temporary receipts	571,502	458,704
Escrow payments	57,052	66,355
Withheld payments	22,934	48,657
Others	327,812	243,671
	3,858,206	3,523,748

Note:

(a) As at 30 June 2019 and 31 December 2018, the interest payables was the related party balances with Sinopec Group and its subsidiaries.

(b) As at 30 June 2019, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB37,153,000 (31 December 2018: RMB41,249,000).

(c) The above amounts due to related parties are unsecured, interest free and repayable on demand.

25 BORROWINGS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Current liabilities		
Loans from Sinopec Finance Company Limited (note (a))	9,940,000	9,600,000
Loans from Sinopec Century Bright Capital Investment Limited (note (a))	2,988,845	3,006,082
Loans from Sinopec Group (note (a))	6,500,000	5,000,000
Lease liabilities/Finance lease liabilities (note (b))	504,698	149,022
	19,933,543	17,755,104
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Limited (note (a))	412,482	536,291
Lease liabilities/Finance lease liabilities (note (b))	1,478,524	841,618
	1,891,006	1,377,909
	21,824,549	19,133,013

25 BORROWINGS (Continued)

Note:
(a) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	19,428,845	17,606,082
1 to 2 years	412,482	536,291
	19,841,327	18,142,373

As at 30 June 2019, loans from related parties are unsecured and their annual interest rates ranged from 2.24% to 8.80% (31 December 2018: 3.30% to 8.80%).

(b) Lease liabilities/Finance lease liabilities

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Total minimum lease payments		
– Within 1 year	536,842	187,009
– 1 to 2 years	428,235	167,636
– 2 to 5 years	935,648	455,543
– Over 5 years	323,130	330,199
	2,223,855	1,140,387
Future finance charges on lease liabilities (2018: Finance lease liabilities)	(240,633)	(149,747)
Present value of lease liabilities (2018: Finance lease liabilities)	1,983,222	990,640

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Present value of minimum lease payments:		
– Within 1 year	504,698	149,022
– 1 to 2 years	376,970	135,899
– 2 to 5 years	804,890	393,219
– Over 5 years	296,664	312,500
	1,983,222	990,640
Less: Portion due within one year included under current liabilities	(504,698)	(149,022)
Portion due after one year included under non-current liabilities	1,478,524	841,618

Note:
(a) For the six months ended 30 June 2019, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 31 years (31 December 2018: 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. With the effective of lease agreements, the Group recognised right-of-use assets including buildings, oil engineering equipment and others, lands and prepaid land leases and lease liabilities amounting to RMB244,255,000.

For the six months ended 30 June 2019, total cash outflow for the lease payment is RMB404,948,000.

(b) As at 30 June 2019, above lease liabilities/finance lease liabilities include related party balances: joint ventures and the associates of Sinopec Group amounting to RMB892,245,000 (31 December 2018: RMB959,900,000).

26 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2019 and 31 December 2018 not provided for in the interim financial information are as follows:

	As at 30 June 2019	As at 31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted but not provided for	219,269	136,467

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019	As at 31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	262,587	322,639
1 to 2 years	—	16,633
2 to 3 years	—	14,187
Over 3 years	—	29,531
Total	262,587	382,990

As at 30 June 2019, the Group leases various residential properties, office and equipments with a lease period of 6 to 12 months, which are qualified to be accounted for under short-term lease exemption under IFRS 16.

As at 31 December 2018, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 24 years, 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 2019, the Group has outstanding commitments of RMB129,625,000 (31 December 2018: 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 2019.

27 CONTINGENCIES

In preparing this interim financial information, there were no further developments of those contingencies as at 30 June 2019, which were disclosed in the 2018 annual report.

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 2019 and 2018.

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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Purchases of materials		
– Sinopec Group and its subsidiaries	4,519,246	2,029,979
Sales of products		
– Sinopec Group and its subsidiaries	67,337	7,798
Rendering of engineering services		
– Sinopec Group and its subsidiaries	18,199,681	13,265,680
Receiving of engineering services		
– Sinopec Group and its subsidiaries	208,480	—
Receiving of community services		
– Sinopec Group and its subsidiaries	181,912	464,445
Receiving of integrated services		
– Sinopec Group and its subsidiaries	42,208	—
Rendering of technology research and development services		
– Sinopec Group and its subsidiaries	69,604	83,000
Rental income – Buildings		
– Sinopec Group and its subsidiaries	286	—
Rental expenses – Lands and properties		
– Sinopec Group and its subsidiaries	4,395	12,907
Rental expenses – Equipments and vehicles		
– Sinopec Group and its subsidiaries	3,916	—
Deposits interest income		
– Sinopec Group's subsidiaries	1,390	702
Loans interest expenses		
– Sinopec Group and its subsidiaries	375,754	275,566
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	8,534	—
Borrowings obtained		
– Sinopec Group and its subsidiaries	16,917,831	16,559,753

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Borrowings repaid		
– Sinopec Group and its subsidiaries	**15,224,918**	17,343,880
Safety and insurance fund expenses		
– Sinopec Group	**40,321**	41,550
Safety and insurance fund refund		
– Sinopec Group	**25,681**	24,489

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
– Associates and joint ventures of the Group	—	43
Rendering of engineering services		
– Associates and joint ventures of the Group	**21,383**	—
Receiving of engineering services		
– Associates and joint ventures of the Group	**788,510**	391,869

(c) Significant related party transactions arising with the associates and joint ventures of Sinopec Group:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
– Associates and joint ventures of Sinopec Group	**3**	—
Rendering of engineering services		
– Associates and joint ventures of Sinopec Group	**367,752**	—
Receiving of engineering services		
– Associates and joint ventures of Sinopec Group	**553,637**	—
Rental expenses – Equipments and vehicles		
– Associates and joint ventures of Sinopec Group	**3,735**	—
Interest expenses on lease liabilities (2018: Finance lease liabilities)		
– Associates and joint ventures of Sinopec Group	**47,445**	6,071

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(d) 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee	**400**	300
Salaries, allowances and bonus	**4,802**	4,257
Contributions to pension plans	**241**	260
Share-based payments	**2,531**	—
	7,974	4,817

29 POST BALANCE SHEET EVENTS

On 13 August 2019, the Company's wholly-owned subsidiary, Sinopec Oilfield Service Co., Ltd. ("SOSC"), completed an acquisition of 45% equity interest in SinoFTS Petroleum Services Limited ("SinoFTS") from FTS Netherlands International Company Limited for a cash consideration of USD26,902,400 (tax exclusive, equivalent to RMB189,952,500). Applicable taxes in the PRC with respect to the transactions amounting to RMB1,738,500 was borne and paid by SOSC. Therewith, SinoFTS became a wholly-owned subsidiary of SOSC.

Section IX Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 28 August 2019 (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 2019 signed by the Chairman of the Company;
2. The financial report of the Company for the six months ended 30 June 2019 signed by the Chairman, 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.