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)

2019
Annual Report

IMPORTANT NOTE

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

2. The 2019 Annual Report has been approved at the nineteenth meeting of the ninth session of the Board. A total of 8 directors of the Company attended the meeting. Mr. Pan Ying, an independent non-executive director, was absent from the meeting due to illness but had authorised Ms.Jiang Bo, an independent non-executive director of the Company in writing to attend the meeting and to exercise his voting rights on his behalf.

3. The 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") have been audited by Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited, respectively. Both auditors have issued unqualified opinions on the financial statements.

4. Mr. Chen Xikun, Chairman of the Board, Mr. Yuan Jianqiang, General Manager, Mr. Xiao Yi, Chief Financial Officer and Mr. Pei Defang, Manager of the Asset and Accounting Department of the Company warranted the authenticity and completeness of the financial statements contained in the Annual Report.

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

   The net profit to equity shareholders of the Company was RMB914,244,000 in accordance with the PRC ASBE (the net profit to equity shareholders of the Company was RMB986,873,000 in accordance with the IFRS) for the year 2019 has been audited by Grant Thornton (Special General Partnership). At the end of 2019, the undistributed profit of the Company was RMB -1,496,212,000. Due to the accumulated net profit in the Company was negative value at the end of 2019, the Board proposed not to distribute any dividend nor capitalize any reserve for the year 2019. The above proposed profit distribution scheme shall be submitted for approval at the 2019 Annual General Meeting.

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the annual report, the future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to exercise caution when making investments.

7. There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purpose.

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

Contents

Section I Definitions

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

Company	Sinopec Oilfield Service Corporation, a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033)
Group	The Company and its subsidiaries
Board	the board of Directors of the Company
Articles of Association	the articles of association of the Company, as amended, modified or supplemented from time to time
CPC	China Petrochemical Corporation, a wholly State-owned company established in the PRC and the controlling shareholder of the Company
Sinopec	China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai, the subsidiary of CPC
A Shares	Outstanding shares of the Company which are listed on the SSE and par value per share is RMB1.00
H Shares	Overseas listed foreign Share(s) each which is (are) listed on the Main Board of the Stock Exchange and par value per share is RMB1.00
SSE	Shanghai Stock Exchange
HKSE	The Stock Exchange of Hong Kong Limited
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
CSRC	China Securities Regulatory Commission
HKSCC (Nominees) Limited	Hong Kong Securities Clearing Company (Nominees) Limited
Share Option Incentive Scheme	A Share Option Incentive Scheme of the Company
This Grant	The Company granted the total amount of incentive objects not exceeding 5,085 million stock options according to the Share Option Incentive Scheme
CITIC Limited	China International Trust and Investment Co., Ltd.
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd., a subsidiary of China Petrochemical Corporation
SOSC	Sinopec Oilfield Service Co., Ltd., the subsidiary of the Company
Century Bright Company	Sinopec Century Bright Capital Investment, Ltd., a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of CPC
SinoFTS	SinoFTS Petroleum Services Ltd.
Non-public Placement	Non-public Placement of A shares and H shares
Qi Xin Gong Ying Scheme	Qi Xin Gong Ying Scheme for the management of Sinopec Oilfield Service Corporation
Geophysical exploration, geophysical	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration
Drilling	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole
Completion	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	The technology of acquiring parameters of various formation characteristics from downhole by using special tools or equipment and technology, and of being used to discover the oil and gas reservoir and other mineral resources
Mud Logging	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information
Downhole Operation service	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Two dimensional geophysical	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis
Three dimensional geophysical	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells
CNPC	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corporation
CNSPC	SINOPEC Star Petroleum Co., Ltd
Yanchang Petroleum Group	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
EPC	Engineering, Procurement and Construction; A project contract model, the main services include project design, procurement and construction
China	People's Republic of China

Section II Company Profile and Principal Financial Indicators

1. Company Information

Company's Chinese Name	中石化石油工程技術服務股份有限公司
Abbreviation of the Company's Chinese name	石化油服
Company's English name	Sinopec Oilfield Service Corporation
Abbreviation of the Company's English name	SSC
Legal representative	Chen Xikun

2. Contact Information

	Secretary to the board	Securities Affairs Representative
Name	Li Honghai	Shen Zehong
Address	Office of the board of directors, #9 Jishikou Road, Changyang District, Beijing, China.	
Telephone	86-10-59965998	
Fax	86-10-59965997	
Email	ir.ssc@sinopec.com	

3. Company Profile

Registered address	22 Chaoyangmen North Street, Chaoyang District, Beijing, the People's Republic of China
Post Code of Registered	100728
Post Code of Office address	#9 Jishikou Road, Changyang District, Beijing, China.
Post Code of Office address	100728
Company Internet Website	http://ssc.sinopec.com
Email	ir.ssc@sinopec.com

4. Disclosing information and inspection place

Domestic Newspapers disclosing information	China Securities, Shanghai Securities News, Securities Times
Internet website designated by CSRC to publish the Annual Report	www.sse.com.cn
Internet website designated by HKSE to disclose information	http://www.hkexnews.hk
Place where the Annual Report available for inspection	Office of the board of director of the Company

5. Stock Briefs

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

6. Other related Information

Domestic Auditors	Name	Grant Thornton (Special General Partnership)
	Address	5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing
	Signing accountants	Zhang Yaxu, Wang Tao
Overseas Auditors	Name	Grant Thornton Hong Kong Limited
	Address	Level 12, 28 Hennessy Road, Wan Chai, Hong Kong
	Signing accountants	Shaw Chi Kit
Sponsors performing continuous supervision duties during the reporting period	Name	China International Capital Corporation Ltd
	Address	27th and 28th Floor, China World Office 2, Jianguomenwai Avenue 1, Beijing
	Names of Signature Sponsor Representatives	Wang Haonan, Shi Fang
	Continuous Supervision Period	25 January 2018 – 31 December 2019
Name of the domestic Legal advisor	Beijing Haiwen & Partners	
Address	20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing	
Name of the overseas Legal advisor	Herbert Smith Freehills LLP	
Address	23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong	
Share registrars and transfer office	A Share	China Securities Registration and Clearing Corporation Limited Shanghai Branch
	Address	36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai
	H Share	Hong Kong Registrars Limited
	Address	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong

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

(1) Principal financial data

Unit: RMB'000

	For the year ended 31 December 2019	For the year ended 31 December 2018	Year-on-year change (%)	For the year ended 31 December 2017
Operating income	**69,870,147**	58,409,078	19.6	48,593,948
Operating profit ("-" for losses)	**1,251,242**	852,278	46.8	-10,202,891
Profit before income tax ("-" for losses)	**1,355,768**	515,637	162.9	-10,350,586
Net profit attributable to equity shareholders of the Company ("-" for losses)	**914,244**	142,056	543.6	-10,589,524
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses)	**503,704**	37,951	1,227.2	-10,399,296
Net cash inflow from operating activities ("-" for outflow)	**1,377,053**	-2,939,789	Not Applicable	404,761

	As at 31 December 2019	As at 31 December 2018	Year-on-year change (%)	As at 31 December 2017
Total equity attributable to equity shareholders of the Company	**6,763,872**	5,778,410	17.1	-2,099,946
Total assets	**62,069,378**	60,904,715	1.9	62,089,315

(2) Principal financial indicators

	For the year ended 31 December 2019	For the year ended 31 December 2018	Year-on-year change (%)	For the year ended 31 December 2017
Basic earnings per share (RMB) ("-" for losses)	**0.048**	0.008	500.0	-0.749
Diluted earnings per share (RMB) ("-" for losses)	**0.048**	0.008	500.0	-0.749
Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for losses)	**0.027**	0.002	1,250.0	-0.735
Weighted average return on net assets (%)	**14.66**	2.86	Increased by 11.8 percentage points	-335.35
Weighted average return on net assets deducted extraordinary gain and loss (%)	**8.08**	0.76	Increased by 7.32 percentage points	-329.32

Explanations of the principal financial information and financial indicators of the Company in the last 3 years.

☐ Applicable √ Not Applicable

8. Differences between the financial statements of the Company prepared in accordance with PRC ASBE and IFRSs

	Net profit attributable to equity shareholders of the Company ("-" for loss)		Net assets attributable to equity shareholders of the Company	
	For the year ended 31 December 2019	For the year ended 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC ASBE	**914,244**	142,056	**6,763,872**	5,778,410
Adjustments under IFRS:				
Specific reserve (a)	**72,629**	98,132	**–**	–
IFRSs	**986,873**	240,188	**6,763,872**	5,778,410

Explanations for the related differences:

(a) Specific reserve

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

9. Quarterly Financial Data of 2018 (Prepared in accordance with ASBE)

Unit: RMB'000

	The first quarter (January~March)	The second quarter (April~June)	The third quarter (July~September)	The fourth quarter (October~December)
Operating income	13,458,154	16,797,876	17,343,907	22,270,210
Net profit attributable to equity shareholders of the Company ("-" for loss)	188,182	321,246	213,765	191,051
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss)	149,481	280,579	127,536	-53,892
Net cash inflow from operating activities ("-" for outflow)	-1,119,740	410,581	1,606,928	479,284

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

☐ Applicable √ Not Applicable

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

Unit: RMB'000

Extraordinary gain and loss item	2019	2018	2017
Disposal of non-current assets	**67,044**	278	-172,607
Government grants recognized in profit or loss during the year	**170,446**	472,569	150,674
Gain and loss from debt restructuring	**154,539**	395,261	14,481
Net profit or loss from the beginning to the merger date of the Subsidiary of the business combination under common control	**–**	-2,385	-6,983
Profits and losses arising from matters unrelated to the normal business of the Company	**–**	-475,276	–
Gain and loss from external entrusted loans	**–**	–	67
Profits and losses arising from the remeasurement of the previously held equity at the fair value before the corporate merger purchase date	**27,474**	–	–
Other non-operating income and expenses excluding the aforesaid items	**104,526**	-257,894	-162,195
Other profit and loss items that meet the definition of non-recurring profit and loss	**-1,292**		
Tax effect	**-112,197**	-28,448	-13,665
Total	**410,540**	104,105	-190,228

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

Unit: RMB'000

	As at 31 December				
	2019	2018	2017 (Restated)	2016 (Restated)	2015
Total assets	**62,069,378**	60,904,715	62,089,315	74,794,669	85,307,777
Total liabilities	**55,305,506**	55,126,305	64,190,633	66,343,412	60,670,824
Equity attributable to owners of the Company	**6,763,872**	5,778,410	(2,099,946)	8,452,533	24,638,094
Net assets per share attributable to owners of the Company (RMB)	**0.36**	0.31	(0.15)	0.60	1.74
Equity ratio of owners	**10.90%**	9.50%	(3.39%)	11.30%	28.88%
Return on net assets	**14.59%**	4.16%	(503.02%)	(191.64%)	(0.05%)

	For the year ended 31 December				
	2019	2018	2017 (Restated)	2016	2015
Revenue	**69,870,147**	58,409,078	48,593,948	42,923,500	60,349,334
Profit/(Loss) before income tax	**1,428,397**	613,769	(10,324,177)	(15,887,181)	469,719
Income tax expense/(credit)	**441,524**	373,581	239,034	311,196	481,421
Profit/(Loss) attributable to owners of the Company	**986,873**	240,188	(10,563,115)	(16,198,242)	(11,543)
Basic and diluted earnings/(loss) per share (RMB)	**0.052**	0.013	(0.747)	(1.145)	(0.001)

Section III Company Business Summary

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

With more than 50 years of business operation and rich experience in project execution, the Company is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. By the end of 2019, the Company provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing in more than 30 countries and regions.

The Company 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 Company has a technological R&D supporting system covering the full industrial-chain from oil and gas exploration to production and is able to provide integrated services in high-acid oil & gas, tight oil & gas, shale gas and heavy oil reservoirs. The Company was awarded National Prize for Progress in Science and Technology and the Golden Prize of National High-Quality Project for the Sichuan-Eastern China Natural Gas Transmission Pipeline project. The Company 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 Company a national leader in this respect.

Committed to the vision of "leading technology, creating value, supporting oil and gas, serving customers", the Company will vigorously promote its specialized, market-oriented, distinctive, high-end and international business. It will expand its business from onshore to offshore fields, from domestic to international markets, from conventional to unconventional fields, and from single engineering service to integrated reservoir services in order to realize its corporate vision-a world-class integrated oilfield service provider.

During the reporting period, the main business of the Company has not changed substantially.

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

On 31 December 2019, under ASBE, the total assets of the Company was RMB62,069,378,000, a year-on-year increase of 1.9%, of which RMB20,571,730,000 was overseas assets, accounting for 33.1% of the total assets; The net assets attributable to the shareholders of the Company was RMB6,763,872,000, an increase of RMB985,462,000 from the end of the previous year, mainly due to business accumulation in 2019; The debt-to-asset-ratio of the Company was 89.1%, a year-on-year decrease of 1.4 percentage points.

3. Analysis on core competitiveness in the reporting period

The Company has the service ability to cover the full industrial-chain of oilfield service. As of the end of 2019, there were 692 land drilling rigs (including 294 rigs above 7,000 meter), 14 offshore drilling platforms, 69 seismograph hosts, 135 imaging logging systems, 464 integrated logging tools, 148 sets of 2500 and 3000 fracturing trucks, 119 workover rigs above 550HP, 1,797 drilling, geophysical and other professional teams. It can provide the full range of services from exploration, development and production for oilfields and bring value to oil companies. The Company has been the largest onshore drilling contractor of Saudi Aramco, Kuwait Petroleum and Ecuadorian National Petroleum Corporation for many years, and Algeria's largest international geophysical contractor status.

The Company is the large-scale integrated 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, Shunbei oil and gas field etc.

The Company 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, highly acidic oil and gas reservoirs, and ultra-deep well drilling, etc. which can bring sustainable high added-value to its services.

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

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

Dear Shareholders,

On behalf of the Board of Directors of SSC, I would like to express my sincere gratitude to our shareholders and people from all walks of life for your interest and support to SSC.

2019 was key year for the Company to consolidate the foundation for turning losses into profits and overcoming difficulties and promote all-round and sustainable development. In this year, the Company focused on five aspects of stabilizing growth, adjusting structure, improving quality, intensifying reform, and strengthening foundation, vigorously developed the market, continuously deepened the reform, leveraged the leading role of science and technology, and fully completed the annual operating indicators. In 2019, the Company's consolidated revenue under ASBE was RMB69.87 billion, a year-on-year increase of 19.6%, the net profit attributable to the shareholders of the Company was RMB910 million, a year-on-year increase of 543.6%, and the operating results of the Company reached a new level. Affected by the previous sluggish period of the oil service industry, as of the end of 2019, the accumulated undistributed profit of Parent Company was negative, the Board of Directors would like to propose not to pay cash dividend and not to transfer the capital reserve to share capital for Year 2019. The above proposed profit distribution scheme will be submitted to the annual general meeting for approval.

In 2019, international oil prices maintained a trend of significant fluctuations. The Company actively seized the favorable opportunity of the time when oil companies in China increased oil and gas exploration and development to vigorously explore the market. The total amount of newly signed contracts in the year was RMB69.5 billion, representing a year-on-year increase of 10.7%. The total amount of newly signed contracts in the domestic Sinopec market was RMB38.4 billion, representing a year-on-year increase of 3.5%. The Company provided high-quality and efficient services to key capacity constructions such as Weirong, Fuling Shale Gas Field and Shunbei Oil and Gas Field, won the bid for the RMB4 billion Qingdao-Nanjing Gas Pipeline Project, carried out the cooperative development of marginal reserves and achieved remarkable results. The total amount of newly signed contracts in the domestic external markets was RMB14.5 billion, representing a year-on-year increase of 23.9%. The Company accelerated aggregation in high-quality markets such as PetroChina and CNOOC. 55 drilling rigs successively entered the PetroChina southwest shale gas market. The State Geological Survey and the Chinese Academy of Geological Sciences made steady progress in the oil and gas exploration market. The value of newly signed contracts in overseas markets was USD2.37 billion, representing a year-on-year increase of 7.2%. The value of the newly signed contract for the wellbore project in the Saudi Arabian market was USD1.17 billion. Two drilling rigs entered the gas well service market, and six drilling rigs were awarded the full workload of unconventional day rate drilling tendering for the first time, with a newly signed S84 3D geophysical project of USD180 million and a MIP pipeline project of USD270 million. The Company successfully entered the deep wells drilling and repairing, integrated mud logging, drilling rig service sectors in the Kuwait market, with contracts signed for two deep well repairing drilling rigs and seven mud logging team service projects.

Section IV Chairman's Statement

In 2019, the Company continued to increase its efforts in reform, advanced the streamlining of organizations and institutions, coordinated resource allocation, and strengthened performance assessment. During the year, employees of organizations were reduced by 10.4%, and 25 auxiliary units were integrated and reduced. The Company optimized the team structure, guided organization employees to flow to the front line of the basic level, and made use of marketization and project-based labor to supplement the front-line forces. The Company built a project management system with project management as the main body and Asset Swap and Leasing Center and Human Resources Coordination and Allocation Center as the support, promoted the optimization and integration of resources, and established the project management department of the western construction area and the work coordination group of the northwestern construction area to further ensure the exploration, development and construction of key construction areas. The Company implemented stringent assessment management, with the percentage of performance related pay increasing from 40% to 50%, and established the single well/project assessment method, gradually forming a performance assessment mechanism of linkage between compensation and efficiency at all levels.

In 2019, the Company implemented the strategic deployment of "Innovation-Driven Development", focused on key technology research, strengthened the transformation of scientific and technological achievements, enhanced technical service capabilities, and supported exploration and development and market development. During the year, the Company was licensed 351 domestic and foreign patents, and 10 technical centers, including the two R&D centres of Shengli and Zhongyuan and the Well Drilling and Completion and Measurement while Drilling Technology Center, were established. The self-developed drilling rotary steering system was successfully tested, and the jointly developed 185℃ high temperature MWD instrument was successfully applied in Shunbei construction area. The new generation of network imaging logging system, broadband acceleration detector, and node seismic acquisition instrument have reached the international advanced level. The Company successfully signed service contracts with Saudi Aramco for hydrogen sulfide detection, coiled tubing and well site construction projects.

In 2019, all directors of the Board worked diligently and conscientiously, put much emphasis on risk management and control, and adopted a prudent and scientific decision-making approach to ensure the sustainable and healthy development of the Company's various businesses. In December 2019, thanks to the trust of all directors, it is my honor to be elected as the Company's chairman. I am deeply grateful to the shareholders for their trust and support. I will work with other directors to contribute to the Company's development and prosperity and actively reward the shareholders for their long-term support and help.

Looking forward to 2020, the Company will meet opportunities and challenges in its development. On one hand, affected by the novel coronavirus epidemic, China and the world economy will be impacted in the short term, resulting in a decline in oil and gas demand, but on the other hand, in the long run, the long-term positive trend of the Chinese economy has not changed, and the demand for oil and gas resources is still growing. Meanwhile, the three major oil companies in China will implement a seven-year action plan for exploration and development and continue to increase the capital expenditures for upstream exploration and development in order to ensure national energy security. The domestic oil service market has huge growth potential. With the deepening of the construction of the "Belt and Road" and international cooperation, the Company's overseas business will also be expanded steadily.

2020 is a decisive year for the Company to promote overall and sustainable development. We will adhere to the philosophy of "leading technology for value creation and supporting oil and gas provision to serve the customers", focus on five major aspects of stabilizing growth, adjusting structure, improving quality, intensifying reform, and strengthening foundation, step up internal reform efforts, continue to optimize and adjust the business structure and the market structure, reinforce project marketization control and operation, and improve single project profitability and per capita efficiency improvement capabilities.

We will promote internal further reforms to promote specialized and distinctive business development; optimize and adjust the market structure, focus on advantageous markets, and withdraw from inefficient markets; optimize and adjust the business structure, develop technical service business, and promote the development of mid-to-high-end businesses. We will coordinate and adjust the allocation of resources, optimize equipment, human and technical resources; strengthen project management and cost control, and further reduce the cost per RMB100 revenue. Meanwhile, we will further improve the market-oriented operation mechanism, reduce management levels and streamline the organizational structuring, optimize the team structure, increase labor productivity, and significantly improve the Company's profitability and core competitiveness.

The Board of Directors and I believe that through the joint efforts of the Board, Supervisory Committee, the management and all the staff, coupled with the support of our shareholders and the wider community, SSC will enter the track of overall healthy development, creating greater value for shareholders and society, and taking a new step towards building a world-class integrated oil service company.

Chen Xikun

Chairman

Beijing, China

24 March 2020

1. Discussion and analysis of operation during the reporting period

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

Annual Results

In 2019, the Company's consolidated revenue was RMB69,870,147,000, representing a year-on-year increase of 19.6%, and net profit attributable to shareholders of the Company amounted to RMB914,244,000, representing a year-on-year increase of 543.6%. Basic earnings per share was RMB0.048, representing a year-on-year increase of 500.0%.

In 2019, the Company achieved substantial growth in its operating results, mainly benefiting from: the company seized the favorable opportunity of the continuous recovery of the operating environment of the oil service industry, actively leveraged the role of the main force of oil and gas exploration and development, stepped up efforts in market development, coordinated and optimized the market layout, and strengthened the fine management of projects. The workload in the main profession and revenue from principal operations for the year increased year-on-year. Meanwhile, the Company strengthened cost and expense control, tapped potential and increased efficiency. The operating cost per RMB100 revenue for the year decreased by RMB0.34 year-on-year.

Market review

In 2019, the global economic growth slowed down in general, and the economic operation in China continued the development trend of being generally stable, progressing while maintaining stability. The major macroeconomic indicators were maintained within a reasonable range. The gross domestic product (GDP) increased by 6.1% over the previous year, but risk challenges at home and abroad increased substantially. International crude oil prices showed a wide range of fluctuations. The annual average Europe Brent Spot Price was USD64.3 per barrel, representing a decrease of 9.8% as compared to 2018. Global upstream exploration and development capital expenditure increased. In particular, the domestic demand for oil and gas exploration and development increased substantially. Tendering and bidding became increasingly active, and the oilfield service market continued to recover.

In 2019, the Company achieved remarkable results in market expansion, the total newly signed contracts amounted to RMB69.5 billion, representing a year-on-year increase of 10.7%. In particular, the newly signed contracts in the Sinopec market amounted to RMB38.4 billion, representing a year-on-year increase of 3.5%. The newly signed contracts in domestic external markets amounted to RMB14.5 billion, representing a year-on-year increase of 23.9%. The newly signed contracts in overseas markets amounted to RMB16.6 billion, representing a year-on-year increase of 7.2%.

Operations Review

In 2019, the Company actively seized market opportunities for the recovery of the demand for oil and gas exploration and development at home and abroad, coordinated the allocation of resources in both domestic and overseas markets, made positive contributions to stepping up efforts in oil and gas exploration and development in China, and continued to promote the high-quality development of overseas operations. The Company made every effort to advance reform and innovation, paid close attention to cost control and risk management, and continuously improved overall competitiveness. In 2019, the Company achieved positive results in management reform, market development, technological development, and operating results, laying a decisive foundation for achieving overall and sustainable development in 2020.

(1) Geophysical services

In 2019, the Company's operation revenue from the principal business of geophysical service was RMB4,219,721,000, a decrease of 17.8% than the same period of the previous year, for which the figure was RMB5,131,649,000. The completed 2D seismic accumulated for 18,903 kilometers in the year, a decrease of 37.6% than the previous year; while the 3D seismic accumulated for 14,103 square kilometers, an increase of 4.9% than the previous year. The Company improved the quality of seismic data continuously, with 2D and 3D records reaching quality rate of 100%. The Company vigorously promoted advanced technologies such as high-density seismic exploration and high-precision seismic exploration in complex mountainous areas to comprehensively enhance its oil and gas exploration capabilities; maintained a good cooperative relationship with China Geological Survey and the Chinese Academy of Geological Sciences, and won the bids for 29 seismic collection projects, with a contract value of RMB170 million. The Company continued to expand the new business market for CPC's soil pollutant survey, with a newly signed contract value of RMB150 million, representing a year-on-year increase of 64.7%.

(2) Drilling service

In 2019, the Company's operation revenue from the principal business of drilling service was RMB36,487,700,000, an increase of 22.1% than the same period of the previous year, for which the figure was RMB29,883,121,000. Its completed drilling footage reached 9,990 kilometers, representing a year-on-year increase of 15.0%. The average utilization rate of domestic drilling teams reached over 82%. The Company served CPC's exploration and development tasks in a high-quality and efficient manner, and made every effort to promote the improvement of the quality, service speed, efficiency and production in "North China, Northwest China, Sichuan and Chongqing". The average drilling cycle No. 1 fault zone, the central region and the northern region of No. 5 fault zone in the Shunbei construction area was reduced by 13%, 58% and 17% respectively, and the average drilling cycle of Weirong shale gas in the Sichuan-Chongqing construction area was reduced by 35%. The Company successfully completed the task of capacity construction of oil and gas fields such as eastern old oil fields, Fuling shale gas field, Shunbei super deep oil and gas field, tight gas fields in North China, gas fields in western Sichuan, and Weirong shale gas. High-quality markets such as PetroChina and CNOOC further expanded. 55 drilling rigs successively entered PetroChina's southwestern shale gas market.

(3) Logging/Mud logging service

In 2019, the Company's operation revenue from the principal business of logging/mud logging service was RMB2,503,262,000, an increase of 24.8% than the same period of the previous year, for which the figure was RMB2,006,180,000. Its completed logging projects have accumulated for 278,040,000 standard meters, an increase of 14.4% than the previous year. Its completed mud logging projects have accumulated for 9,310 kilometers, an increase of 24.6% than the previous year. The pass rate of logging/mud logging data was 100%. In 2019, the Company made full efforts to meet domestic oil companies' market demand for oil stabilization, gas increase and cost reduction, and actively improve its logging/mud logging service capabilities, providing high-quality and effective guarantee for the production stabilization and increase task of Sinopec Group's key regions in "North China, Northwest China, Sichuan and Chongqing" and eastern old oil fields and witnessing the scale of domestic and foreign markets, including CNPC's southwest shale gas, China Geological Survey, and local coal bed methane, continuing to expand steadily.

(4) Downhole operation service

In 2019, the Company's operation revenue in downhole operation was RMB7,657,148,000, an increase of 35.7% than the same period of the previous year, for which the figure was RMB5,644,308,000. It completed downhole operation for 6,876 wells, an increase of 15.5% than the previous year. The qualified rate of one-time downhole special operation was 98.5%. In 2019, the Company strived to increase its support for domestic oil and gas exploration and development. It has made remarkable results in large-scale deep and atmospheric pressure shale gas fracturing, completion testing of ultra-high temperature, ultra-high pressure and ultra-deep oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs and other aspects. It further expanded the cooperative development of difficult-to-use reserves with Sinopec Group, which has cumulatively increased crude oil output by about 118,000 tons throughout the year, and continued to expand domestic and foreign markets and international markets with superior technologies and equipment. Its unique technical service capabilities in coiled tubing, multi-stage perforated and high-pressure operations, and high-end business service capabilities continued to improve.

(5) Engineering and construction service

In 2019, the Company's operation revenue in engineering and construction service was RMB16,381,730,000, an increase of 24.7% than the same period of the previous year, for which the figure was RMB13,132,857,000. In 2019, the cumulative value of newly signed contracts was RMB18.4 billion, an increase of 1.8% than the same period of the previous year; its completed contracts valued RMB17.1 billion, an increase of 17.9% than the same period of the previous year. We vigorously expand the market and successively undertook Qingdao-Nanjing Gas Pipeline Project, the 1 million tons per annum ethylene and refinery expansion project of Sinochem Quanzhou, southern Sichuan to Fuling pipeline and a number of EPC projects with an annual EPC contract amount of RMB6.65 billion. We actively explored new market and new area and successively won bids for the first and second phases of Zhoushan Subsea Pipeline Project, with a cumulative bid of RMB670 million; actively expanded the local gas pipeline and municipal road and bridge markets, of which a total of RMB1.32 billion was newly signed for the East Guangdong natural gas pipeline companies. The Company also further strengthened the construction of project management and control capabilities. The directional drilling set of north Zhanjiang pipeline set a new record over the directional drilling going through the longest traversing distance and the largest pipe diameter in the country, and the completed first phase of the Jiaoshiba block capacity construction project won the "Golden Prize of National High-Quality Project".

International business

In 2019, the Company's operation revenue in international business service was RMB12,875,129,000, a decrease of 1.8% than the same period of the previous year, for which the figure was RMB13,111,312,000. The revenue contributed by the international business accounted for 18.7% of the whole revenue, with a year-on-year decrease of 4.2 percentage points. In 2019, our two rigs won the longest 10-year extended service contract on Saudi Aramco's daily fee contract extension in the Saudi Arabia market, and six rigs won the full workload of the first unconventional daily fee rig tender; newly signed Saudi Arabia S84 3D geophysical project with a contract value of USD176 million; newly signed Saudi Arabia MIP Pipeline project with a contract value of USD265 million; successfully signed service contracts for hydrogen sulfide testing, coiled tubing and pre-drilling engineering. In the Kuwait market, we won 11 1+1 year service projects and 7 logging team service projects, expanded the market for deep well drilling, work-over, comprehensive logging, and drill bit services, and won 24 qualification certifications from Kuwait Petroleum Company (KOC) in aspects of drilling, orientation, enhanced mining rate, geophysical prospecting, etc.. Besides, we signed a contract for the drilling of 41 wells in Ecuador, and signed 3 geophysical prospecting data acquisition projects in the Algerian market, with a total contract value of USD140 million. The ILY project in Ecuador and the EBANO project in Mexico have progressed steadily, and the overseas equity oil and increased oil production have reach 995,000 tonnes.

Research and development

In 2019, the Company continued to promote the development of R&D system and technological innovation, integrated and optimized scientific research resources, and built a platform for the transformation of results. Two R&D centers and 10 technology centers were successively established. During the year, the Company applied 711 domestic and foreign patents, and was granted authorization of 351 domestic and foreign patents. The self-developed drilling rotation steering system has successfully tested and made breakthrough progress. The jointly developed 185℃ high temperature MWD instrument was successfully applied in the Shunbei Industrial Zone. The new generation of network imaging logging system, broadband acceleration detector and node seismic acquisition instrument have reached the international advanced level. The SICP technical solution passed the review, and the popularity of the ERP system as well as the steadily advancing information construction has effectively improved the level of group management and control and refined management.

Internal reform and management

In 2019, the Company continued to deepen its internal reforms, and various reform measures came into effect. It continued to streamline the organizational structure, standardized the establishment of organs at all levels, and reduced the number of administrative personnel by 10.4% over the previous year. The team structure was optimized by using labour in a project-based manner, and grassroots forces were rationally supplemented. The proportion of employees in the principal business reached a year-on-year increase of 5 percentage points. The Company continued to promote the professional development of auxiliary services, fully implemented contracting operations, and auxiliary business units achieved full profitability. The performance evaluation mechanism was further improved, ergonomics and performance evaluation measures were revised and improved, and the difference assessment performance, was further intensified to strengthen the assessment of single well/project, and the performance evaluation of all employees were further improved. It coordinated and optimized regional resources, and established work coordination groups in the key industrial zones in the western, northern and southwest China, which improved the Company's overall efficiency and effectiveness, and further protected the exploration and development in key industrial zones. The quality control was continuously promoted in all aspect, and the engineering quality was further improved. The downhole failures decreased by 45 from the same period last year, and the loss time decreased significantly by 474 days. Both the wellbore quality qualification rate and the cementing quality qualification rate reached 100%. The Company vigorously tapped potential and increased efficiency, and reduced a total cost of RMB620 million for the whole year.

Capital Expenditures

In 2019, the Company actually had a capital expenditure of RMB2.87 billion. In 2019, taking the guarantee of oil and gas exploration and development and the enhancement of core technology leadership and market competitiveness as the starting point, the improvement of the Company's efficiency as the focus, and the Company's sustainability as the goal, the Company prioritized strategic and global projects and projects that were under transformation and upgrading to promote the Company's comprehensive and sustainable development by strictly controlling non-production and non-principal business projects. The investment is mainly made for the transformation of 15 drilling rigs, 24 sets of top-drive guiding devices, 6 sets of fracturing trucks (crowbars), 88,000 seismic acquisition equipment, 52 controllable seismic sources, 22 sets of rig network electrical equipment, 28 high-pressure mud pumps, 1 set of rotary guidance equipment, 4 sets of coiled tubing equipment, and investment projects such as safety hazard management and environmental protection.

2. Statement of main business during the reporting period

(1) Main business analysis

A. The analysis table of changes related to the income statement and cash flow statement

	2019	2018	The rate of change
	RMB'000	RMB'000	(%)
Operating revenue	**69,870,147**	58,409,078	19.6
Operating cost	**63,695,235**	53,320,296	19.5
Selling and distribution expenses	**63,787**	64,249	-0.7
Research and development expenditures	**1,194,198**	928,586	28.6
General and administrative expenses	**2,965,864**	3,239,084	-8.4
Financial expenses	**945,344**	441,190	114.3
Net cash inflow from operating activities	**1,377,053**	-2,939,789	Not Applicable
Net cash inflow from investing activities	**-3,178,757**	-1,174,471	Not Applicable
Net cash inflow from financing activities	**1,249,626**	3,618,785	-65.5

B. Income and cost analysis

a. Statement of operation by industry and products

Industry	Operating income for 2019	Operating cost for 2019	Gross profit margin	Increase or decrease in operating income as compared with last year	Increase or decrease in Operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Geophysical	4,219,721	4,003,334	5.1	-17.8	-15.5	Decreased by 2.6 Percentage points
Drilling	36,487,700	33,141,819	9.2	22.1	21.4	Increased by 0.6 Percentage points
Logging/Mud logging	2,503,262	1,983,237	20.8	24.8	0.8	Increased by 18.9 Percentage points
Downhole Operation	7,657,148	7,217,640	5.7	35.7	41.4	Decreased by 3.9 Percentage points
Engineering and construction	16,381,730	15,342,862	6.3	24.7	28.3	Decreased by 2.6 Percentage points
Other	1,537,664	1,548,718	-0.7	2.6	0.2	Increased by 2.4 Percentage points
Total	68,787,225	63,237,610	8.1	20.1	20.2	Decreased by 0.1 Percentage points

b. Operating income by regions

Region	Operating income for 2019	Operating cost for 2019	Gross profit margin	Change in operating income as compared with last year	Change in operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Mainland China	55,912,096	51,897,200	7.2	26.5	26.0	Increased by 0.4 Percentage points
Hong Kong, Macau, Taiwan, and overseas	12,875,129	11,340,410	11.9	-1.8	-0.9	Decreased by 0.9 Percentage points

c. Cost analysis

Unit: RMB'000

Product	Item of costs structure	Amount in 2019	Percentage of amount in 2019 in total cost	Amount in 2018	Percentage of amount in 2018 in total costs	Year-on-year change
		RMB'000	(%)	RMB'000	(%)	(%)
Geophysical Service	Raw materials	**337,647**	**8.4**	425,544	9.0	-20.7
	Fuel and power	**175,156**	**4.4**	207,802	4.4	-15.7
	Employees costs	**1,314,275**	**32.8**	1,394,043	29.4	-5.7
	Depreciation and amortization	**454,444**	**11.4**	451,288	9.5	0.7
	Subcontracting costs and outsourcing services expenditures	**267,972**	**6.7**	293,042	6.2	-8.6
	Others	**1,453,840**	**36.3**	1,966,052	41.5	-26.1
	Sub-total	**4,003,334**	**100.0**	4,737,771	100.0	-15.5
Drilling Service	Raw materials	**7,873,905**	**23.8**	6,079,005	22.3	29.5
	Fuel and power	**1,766,533**	**5.3**	1,517,043	5.6	16.4
	Employees costs	**7,574,243**	**22.9**	7,375,133	27.0	2.7
	Depreciation and amortization	**3,011,007**	**9.1**	2,871,376	10.5	4.9
	Subcontracting costs and outsourcing services expenditures	**3,007,007**	**9.1**	2,273,461	8.3	32.3
	Others	**9,909,124**	**29.8**	7,186,143	27.6	37.9
	Sub-total	**33,141,819**	**100.0**	27,302,161	100.0	21.4
Logging/Mud logging Service	Raw materials	**474,358**	**23.9**	465,533	23.7	1.9
	Fuel and power	**26,466**	**1.3**	25,468	1.3	3.9
	Employees costs	**1,147,977**	**57.9**	1,129,146	57.4	1.7
	Depreciation and amortization	**215,414**	**10.9**	203,998	10.4	5.6
	Subcontracting costs and outsourcing services expenditures	**82,683**	**4.2**	87,138	4.4	-5.1
	Others	**36,339**	**1.8**	56,571	2.8	-35.8
	Sub-total	**1,983,237**	**100.0**	1,967,854	100.0	0.8
Downhole operation Service	Raw materials	**2,291,098**	**31.8**	1,482,137	29.0	54.6
	Fuel and power	**335,601**	**4.6**	255,298	5.0	31.5
	Employees costs	**1,305,844**	**18.1**	1,247,105	24.4	4.7
	Depreciation and amortization	**745,356**	**10.3**	517,635	10.1	44.0
	Subcontracting costs and outsourcing services expenditures	**1,371,007**	**19.0**	909,173	17.8	50.8
	Others	**1,168,734**	**16.2**	691,689	13.7	69.0
	Sub-total	**7,217,640**	**100.0**	5,103,037	100.0	41.4
Engineering and Construction Service	Raw materials	**3,573,070**	**23.3**	2,599,671	21.7	37.4
	Fuel and power	**164,420**	**1.1**	138,947	1.2	18.3
	Employees costs	**2,244,110**	**14.6**	2,164,998	18.1	3.7
	Depreciation and amortization	**228,850**	**1.5**	204,568	1.7	1.9
	Subcontracting costs and outsourcing services expenditures	**1,761,500**	**11.5**	1,355,304	11.3	30.0
	Others	**7,370,912**	**48.0**	5,496,459	46.0	34.1
	Sub-total	**15,342,862**	**100.0**	11,959,947	100.0	28.3

d. Information about major customer and major suppliers

During the reporting period, the aggregate operating revenue from the top five largest customers was RMB53,170,304,000 accounting for 76.1% of the Company's total operating revenue in 2019. Among the operating revenue form the top five largest customers, sales amount of related parties was RMB40,177,581,000, accounting for 57.5% of the Company's total operating revenue in 2019. The operating revenue of the top five customers in 2019:

Name of customer	Amount	Percentage to operating income
	(RMB'000)	(%)
CPC and its subsidiaries	40,177,581	57.5
China National Petroleum Corporation	5,799,961	8.3
SAUDI ARABIAN OIL COMPANY	3,193,609	4.6
KUWAIT OIL COMPANY	2,653,347	3.8
China National Offshore Oil Corporation	1,345,806	1.9
Total	53,170,304	76.1

During the reporting period, the aggregate purchase amount from the top five largest suppliers was RMB12,881,403,000 accounting for 30.4% of the Company's total purchase amounts. Among the purchase amount form the top five largest suppliers, purchase amount of related parties was RMB10,836,069,000 accounting for 25.6% of the Company's total purchase amount in 2019. Purchase amount from the largest supplier accounted for 25.6% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

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

C. Expense

Item	2019	2018	Year-on-year change	Reason for change
	RMB'000	RMB'000	(%)	
General and administrative expenses	**2,965,864**	3,239,084	-8.4	Mainly due to the reduction of comprehensive community service fees
Selling and distribution expenses	**63,787**	64,249	-0.7	Slightly decreased than 2018
Financial cost	**945,344**	441,190	114.3	Mainly due to increase in net exchange losses, loan size and lease interest expenses
Credit impairment losses	**-111,239**	-37,068	Not Applicable	Mainly due to recovery of receivables reversal of bad debts lower than in 2018
Income tax expenses	**441,524**	373,581	18.2	Mainly caused by increase of income tax out of profitable in 2019

D. Statement of research and development expenditure

Unit: RMB'000

Expenditure research and development expenditure for 2019	1,194,198
Capitalized research and development expenditure for 2019	–
Total research and development expenditure for 2019	1,194,198
Percentage of total research and development expenditure in operating income (%)	1.71
Number of research and development Personnel	3,428
Percentage of R&D personnel number in the total personnel number of the company (%)	4.7
The proportion of R & D investment of capital (%)	–

In 2019, the Company's research and development expenditure was RMB1,194,198,000, representing an increase of 28.6% as compared with RMB928,586,000 in last year. It is mainly due to the increase in technology investment in key technologies such as rotary steering drilling systems, broadband acceleration detectors, nodal seismic acquisition instruments, deep shale gas and ultra-deep oil and gas reservoirs.

E. Changes in cash flow statement items

Unit: RMB'000

Item	2019	2018	Increased/ decreased by	Change (%)	Reason for change
Net cash inflow from operating activities ("-" for outflow)	**1,377,053**	-2,939,789	Inflow increased by 4,316,842	Not Applicable	Operating income increased, and the receivables were expedited to be cleared and recovered.
Net cash inflow from investing activities ("-" for outflow)	**-3,178,757**	-1,174,471	Outflow increased by 2,004,286	Not Applicable	Increased investment in equipment upgrades and acquisitions of foreign equity in joint ventures
Net cash inflow from financing activities	**1,249,626**	3,618,785	Inflow decreased by 2,369,159	Inflow decreased by 65.5%	Raised funds from the non-public offering of shares in 2018

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

☐ Applicable √ Not Applicable

(3). Statement of assets and liabilities analysis

A. Assets and liabilities

Item	Amount at 31 December, 2019 RMB'000	Percentage of amount at 31 December, 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 this year (%)
Cash at bank and on hand	**1,668,837**	**2.7**	2,203,441	3.6	-24.3
Notes receivables	**500**	**0.0**	481,196	0.8	-99.9
Accounts receivable	**11,996,355**	**19.3**	15,630,004	25.7	-23.2
Accounts receivable financing	**1,446,389**	**2.3**	–	–	Not Applicable
Inventories	**1,185,504**	**1.9**	1,411,638	2.3	-16.0
Contract assets	**9,570,249**	**15.4**	8,871,704	14.6	7.9
Other current assets	**1,742,338**	**2.8**	1,218,035	2.0	43.0
Long-term equity investments	**39,718**	**0.1**	232,823	0.4	-82.9
Fixed assets	**23,516,427**	**37.9**	23,842,767	39.1	-1.4
Construction in progress	**213,819**	**0.3**	365,414	0.6	-41.5
Right-of-use assets	**1,547,822**	**2.5**	–	–	Not Applicable
Intangible assets	**392,947**	**0.6**	237,275	0.4	65.6
Long-term deferred and prepaid expenses	**5,379,478**	**8.7**	3,681,168	6.0	46.1
Short-term borrowings	**20,403,075**	**32.9**	17,606,082	28.9	15.9
Notes Payable	**4,733,932**	**7.6**	3,797,742	6.2	24.7
Accounts Payable	**20,068,294**	**32.3**	23,261,762	38.2	-13.7
Contract liabilities	**3,575,654**	**5.8**	4,390,293	7.2	-18.6
Other payables	**1,770,597**	**2.9**	2,186,009	3.6	-19.0
Non-current liabilities due within one year	**535,475**	**0.9**	156,559	0.3	242.0
long-term borrowings	**474,382**	**0.8**	536,291	0.9	-11.5
Lease liabilities	**1,134,746**	**1.8**	–	–	Not Applicable
Deferred income	**92,211**	**0.1**	139,594	0.2	-33.9

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

√ Applicable ☐ Not Applicable

On 31 December 2019, the Company's funds with restricted use such as margin deposit, etc. was RMB18,105,000 (On 31 December 2018: RMB29,861,000) and net book value of sale and leaseback fixed assets was RMB880,352,000 (On 31 December 2018: RMB925,727,000).

C. Note:

1. Notes receivables decreased by RMB480,696,000 compared with that of the previous year, mainly due to the reclassification of part of the notes receivable into receivables financing.
2. Accounts receivable financing increased by RMB1,446,389,000 compared with that of the previous year, mainly due to the reclassification of the notes receivable.
3. Other current assets increased by RMB524,303,000 compared with that of the previous year, mainly due to the increase in excess value-added tax paid.
4. Long-term equity investments decreased by RMB193,105,000 compared with that of the previous year, mainly due to the acquisition of 45% equity of SinoFTS to obtain control and its inclusion in the consolidated scope of financial statements.
5. Construction in progress decreased by RMB151,595,000 compared with that of the previous year, mainly caused by the completion and delivery of some projects.
6. Right-of-use assets increased by RMB1,547,822,000 compared with that of the previous year, mainly due to impact of implementing new lease standard.
7. Intangible assets increased by RMB155,672,000 compared with that of the previous year, mainly due to the investment in exploration and development of oilfield comprehensive service projects.
8. Long-term deferred and prepaid expenses increased by RMB1,698,310,000 compared with that of the previous year, mainly due to newly purchased special tools for petroleum engineering.
9. Non-current liabilities due within one year increased by RMB378,916,000 compared with that of the previous year, mainly due to the reclassification of the implementation of the new lease standard.
10. Lease liabilities increased by RMB1,134,746,000 compared with that of the previous year, mainly due to impact of implementing the new lease standard.
11. Deferred income decreased by RMB47,383,000 compared with that of the previous year, mainly due to the recognition of other income based on the progress of project development.

(4). Analysis of the industry operation information

A. Market of crude oil and natural gas

In 2019, China's oil and gas reserves showed a growing trend, with crude oil production increasing from negative to positive and natural gas production increasing rapidly. According to the data provided by National Bureau of Statistics, the proved reserve of oil and natural gases of China in 2019 reached 1.2 billion tons and 1.4 trillion cubic meters, respectively, an increase of 25.0% and 68.0% as compared to previous year. Scaled industrial crude oil output was 190 million tons, an increase of 0.8%. The growth rate turned from negative to positive and the decrease of 1.1% in previous year, reversed the continuous decline in production since 2016. Natural gas production was 173.6 billion cubic meters, an increase of 9.8%, the third consecutive year exceeding 10 billion cubic meters. In particular, the production of unconventional natural gas such as tight sandstone gas, shale gas, and coal-bed methane accounted for more than 30%, an increase of 23.0%, driving the growth of all natural gas production by 6.9 percentage points.

In 2019, China's oil consumption continued to grow at a low and medium speed. According to the data provided by National Development and Reform Commission, in 2019, the processing volume of crude oil was 603.34 million tons, a year-on-year increase of 2.6%, and the output of refined oil was 381.39 million tons, a year-on-year increase of 3.6%. Apparent refined oil consumption was 329.61 million tons, a year-on-year increase of 1.4%, of which gasoline increased 2.3% year on year and diesel oil decreased 0.5% year on year. Due to factors such as the continued promotion of environmental protection policies, domestic natural gas consumption continued to grow rapidly. According to the data provided by National Development and Reform Commission, in 2019, the apparent natural gas consumption was 306.7 billion cubic meters, a year-on-year increase of 9.4%.

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

In 2019, China's three major oil companies have increased investment in upstream exploration and development, and put more efforts to build support capacity for crude oil and natural gas. According to the "2020 Strategic Prospects" announced by CNOOC, CNOOC expected the capital expenditures for exploration and development in 2019 would be RMB80.2 billion, an increase of 28.1% over the actual completion in 2018. The upstream exploration and development capital expenditures of Both Sinopec and CNPC have increased significantly. Affected by the increase in capital expenditures of domestic and overseas oil companies, the Company's workload in 2019 increased significantly, of which the workload of drilling business increased by 15.0% year on year.

C. Business information in oilfield service industry

Affected by the increase in upstream exploration and development capital expenditure of domestic and overseas oil companies, the operating environment of the global oilfield service industry continued to recover in 2019. Due to the large year-on-year increase in capital expenditures of upstream exploration and development of domestic oil companies, the operating performance growth of domestic oilfield service companies was better than that of international oilfield service companies.

(5). Analysis of investments

A. Significant equity investment

Considered 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 in China Securities, Shanghai Securities News, Securities Times, and on www.sse.com.cn 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 "Progress Update Announcement on Disclosable Transaction" (P.2019-022) published in China Securities, Shanghai Securities News, Securities Times, and on www.sse.com.cn on 11 May 2019 and on www.hkexnews.hk on 10 May 2019 for details.

As at 13 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

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

C. Information of financial assets measured at fair value

☐ Applicable √ Not Applicable

(6). Sales of major assets and equity

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

(7). Information on the Company's subsidiaries and shareholding companies

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
		%	RMB'000	RMB'000	RMB'000	RMB'000	
SOSC	RMB4,000,000,000	100	62,069,131	59,666,934	2,402,197	944,391	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited*	RMB700,000,000	100	12,328,861	12,317,652	11,209	157,719	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited*	RMB450,000,000	100	11,500,751	11,364,757	135,994	206,413	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited*	RMB250,000,000	100	4,190,383	2,988,262	1,202,121	134,406	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited*	RMB860,000,000	100	3,718,610	3,596,913	121,697	22,125	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited*	RMB890,000,000	100	4,270,668	2,169,321	2,101,347	97,668	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited*	RMB300,000,000	100	5,541,374	2,005,772	3,535,602	189,436	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited*	RMB300,000,000	100	3,441,129	3,179,398	261,731	33,123	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation*	RMB500,000,000	100	21,319,868	21,140,153	179,715	106,203	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited*	RMB2,000,000,000	100	5,191,308	1,509,434	3,681,874	9,315	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation*	RMB700,000,000	100	3,592,689	2,555,292	1,037,397	14,640	Petroleum engineering technical service
SinoFTS	RMB344,000,000	100	428,345	20,935	407,410	23,365	Oil and Gas Production technical service

Name of company	Revenue	Operating profit
	RMB'000	RMB'000
SOSC	69,870,147	1,281,389
Sinopec Shengli Oil Engineering Company Limited*	14,927,611	147,134
Sinopec Zhongyuan Oil Engineering Company Limited*	12,381,202	371,356
Sinopec Jianghan Oil Engineering Company Limited*	5,562,326	198,979
Sinopec East China Oil Engineering Company Limited*	3,384,407	23,068
Sinopec North China Oil Engineering Company Limited*	4,800,058	131,913
Sinopec Southwest Oil Engineering Company Limited*	5,544,987	185,371
Sinopec Oil Engineering Geophysical Company Limited*	4,302,398	42,854
Sinopec Oil Engineering and Construction Corporation*	16,852,932	148,858
Sinopec Shanghai Offshore Oil Engineering Company Limited*	1,521,765	1,063
Sinopec International Petroleum Service Corporation*	1,371,925	55,743
SinoFTS*	110,763	25,075

* Note: The Company holds shares though SOSC.

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

(1) Competitive Structure and Development Trend

Looking forward to 2020, the process of world economic recovery will slow down, especially since the beginning of 2020, the novel coronavirus pneumonia epidemic will have a certain impact on the global economy. While international oil prices are greatly affected by the demand side, uncertain and unstable factors remain. It is expected that the fluctuation of international oil prices will increase; the downward pressure on China's economy is increasing, but the basic trend of growth amid stability and long-term improvement remain unchanged, and the basic trend of rigid growth in oil and gas demand remain unchanged. The total capital expenditure from global oil and gas exploration and development will continue to increase, especially the three major domestic oil companies are expected to continue to increase investment in upstream exploration and development driven by the security of national energy strategy; against the background of rising domestic and foreign market demand, the domestic oil service industry will be active and of full opportunity. At the same time, requirements of oil companies for improving the quality and speed of oil service business and increasing production and reducing costs are more intense and urgent.

(2) Business Strategy in 2020

The Company will actively take favorable opportunities of continued recovery of demand in oil field service sector, and continue to leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and expand external markets outside Sinopec in order to make profits. It plans to sign new contract to reach a yearly value of over RMB68.0 billion, in which RMB39.6 billion will be from Sinopec's internal market, RMB13.0 billion from domestic external market, and RMB15.4 billion from overseas market. It will continue to deepen internal reforms, strengthen management innovation, deepen resources optimization and integration, overall structure optimization and adjustment, continuous brand image optimization, and development quality improvement, to promote the Company move toward mid-to-high end and strive to achieve comprehensive and sustainable development. The Company puts emphasis on the following aspects:

A. Geophysical service

The Company will vigorously promote the application of high-density and high-precision seismic exploration technologies in oil and gas exploration, and continuously improve construction efficiency and data quality. It will continue to efficiently serve the exploration and deployment of Sinopec, and do a good job in oilfield exploration in the Tarim Basin, eastern fault depressions and Junggar Basin, and natural gas exploration in Sichuan Basin and Ordos Basin; continue to strengthen strategic cooperation with key customers such as China Geological Survey system and Yanchang Group; promote the integration of acquisition, processing, and interpretation service capabilities, and maintain the position as the largest international geophysical contractor in Algeria. It completed annual acquisition of 2D seismic data reaching 17,700 kilometers and 3D of 23,780 sq. kilometer.

B. Drilling Service

In 2020, the Company will closely focus on the production requirements of "efficient exploration and profitable development" of upstream of Sinopec Group, based on the positioning of engineering technology support center, strengthen the services and guarantees of oil and gas exploration and development, and consolidate the internal market share; select high quality team to efficiently serve the construction of production capacity in key industrial areas such as the Shunbei ultra-deep oil and gas field, Southwest natural gas, Ordos tight oil and gas, and southern Sichuan deep shale gas, helping Sinopec Group to stabilize oil, increase gas output and reduce costs to achieve better results, and serve the development of benefits. In the domestic and foreign markets, it will actively take advantage of the Company's industrial chain integration advantages, and pay close attention to the capacity construction of key areas such as shale gas at southern Sichuan, Tarim and Karamay, and major exploration and development projects such as CNOOC Bohai Bay, Beibu Gulf, and the South Yellow Sea to continue to optimize the layout of external resources, consolidate well-established high-quality markets such as PetroChina and CNOOC, and lay a solid foundation for revenue and efficiency in external markets. The Company plans to complete drilling footage accumulated for 10,010 kilometers in 2020.

C. Logging/Mud logging service

In 2020, the Company will continue to focus on exploration and development. It will enhance and expand share in Sinopec Group's internal market while actively increasing income from external market. For Sinopec Group's internal market, the Company will ensure the implementation of key district projects in "North China, Northwest China, Sichuan and Chongqing". For external market, the layout will be further optimized and emphasis will be on market expansion in southwest of CNPC, Ordos and Yanchang Oilfield. It will continue to optimize the allocation of internal resources such as crews, equipment and staff. It will perfect and strengthen its business in logging/mud logging service. The Company plans to complete logging footage accumulated for 280,000 kilometers in 2020, while the mud logging footage accumulated for 9,350 kilometers.

D. Downhole operation service

In 2020, taking opportunities of the time when the state puts more in oil and gas exploration and development, the Company will constantly refine the construction technology system of special downhole operation, put effort into raising its support capability in exploration service, promote oil and gas development and improve quality, speed, efficiency and production, with a focus to ensure the exploration and development and the increase in reserves and production of the Fuling shale gas field in the Sichuan Basin and the Weirong shale gas field, Ordos tight oil and gas, Shunbei super deep oil and gas reserves, and offshore oil and gas fields. The Company will continue to expand the domestic shale gas market and strengthen its ability to support green energy sources including share gas; accelerate the expansion of the industrial chain and increase the intensity of cooperation and development of difficult-to-use reserves; improve and strengthen high-end business such as high-pressure operations and smart tubing business, and continue to develop new businesses such as anhydrous fracturing and smart completion. In 2020, the Company plans to complete downhole operation service for 6,960 wells.

E. Engineering and construction service

In 2020, the Company will focus on enhancing project management, control project risks and promote capabilities of making profits. It will make good preparation for the construction of some key projects, such as focusing on the construction of Qingdao-Nanjing Gas Pipeline Project, Nanchuan-Fuling Pipeline Project, East Guangdong Natural Gas Pipeline and other key projects; consolidate and increase the market share of CPC, and focus on the development of key projects including new gas pipeline Guangxi Branch and Trunk Line Project, Qianjiang-Henan Province Gas Storage Gas Pipeline Project, Long Kou-Linyi-Puyang Natural Gas Pipeline, E'ancang Project, and Su-yu Outer Pipeline Project, to continuously increase the market share of long-distance pipelines. The Company will also establish rescue teams, keeping an eye on the national oil and gas pipeline market, closely tracking key central and local government gas, water conservancy, and municipal projects, and expanding new businesses and markets such as solid waste, hazardous waste disposal, and soil remediation. In 2020, the Company plans to sign new contracts valued RMB14.9 billion and complete contracts valued RMB15.0 billion.

F. International business

In 2020, the Company will focus on strengthening unified and standardized management in international business, optimizing market layout, efficiently integrating resources, accelerating transformation and upgrading, strictly preventing and controlling risks, and striving to achieve sustainable and high-quality development. It will consolidate and expand key markets including Saudi Arabia, Kuwait, Ecuador, and Mexico, and give play to the role of a drilling "leader" to drive "going out" of business including logging & mud logging, cementing and completion, directional wells, drilling fluids, coiled tubing, fracturing and other businesses and advance overseas high-end business; strictly organize the Saudi S84 project to expand the three-dimensional seismic market; promote the construction of Saudi MIP pipeline projects, pay close attention to comprehensive reservoir integration service projects in Ecuador, Kuwait, and Mexico, and strive for new breakthroughs. In Algeria, Nigeria, Iraq and other markets, we will consolidate and expand drilling, geophysical and surface businesses; track the Russian offshore drilling market; and expand the offshore oilfield disposal market. In 2020, the Company plans to sign new contracts valued USD2.2 billion.

G. Technology development

In 2020, the Company will continue to accurately satisfy the exploration and development and market needs, and continuously improve the supporting technologies for exploration and development projects such as deep oil and gas, shale gas, tight oil and gas, and old oilfields in the east; continue to improve service capabilities to meet the needs of oil companies to accelerate their exploration and development and improve their quality and efficiency to help stabilize oil, increase gas output, and reduce costs; continue to improve the construction of 4 research and development platforms, cultivate offshore engineering technology centers, and promote the construction of key laboratories such as measurement while drilling, wellbore working fluids, and high-temperature and high-pressure oil and gas testing. It will also intensify research on overcoming technology difficulties, accelerate breakthroughs in high-end areas such as downhole measurement and control, logging and testing, and accelerate the realization of autonomous controllability of key technologies such as low-frequency and high-energy controllable seismic sources and drilling rotation guidance, creating a "weapon" for petroleum engineering; accelerate the promotion of nodal seismic acquisition industrialization, long-distance pipeline electrical control integration, etc., accelerate the matching of reservoir integration service technology, cultivate new business and create new value with new technologies.

H. Internal reform and management

In 2020, the Company will continue to deepen reforms, deeply optimize and integrate resources, vigorously optimize the market, team, equipment, and business structure, and accelerate the transition to the mid-to-high end; deepen the management system reform, promote the management of "small institutions and large departments", and implement "release management services" reforms, optimize business processes, standardize the organization of functions at all levels, and reduce the administrative staff by 10%; promote the optimization of market structure, establish a market-oriented resource allocation mechanism, and focus on improving the security capabilities of Sinopec, consolidate the development of domestic scale and efficient markets, and make every effort to promote the high-quality development of overseas business; promote the optimization of business structure, enlarge and strengthen the principal business, refine and improve the auxiliary business, accelerate the development of technical service business, and innovate and coordinate the development of emerging business; promote the team structure optimization and control the total number of employees and the team to improve team quality, continue to improve the utilization rate of the team and the labor productivity of the entire staff; and put more efforts on the performance evaluation, implement the performance evaluation of the entire staff, and promote income increase or decrease. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2020, the reduced cost and fees are expected to be RMB0.3 billion.

I. Capital expenditures

In 2020, the Company plans to arrange capital expenditure of RMB3.4 billion on fixed assets. The investment is mainly used for the following key projects: the first is to arrange the supporting transformation of deep well rigs in key industrial areas, the rig electrification and grid electrification, and the purchase of electric fracturing pumps, based on the main line of the exploration and development of Sinopec; the second is to ensure the renovation and reconstruction of construction equipment required for the development of key markets in Saudi Arabia and Kuwait based on the main line of exploring overseas high-end markets; the third is to arrange the automation of rigs, seismic node equipment, and the investment in laboratory infrastructure based on the main line of improving scientific research and industrialization projects to improve technical service capabilities; the fourth is to arrange the investment of safety and environmental protection projects based on the main line of improving safety; and the fifth is to arrange the construction of an integrated production and operation coordination platform (SICP) based on the main line of building a digital oilfield service company. In 2020, the Company will highlight the awareness of return on investment, strengthen budget management, strictly control off-plan investments, and strictly control non-production and non-main business projects, thereby enhancing the Company's technical service capabilities, cultivating its core competitiveness, and strongly improve investment efficiency.

(3) Potential risks

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

A. Market uncertainty risk

In recent years, although the bidding activities of the oilfield service industry have been active with the rebound of international oil prices, the competition pattern of the entire market has not changed significantly. Coupled with political, economic and other factors, the international oil price trend remains. There are uncertainties and there may be some countries or regions that protect the local oilfield service industry market. The market competition is still fierce. The oilfield service industry still faces greater operational pressure. The market competition risk is still the risk that the company needs to face.

B. Risk in fluctuation of international crude oil prices

International crude oil prices are affected by various factors including global and regional political and economic changes, supply and demand conditions, and emergencies and disputes with international influence. There is insufficient driving force for rising international crude oil demand. US crude oil inventories remain high. The situation of oversupply of crude oil is difficult to change in the short term. Coupled with the tension between the United States and Iran, and more complicated situation in the Middle East, it is expected that the fluctuation of international oil prices will increase. The rise and fall of international oil prices will directly related to the revenue of oil companies, which in turn affects the capital expenditure of upstream exploration and development of oil companies. The capital expenditure of upstream exploration and development directly affects the number of orders of the oil service companies, which in turn affects the profitability of the oil service companies.

C. Environmental damage, hidden hazards and force majeure risk

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

D. Overseas operation risk

The company has business in many foreign countries who will have political, legal, supervision and management influences on the business. Due to the complexity of international political, economic and other conditions, including sanctions, barriers to entry, instability of fiscal and tax policies, contract breaches, etc., the company may increase the risks of the company's overseas business development and operations.

E. Exchange rate risk

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

4. Assets, liabilities, equity and cash flow (extracted from the financial statements prepared in accordance with IFRS)

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

(1). Assets, liabilities and equity analysis

	As at 31 December 2019	As at 31 December 2018	The rate of change
	RMB'000	RMB'000	%
Total assets	**62,069,378**	60,904,715	1.9
Current assets	**30,547,900**	32,042,484	-4.7
Non-current assets	**31,521,478**	28,862,231	9.2
Total liabilities	**55,305,506**	55,126,305	0.3
Current liabilities	**52,438,357**	52,990,402	1.0
Non-current liabilities	**2,867,149**	2,135,903	34.2
Total equity attributable to owners of the Company	**6,763,872**	5,778,410	17.1

Total assets were RMB62,069,378,000, representing an increase of RMB1,164,663,000 from that at the end of 2018, of which: Current assets were RMB30,547,900,000, representing a decrease of RMB1,494,584,000 from that at the end of 2018. The decrease was mainly due to a decrease in notes and trade receivables of RMB4,114,345,000, an increase in financial assets at fair value through other comprehensive income of RMB1,446,389,000, an increase in contract assets of RMB641,269,000, an increase in prepayment and other receivables of RMB1,235,565,000 and a decrease in cash and cash equivalents of RMB522,848,000. Non-current assets were RMB31,521,478,000, representing an increase of RMB2,659,247,000 from that at the end of 2018, which was mainly due to the combined impact of the increase in the property, plant and equipment of RMB1,169,459,000 and the increase of RMB1,720,269,000 in other non-current assets due to the purchase of special tools for petroleum engineering.

Total liabilities were RMB55,305,506,000, representing an increase of RMB179,201,000 from that at the end of 2018, of which: Current liabilities were RMB52,438,357,000, a decrease of RMB552,045,000 as compared with the end of 2018, which was mainly due to comprehensive impact of a decrease in notes and trade payables of RMB2,257,278,000, contract liabilities of RMB814,639,000, other payables of RMB725,911,000, an increase in short-term borrowings of RMB3,183,346,000. Non-current liabilities were RMB2,867,149,000, an increase of RMB731,246,000 compared with the end of 2018, which was mainly due to the increase of long-term borrowings of RMB929,919,000.

Total equity attributable to owners of the Company was RMB6,763,872,000, an increase of RMB985,462,000 as compared with the end of 2018, mainly due to the profit attributable to equity holders of the Company in 2019 achieved RMB986,873,000.

As at 31 December 2019, the ratio of total liabilities to total assets was 89.1%, and 90.5% as at 31 December 2018.

(2). Cash flow analysis

The main items of cash flow of the Group in 2019 and 2018 showed in the following table.

Main items of cash flow	2019	2018
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**1,377,053**	(2,939,789)
Net cash outflow from investing activities	**(3,178,757)**	(1,174,471)
Net cash inflow from financing activities	**1,249,626**	3,618,785
Decrease in cash and cash equivalents	**(552,078)**	(495,475)
Effect of exchange rate changes	**29,230**	135,618
Cash and cash equivalents at the beginning of the year	**2,173,580**	2,533,437
Cash and cash equivalents at the end of the year	**1,650,732**	2,173,580

During the year ended 31 December 2019, the Group's net cash inflow from operating activities was RMB1,377,053,000, representing an increase of cash inflow by RMB4,316,842,000 as compared with last year. This was mainly due to the increase in operating income in 2019 and the expedited cleanup and recovery of receivables.

During the year ended 31 December 2019, the Group's net cash outflow from investing activities was RMB3,178,757,000, an increase of cash outflow by RMB2,004,286,000 as compared with last year. It was mainly due to increase of investment in equipment upgrades in 2019 and the acquisition of foreign equity of SinoFTs held by foreign shareholders.

During the year ended 31 December 2019, the Group's net cash inflow from financing activities was RMB1,249,626,000, presenting a decrease of cash inflow by RMB2,369,159,000 compared with last year. It was mainly due to the completion of the non-public placement of A shares and H shares in January 2018 and the company's net proceeds RMB7,637,715,000.

(3). Affiliated company borrowings

As at 31 December 2019, the Company's affiliated borrowings were RMB20,877,457,000 (31 December 2018: RMB18,142,373,000). These borrowings included the short-term borrowings in RMB20,403,075,000, and the long-term borrowings due more than one year of RMB474,382,000; the fixed-rate loans were RMB18,080,000,000 and the floating rate loans were RMB2,797,457,000. As at 31 December 2019, the balance of RMB borrowings accounted for approximately 86.6% and the balance of US dollar borrowings accounted for 13.4%.

(4). Gearing ratio

As at 31 December 2019, the gearing ratio of the Company was 76.1% (31 December 2018: 74.6%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

5. The required information disclosure according to the Listing Rules of HKSE

(1). Assets pledge

For the year ended 31 December 2019, there was no pledge on the Company's assets.

(2). Foreign Exchange Risk Management

It is set forth in note 43 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(3). Financial Summary

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

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

(4). Reserves

Changes in reserves of the Company during the reporting period are set forth in note 29(ii) of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(5). Fixed assets

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

(6). Bank loans and other borrowings

Details of bank loans and other borrowings of the Company as at 31 December 2019 are set out in note 35 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(7). Retirement plan

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

(8). Income tax

As of the twelve months ended 31 December 2019, the Company's income tax expense was RMB441,524,000 (2018: RMB373,581,000). The main reason for the change of the tax amount is as following: 1) the existence of losses of the company and its certain subsidiaries, 2) the expansion of the Group's overseas business, and the different calculation method of tax rate in different countries of the Group's overseas subsidiaries, and 3) the fluctuations of the revenue contributions of the Group's certain subsidiaries which enjoy preferential income tax rate. In addition, the Group has paid tax in the countries and regions where it has businesses.

(9). Capitalized Interest

For the year ended 31 December 2019, there was no Capitalized Interest of the Company.

(10). Environmental policy and performance of the Company

(1) Environmental policy of the Company: Led by construction of ecological civilization and green low-carbon strategy, the Company continues to carry out clean production, energy saving and emission reduction, carbon asset inventory and verification, and the energy efficiency doubling plan. The special action of blue sky environmental protection is launched and effectiveness of energy and environment work gets sustainable improvement.

(2) In 2019, the Company was not in the list of heavily polluting enterprises released by relevant Chinese environmental department. There were no significant environmental or other social security issues about the Company.

(3) The Company has established a comprehensive environmental impact assessment system to enhance environmental management and control. In 2019, the Company had no environmental pollution accident, nor had been sued, fined or sanctioned due to environmental pollution or violating environmental laws and regulations.

(11). Compliance with laws and regulations

(1) For detailed information about laws and regulations of significant influence on the Company, please refer to the related disclosure in Appendix I "regulatory review" of the circular regarding the material asset restructuring dated 27 October 2014 on the website of Shanghai Stock Exchange www.sse.com.cn and website of Hong Kong Stock Exchange.

(2) In 2019, the Company strictly abided by the laws and regulations which have significant influence on the Company and has not been sued, fined or sanctioned due to violating major laws and regulations.

(12). Important employees, customers and suppliers of the Company

(1) There were no employees, customers and suppliers who has significant influence on the Company's prosperity.

(2) For the information about the Company's major customers and suppliers, please refer to the subsection (1)(B)(d) "Information about major customer and major suppliers "under "Statement of main business during the reporting period" in this section.

(13). Management contract

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

(14). Pre-emptive rights

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

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

For the twelve months ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the their listed securities.

(16). Directors' interests in competing business

Certain directors of the Company hold positions in China Petrochemical Corporation and its subsidiaries. For details, please refer to the chapter "Directors, Supervisors, Senior Management and Employees" of this Annual Report.

(17). Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the reporting period.

(18). Directors service contracts

No Director has a service contract with the Company or any of its subsidiaries which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

(19). Permitted indemnity provisions

During the reporting period, the Company has purchased liability insurance for all directors to minimize their risks arising from the performance of their duties. The permitted indemnity provisions are provided in such directors liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors.

(20). Equity-linked agreement

For the year ended 31 December 2019, except for the Share Option Scheme disclosed under "Company's share option incentive plan and its respective effect" under "Significant Events" in this annual report. The Company has not entered into any equity-linked agreement.

On behalf of the Board

Chen Xikun

Chairman

Beijing, China

24 March 2020

Section VI Significant Events

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

(1). Formulation, implementation or adjustment of dividend policy

The Company's current dividend policy is as follows: during the reporting period, under the situation of: 1) Company's profit gaining, 2) the Company's positive accumulated undistributed profit and 3) the Company's cash flow meets the requirement of its normal operation and sustainable development, then the Company shall have the dividends and the annual dividends shall not less than 40% of the current net profit attributed to the Company shareholder's. The specific amount of dividends shall be proposed by the Board of Directors of the Company, and be finally approved by the General Meeting. During the process of enacting and executing of the Company's dividend policy, the independent directors fulfilled their responsibilities following the corresponding obligations, which fully reflected the opinions and demands of minority shareholders and protected their legitimate rights and interests.

Due to the negative of the Company's undistributed profits at the end of 2019, there were no cash dividends. But the Company would strictly implement its Articles of Association, soon as the achievement of capability for cash dividends, the Company will perform decision-making process in accordance with relevant provisions and play the role of independent directors in order to safeguard the legitimate rights and interests of the minority shareholders.

(2). Profit distribution plan for Ordinary Shares or pre-arranged plan or plan or pre-arranged plan to convert surplus reserves into share capital in the previous three years (inclusive of the reporting period) (in accordance with "ASBE")

Years of distribution	Amount of dividend for every 10 shares	Amount of cash dividends	Numbers of shares converted for every 10 shares	Net profit attributable to equity shareholders of the listed company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement
	(RMB) (Tax included)	(RMB) (Tax included)	(share)	(RMB'000)	(%)
2019	–	–	–	914,244	–
2018	–	–	–	142,056	–
2017	–	–	–	-10,589,524	–

(3). If the Company records profits and the parent company records a positive distribution of profit available to shareholders of ordinary shares during the Reporting Period but there is no proposal for cash dividend for ordinary shares, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

☐ Applicable √ Not Applicable

2. Performance of undertaking

(1). The undertakings made by the Company, shareholders, the ultimate controllers, directors, supervisors, senior management and other associated parties during or until the reporting period.

Background	Type	Party	Undertaking	Date and Duration	Whether there is a performance period	Whether the undertaking has been strictly fulfilled timely
Undertaking regarding the Material Assets Reorganization	Solve the horizontal competition	China Petrochemical Corporation	The Non-Competition undertaking 1. China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights. 2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. Within 5 years of the Material Assets Reorganisation, China Petrochemical Corporation will find the appropriate opportunity to sell the Petroleum Service Business 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 Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Date of undertaking: 12 September 2014 Duration: Long Term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Undertaking regarding the Material Assets Reorganization	Solve the connected transaction	China Petrochemical Corporation	The undertaking of regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation an its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September 2014 Duration: Long Term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Commitments regarding the Material Assets Reorganization	Other	China Petrochemical Corporation	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Petrochemical 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	No	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

According to the letter issued by China Petrochemical Corporation, the controlling shareholder of the Company regarding the fulfillment of the relevant commitments of the Exploration IV Drill Rig, in order to safeguard the interests of the Company and minority shareholders, based on the actual situation of the Exploration IV Drill Rig, on 27 August 2019, the 15th meeting of the ninth session of the Board of Directors and the 10th meeting of the ninth session of Supervisory Committee of the Company considered and approved "Proposal on fulfillment of undertakings related to 'Exploration IV' Drill Rig by lease" and "Proposal to lease the 'Exploration IV' Drill Rig to China Petrochemical Corporation". On 6 November 2019, The first extraordinary general meeting in 2019 of the Company considered and approved "Resolution on Fulfillment of Undertakings Related to the 'Exploration IV' Drill Rig by lease". For details, please refer to the "Connected Transaction – Lease of the Exploration IV Drill Rig" announcement (P.2019-037) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 28 August 2019, and on www.hkexnews.hk on 27 August 2019.

China Petrochemical Corporation undertakes to dispose the Exploration IV Drill Rig when appropriate within the 5 years after the completion of the Major Assets Reorganisation, the above commitment has been fulfilled.

(2). The existence of earnings forecast about the Company's assets and projects, and the reporting period is still in the earnings forecast period, the information about whether the Company's assets or projects achieved the original earning forecast and its reasons.

☐ Achieved ☐ Not Achieved √ Not Applicable

3. Capital occupancy and progress on settlement of arrears

During the reporting period, there were no non-operating funds supplied by the Company to the controlling shareholders and its connected partners.

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

☐ Applicable √ Not applicable

5. Analysis and explanation of the Company on the reasons and impact of the changes in accounting policy, accounting estimation and corrections to material accounting errors.

(1). Analysis and explanation of the company on the reason and impact of the changes in accounting policy and accounting estimation

√ Applicable ☐ Not applicable

Changes in accounting policy:

1. According to Accounting Standards for Business Enterprises No. 21-Leasing (applicable from 1 January 2019), the new lease standard cancels the lessee's classification of financial leases and operating leases from the perspective of the lessee, based on the rights and obligations agreed in the contract, the lessee is required to recognise the right-of-use asset and lease liability in the balance sheet for all leases (except for short-term leases and low-value assets leases that have been simplified), and depreciation and interest expenses are recognized separately. The Group will recognize leases with lease term not exceeding 12 months at the start of the lease period and excluding purchase options as short-term leases; and lease with a low single asset value as a low-value asset lease. For short-term leases and low-value assets leases, the right-of-use assets and lease liabilities are not recognized. During the lease term, the relevant costs of assets or current profit or loss are calculated on a straight-line basis, and contingent rentals are included in the current profit or loss when they actually occur. In calculating the present value of lease payments, the Group uses the interest rate implicit in the lease as the discount rate; if the interest rate inherent in the lease cannot be determined, the incremental borrowing rate of the Group is used as the discount rate.

The Company retrospectively adjusted the relevant items of the opening financial statements in accordance with the above changes in accounting policies, and no comparable period information was adjusted. The impact of applying the new leasing standards on the statement items is 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 payables	868,672	-12,318	856,354
Lease liabilities	–	646,495	646,495

2. Accounting Standards for Business Enterprises No. 7-Non-Monetary Asset Exchange is applicable from 1 January 2019. The Group has not conducted any such business in 2019. This change in accounting policy has no impact on the Company's operating results and assets and liabilities.

3. Accounting Standards for Business Enterprises No. 12-Debt Restructuring" is applicable from 1 January 2019. The new standard no longer defines "debt restructuring" with the core premise that "the debtor has financial difficulties" or "creditors make concessions." Changes in the debt restructuring will no longer be included in non-operating income or non-operating expenses, and the financial presentation will be adjusted to investment income. This change in accounting policy will increase or decrease the Company's operating profit, but will not affect net profit.

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

☐ Applicable √ Not applicable

6. The appointment and dismissal of the accounting firm

	The present employment
The name of the domestic accounting firm	Grant Thornton (special general partnership)
The audit period for the domestic accounting firm	6
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The remuneration of the domestic and overseas accounting firm	RMB9,800,000
The audit period for the overseas accounting firm	6
The accounting firm for Internal Control Audit	Grant Thornton (special general partnership)
The remuneration of the accounting firm for Internal Control Audit	RMB2,000,000

Note: Grant Thornton Tax Services Limited provided the Company tax services on Hong Kong profit tax declaration in 2019, and the compensation was HKD10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and overseas auditor for the year 2019. The Proposal has been approved by the Shareholders at the annual general meeting of 2018 on 26 June 2019.

On 24 March 2020, the Board of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and overseas auditor of the Company for the year 2020. The proposal shall be subject to the approval by the shareholders at the Company's 2019 annual general meeting.

7. Situation about confronting the risk of the suspension of listing

(1). Reasons which resulted in the suspension of listing

☐ Applicable √ Not applicable

(2). Corresponding measures to be taken by the Company

☐ Applicable √ Not applicable

8. Situation about confronting the termination of listing and corresponding reasons

☐ Applicable √ Not applicable

9. Insolvency and restructuring

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

10. Material litigation and arbitration

√ Applicable ☐ Not applicable

Litigation and arbitration matters were disclosed in the interim announcement without subsequent progress

√ Applicable ☐ Not applicable

China National Chemical Engineering No. 11 Construction Co., Ltd. (中國化學工程第十一建設有限公司) (the "Applicant") entered into the "Works Contract for the Package C Construction of the Saudi Yanbu－Medina Phase III Pipeline Project (《沙特延布－麥迪那第三期管線項目C包施工工程合同》)" (the "Construction Works Contract") with Sinopec International Petroleum Services Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company (the "International Services Corporation" or the "Respondent") on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu－Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay RMB456,810,240 for the project fee and the accrued interest, RMB145,968,410.5 for the loss due to stoppage of work and the accrued interest, RMB38,018,100 for the advance payment under the letter of guarantee and the accrued interest, and RMB500,000 for attorney fee and the arbitration fee for the case. The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the "Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhong Jing Zi No. 048223)".

As the case is still under trial, it is currently impossible to determine its impact on the current or future profits of the Company. The Company will make active response and safeguard the legitimate rights and interests of the Company.

For details, please refer to the "Announcement on a wholly-owned subsidiary involving arbitration" (P. 2018-049) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 26 June 2018 and on www.hkexnews.hk on 25 June 2018.

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 manager 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 in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 4 September 2018, and on 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 in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 19 July 2019, and on www.hkexnews.hk on 18 July 2019.

On 8 October 2014, the Ecuador Banya Duri Company (厄瓜多爾斑尼亞杜麗公司), an indirectly wholly-owned subsidiary of the Company (the "Banya Duri Company") entered into the Contract for I-L-Y Oilfield Comprehensive Service Projects in Ecuador (the "I-L-Y Oilfield Projects Contract") with Corporacion Estatal Petrolera Ecuatoriana (the "PAM"). The Banya Duri Company is a project company established by the Company in Ecuador to engage in I-L-Y oilfield comprehensive service with 90% and 10% of its shares held by Sinopec International Petroleum Service Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Service Corporation Ecuador Subsidiary respectively. During the implementation of the projects, the parties had disputes on the payments for some increased oil production. After repeated unsuccessful negotiations, in April 2019, the Banya Duri Company served the Notice of Application for Legal Arbitration to the PAM in relation to such contract disputes in accordance with the relevant provisions of the I-L-Y Oilfield Projects Contract, recommending the Permanent International Court of Arbitration in Hague as the arbitration institution to conduct arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition).the Banya Duri Company requests made by the Applicant include: the PAM should pay an invoice amount of US$63.29 million for the increased oil production with interest, confirm the Y-12 well would operate with optimized production capacity and pay US$8.13 million, as well as pay the losses brought to the Applicant due to the default of the PAM and relevant charges for the legal arbitration.

At present, Banya Duri Company and PAM has recommended one arbitrator and jointly appointed one presiding arbitrator to form the arbitration tribunal, which will initiate arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition).

As the hearing of the case has not yet proceeded, it is currently impossible to determine its impact on the current or future profits of the Company. The Company has made a certain proportion of bad debt provision for the above accounts receivable according to their aging. The Company will make active response and safeguard the legitimate rights and interests of the Company. For details, please refer to the "Announcement on an Arbitration in relation to an Indirectly Wholly-owned Subsidiary" (P.2019-033) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 27 August 2019, and on www.hkexnews.hk on 26 August 2019.

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

During the reporting period, neither the Company nor its other Directors, Supervisors, senior management, controlling shareholders or ultimate controllers were subject to any investigation by relevant authorities or enforcement by judicial or disciplinary departments or subject to criminal liability, or subject to investigation or administrative penalty by the CSRC, or any denial of participation in the securities market or deemed unsuitability to act as directors thereby by other administrative authorities or any public criticisms made by a stock exchange.

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

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

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

(1). The grant date and quantity

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

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

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

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

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

(4). Exercise price of the Proposed Grant

According to the determining principle of exercise price, the exercise price of the Proposed 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 or any other events takes place, an adjustment to the number of Share Options shall be made accordingly).

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

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

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

(6). The exercise and cancellation of this grant during the reporting period

As the Company has not fulfilled the exercise conditions for exercise of Option during the 1st exercise period under the First Grant of the A Share Option Incentive Scheme, the Participants cannot 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-fulfilment 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 Participants can not exercise the Options and we agreed to cancel the 14,715,000 Share Options corresponding to the 1st exercise period which have been granted to but not yet been exercised by the Participants 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 "Announcements relating to Non-fulfilment 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 in "China Securities Journal", "Shanghai Securities News", "Securities Times" and on www.sse.com.cn on 30 October 2018, and on www.hkexnews.hk on 29 October 2018.

The performance of the Company has not fulfilled the exercise conditions for exercise of Option during the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme.On 28 October 2019, the Company convened the 17th meeting of the 9th session of the Board at which the "Resolution relating to non-fulfillment of the exercise conditions for the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme" was considered and approved. After consideration, the Board will cancel the 13,788,000 Share Options corresponding to the 2nd 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 30 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 met the qualifications, the Company proposes to cancel a total of 1,300,000 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 453 to 423, and the number of A Share Options which have been granted but not yet been exercised were adjusted from 18,384,000 to 17,084,000.

For details, please refer to the"Announcement relating to Non-fulfillment of Exercise Conditions for the Second 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.2019-044) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 29 October 2019, and on www.hkexnews.hk on 28 October 2019.

14. Information on connected transactions

(1). The significant connected transactions related with daily operation

The nature of the transaction classification	Related parties	Amount of transaction	Proportion of the same type of transaction
		RMB'000	(%)
Purchase of materials and equipment	China Petrochemical Corporation and its associates	10,973,226	25.9
Rendering engineering services	China Petrochemical Corporation and its associates	39,874,446	57.1
Receiving of community services	China Petrochemical Corporation and its subsidiaries	392,571	100
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	149,848	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	191,215	99.1
Rental expenses	China Petrochemical Corporation and its subsidiaries	205,628	38.3
Loan interest expenses	China Petrochemical Corporation and its associates	816,987	83.3
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	38,367,042	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	35,715,939	100
Safety and insurance fund expenses	China Petrochemical Corporation	80,643	100
Safety and insurance fund refund	China Petrochemical Corporation	113,180	100

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

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

In accordance with Rule 14A.56 of Hong Kong Listing Rules, the Company's auditor issued its unqualified opinion letter regarding the Company's disclosure of continuing connected transactions during the reporting period in which contained its findings and conclusions.

Details of related connected transaction of the Company are set out in Note 10 of the financial statements prepared in accordance with the PRC Accounting Standards of the Annual Report.

(2). Connected transactions related to acquisition or disposal of assets or equities

During the reporting period, no connected transactions related to acquisition or disposal of assets or equities of the company occurred.

(3). Material connected transactions of joint external investment

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

(4). The related obligatory rights and debts

Unit: RMB'000

Related parties	Funds provided to related party			Funds provided to the Company by related party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	11,554,879	-1,755,995	9,798,884	9,908,343	259,914	10,168,257
Sinopec Finance Company Limited	–	–	–	9,600,000	2,480,000	12,080,000
Sinopec Century Bright Capital Investment, Limited	–	–	–	3,542,373	-744,916	2,797,457
Total	11,554,879	-1,755,995	9,798,884	23,050,716	1,994,998	25,045,714
Causes of connected claims and debts						Normal production and operation
Influence of connected claims and debts on the Company						No material adverse effect

(5). Others

1. On 27 August 2019, Sinopec Shanghai Offshore Oil Engineering Company Limited (a wholly-owned subsidiary of the Company) entered into a Lease Agreement with Shanghai Offshore Petroleum Bureau in relation to the Exploration IV Drill Rig for a term of 3 years (the "Lease"). In accordance with IFRS 16, the Company is required to recognise the Exploration IV Drill Rig as a right-of-use asset. Therefore, the Lease Agreement and the Lease contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules. Shanghai Offshore Petroleum Bureau is a connected person of the Company under the Listing Rules as it is a subsidiary of CPC, the controlling shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the Lease contemplated under the Lease Agreement constitutes a one-off connected transaction of the Company.

   According to the terms of the Lease Agreement，The lease term is 3 years，Sinopec Ocean Petroleum Engineering Co., Ltd. shall pay rental to the Shanghai Offshore Petroleum Bureau on a monthly basis since the lease commencement date(which shall be the effective date of the Lease Agreement). The rental under the Lease Agreement was determined after arm's length negotiations between Sinopec Ocean Petroleum Engineering Co., Ltd. and Shanghai Offshore Petroleum Bureau upon a comprehensive consideration of costs, taxes and management fees, as well as reasonable profits. The Company intends to pay the rent with internal resources of the Company.

   For details, please refer to the "Related Party Transaction Announcement on the Fulfillment of Undertakings Related to the 'Exploration IV' Drill Rig by China Petrochemical Corporation and the Lease of Assets" (P.2019-037) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 28 August 2019, and the announcement on "Connected Transaction Lease of the Exploration IV Drill Rig" on www.hkexnews.hk on 27 August 2019.

2. On 27 August 2019, the 15th meeting of the ninth session of the Board of Directors of the Company considered and approved "Resolution on Provision of Counter-guarantee to China Petrochemical Corporation by the Company", and approved the Company to provide corresponding counter-guarantee in respect of joint guarantee liability under the financing credit line of no more than RMB500 million provided by China Petrochemical Corporation to the Company. The first extraordinary general meeting in 2019 of the Company considered and approved the "Resolution on Provision of Counter-guarantee to China Petrochemical Corporation by the Company". For details, please refer to the "Related party transaction announcement on provision of counter-guarantee to controlling shareholders by the company" (P.2019-036) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 28 August 2019, and on www.hkexnews.hk on 27 August 2019.

15. Significant contracts and performance

(1) Trusteeship, sub-contracting and leasing

Trusteeship, sub-contracting

☐ Applicable √ Not applicable

Leasing

√ Applicable ☐ Not applicable

Unit: RMB'000

Lessor	Lessee	Leased Assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income	The impact of leasing proceeds on the company	Is it a connected transaction?	Connected relation
Taiping & Sinopec Financial Leasing (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
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd.	semi-submersible rig (Exploration IV)	RMB38.47 million	6 November 2019	5 November 2022	RMB -5.65 million (before renovation)	at the daily rental of RMB15,500 per day	No significant impact	Yes	Shanghai Offshore Petroleum Bureau is a wholly-owned subsidiary of the controlling shareholder of the Company

(2). Guarantee

√ Applicable ☐ Not applicable

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

Unit: RMB'000

External Guarantee of the Company (excluding Guarantees for Subsidiaries)	
Total Amount of Guarantees 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	-555,481
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	13,452,386
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total guarantee (A+B)	13,452,386
Total Amount of Guarantees as a Percentage of the Company's Net Assets (%)	198.9
Among:	
Amount of Guarantee provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantee Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	13,452,386
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	10,070,451
Sum of the three Guarantee above (C+D+E)	23,522,837
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the Company are all provided by the guarantees for the performance of the performance guarantee letters issued 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 in 2018.

(3). Entrusting others to manage cash assets

During the reporting period, no entrusted financing, entrusted loans, other investments and financing and derivatives investment items of the Company occurred.

(4). Other significant contract

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

16. Other major issues

On 25 April 2019, the Company held the twelfth meeting of the ninth session of Board of directors to consider and approve the "Proposal on the Permanent Replenishment of Working Capital by Using the Remaining Proceeds Raised and "Proposal on the Termination of Certain Projects Funded by Proceeds and the Permanent Replenishment of Working Capital by Using Remaining Proceeds Raised".

Given the Fundraising Projects "Kuwait rig project", "Project of purchasing 8000HP multipurpose working vessel" and "Project of purchasing LOGIQ Imaging Logging System" have been completed and generated proceeds balance of the committed investment, in order to reduce its financial expense and capital cost, improve the effectiveness of the proceeds and satisfy the funding requirements for production and operation, the Company intends to use the aggregate balance of the committed proceeds from the above Fundraising Projects of RMB561,258,900 to replenish its working capital for investing in the production and operating activities in relation to the principal business of the Company. Upon consideration of the actual progress of the Company's uncompleted Fundraising Project "Project of purchasing pipe construction equipment", the Company proposes to terminate the "Project of purchasing pipe construction equipment" and to use the balance of the proceeds from such Projects of RMB396,348,500 to replenish the Company's working capital. The aggregate amount of the remaining proceeds from the above Fundraising Projects used to permanently replenish the working capital of the Company is RMB995,208,400 (including net interest income, the final amount is subject to the balance after interest settlement of the bank on the date when the proceeds are transferred out from the special account). For details, please refer to the "Announcement on Permanent replenishment of working capital by using the remaining proceeds raised And Termination of certain projects funded by proceeds raised and permanent replenishment of working capital by using remaining proceeds Reference is made to" (P.2019-019) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 26 April 2019, and on www.hkexnews.hk on 25 April 2019.

On 26 June 2019, the Company held the annual general meeting of the Company in 2018 to consider and approve the "Proposal on the Permanent Replenishment of Working Capital by Using the Remaining Proceeds Raised and Proposal on the Termination of Certain Projects Funded by Proceeds and the Permanent Replenishment of Working Capital by Using Remaining Proceeds Raised".

As of 31 December 2019, the Company has used up all of the RMB5,952,516,700 net proceeds raised from the non-public offering of 1,333,333,333 A-shares in February 2015. The Company has closed the relevant special account for proceeds raised (Beijing hepingli branch of ICBC: 0200337529200006626). For details, please refer to the "Announcement on the use-up of proceeds raised and the cancellation of the special account for proceeds raised" (P.2019-041) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 12 October 2019, and on www.hkexnews.hk on 11 October 2019.

17. Information on social responsibility

(1) Poverty alleviation of listed companies

☐ Applicable √ Not applicable

(2). Information on social responsibility

For information on social responsibility, please refer to "Report on Environment, Society and Governance for 2019" of the Company.

18. Information on environment

(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

Adhering to the development concept of ecological civilization and green and low-carbon, the Company strictly implements relevant systems including "Environmental Protection Management Regulations", "Clean Production Management Regulations", "Pollution Prevention Management Regulations", "Energy and Water Conservation Management Regulations", and strictly implements environmental protection laws and regulations, and the discharge standards of the countries where the operations are located, as well as the requirements of international conventions; for hazardous waste, we return it to a qualified unit for recycling. The Company pays close attention to pollution prevention and energy and water conservation, and promote the orderly establishment of green enterprise and green construction teams.

Currently, the pollutants generated by the Company mainly include exhaust gas, domestic sewage, solid waste and oil-based cuttings. The exhaust gas includes diesel engine exhaust gas and gas-powered exhaust gas, and the emission index meets the requirements of local standards; domestic sewage includes domestic sewage at fixed places and domestic sewage at mobile construction sites; domestic sewage at fixed production sites shall be handed to municipal pipe network for centralized disposal; sewage domestic sewage at mobile construction sites shall be comprehensively utilized or disposed of by third parties after pre-disposal at the site; and solid wastes are mainly drilling waste mud and rock cuttings, which shall be disposed of by the owner 's organization according to the owner 's requirements, or dumped after harmless disposal, or stored after solid-liquid separation or comprehensively used after harmless disposal and other methods. Domestic garbage is all disposed of by professional institutions; oil-based rock cuttings are disposed of by the owner's organization according to the owner's requirements, or comprehensively used after deep treatment by thermal analysis. In 2019, the Company disposed a total of 528,700 cubic meters of drilling operation wastewater and 334,800 cubic meters of domestic sewage. It has disposed 1.263 million tons of general solid waste and 127,100 tons of oil-based waste rock cuttings.

In 2019, the Company continued to promote clean production, focusing on the application of new technologies and new devices, and actively promoted advanced technologies such as network power modules, gas engines, electric fracturing skids, energy-saving variable-frequency motors and green and environmentally-friendly degradable mud around the goal of "energy conservation, consumption reduction, pollution reduction, and efficiency enhancement" to reduce energy consumption and pollutant emissions. In addition, by implementing the responsibilities of various departments, the Company established a long-term mechanism to conduct clean production audits on schedule.

The Company earnestly implements the Implementation Plan on Green Enterprise Action Plan of Sinopec Oilfield Service Corporation and disposes of general solid waste, hazardous waste, drilling operation wastewater, and domestic sewage in accordance with laws and regulations, to improve the comprehensive utilization of resources under premise of emission reduction and harmlessness.

The Company has established an environmental emergency management system, improved the environmental emergency network, prepared an environmental emergency plan based on the results of the risk assessment and made amendments in a timely manner, and filed accordingly as required. The Company has built an emergency rescue team and will conduct regular emergency plan training and drills.

Section VII Report of the Supervisory Committee

Dear shareholders,

In 2019, all supervisors of the Company follow the relevant provisions of Company Law of the People's Republic of China, Articles of Association, the Rules of Procedures on Meetings of the Supervisory Committee and other requirements, prudently perform their duties, actively participate in supervising the Company's management process, seriously consider major decisions and exercise duties independently according to law to ensure normal operation of the Company and safeguard the interests of the Company and investors. They all serve their duties of supervision, security and service to promote normal operation and healthy development of the Company. Now the 2019 work report of supervisory committee is as follows:

1. Meetings of the supervisory committee

The supervisory committee convened five meetings in 2019 and reviewed and approved 20 resolutions in total. In line with a responsible attitude for all shareholders, the Supervisory Committee had serious discussion and careful analysis on every resolution to make sure its Legal compliance. The details are as follows,

(1) The Company's eighth meeting of the ninth session of the supervisory committee was held on March 25, 2019. This meeting deliberated and approved 7 resolutions, including 2018 Supervisory Committee Work Report; 2018 Financial Report; 2018 Annual Report and Highlights; Resolution on 2018 connected transactions of the Company; 2018 Profit Distribution Plan; 2018 Internal Control Evaluation Report; and Special report of raised funds on deposit and its actual use in 2018.

(2) The Company's ninth meeting of the ninth session of the supervisory committee was held by written resolution on April 25, 2019. This meeting deliberated and approved three resolutions, i.e. 2019 First Quarterly Report; Resolutions on the Use of Partially Remaining Raised Funds to Temporarily Add Working Capital; Resolution on Termination of Proceeds Funded Investment Projects and Use of the Remaining Raised Funds for Supplementing Working Capital.

(3) The Company's tenth meeting of the ninth session of the supervisory committee was held on August 27, 2019. This meeting deliberated and approved 6 resolutions, including 2019 interim report and highlights; 2019 interim financial report; the resolution to undistributed 2019 Interim dividend; the resolution in relation to the provision of counter-guarantee to China Petrochemical Corporation; the resolution in relation to the fulfillment of undertakings related to the Exploration IV Drill Rig and the resolution in relation to the lease of Exploration IV Drill Rig from China Petrochemical Corporation.

(4) The Company's eleventh meeting of the ninth session of the supervisory committee was held by written resolution on October 28, 2019. This meeting deliberated and approved 3 resolutions, of which were 2019 third-quarter report, resolution of Non-fulfillment of Exercise Conditions for the Second Exercise Period under the First Grant of the A Share Option Incentive Scheme, resolution of Adjustment to the List of Participants and the Number of Share Options under the First Grant of the A Share Option Incentive Scheme.

(5) The Company's twelfth meeting of the ninth session of the supervisory committee was held by written resolution on December 19, 2019. This meeting deliberated and approved Resolution on Election of the Chairman of the Ninth Supervisory Board of the Company, and Mr. Ma Xiang was appointed as the Chairman of the ninth Session of the Supervisory Committee.

2. Key matters of concern to the Supervisory Committee

(1) Information on the operations in accordance with the law

During the reporting period, the board of directors and management standardized the operation of the Company in strict accordance with the Company Law of the People's Republic of China, Articles of Association and related regulations in the place of listing, diligently fulfilled their duties, and earnestly implemented resolutions of General Meetings. Decisions and operating activities of the Company complied with laws, regulations and "Articles of Association". The resolutions of the shareholders' general meeting and the board meeting have been well implemented. During the reporting period, we didn't find any violation of laws, rules and regulations, the articles of association or behaviors that would damage the interests of the Company or shareholders.

(2) Check the company's financial situation

The financial report the Company prepared in 2019 reflected the operation results on the Company's financial situation truly and just which conforms to relevant regulations of domestic and foreign securities regulatory authorities. The disclosed information of the report was true and fair. We didn't find any violation of secret protection requirements in report preparation and review personnel.

(3) Check the actual use of the Company's raising fund

During the reporting period, the supervisory committee supervised the actual use of the Company's raising fund. The supervisory committee agreed that the use of raising fund has been strict followed by the Company's Raising Fund Management Method, and conformed to relevant regulations of domestic and foreign securities regulatory authorities and the Company's Corporate Governance System, which was beneficial to the Company's continuing development. There was no situation of changing the investment of raised fund or of damaging the shareholders' equity.

(4) Information of connected transactions

The transactions between the Company and Sinopec Group and its subsidiaries met the relevant provisions of The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. With fair terms of the transaction, these transactions fit the need of production and operation, and are consistent with the overall interests of shareholders and the Company, and the transaction amount are within the approved upper limit.

(5) Establishments of the internal control system

The company has continuously promoted the construction of internal control system, carried out business process optimization and strengthened system operation supervision to ensure that the internal control system design is complete, effective and business operation efficiency is improved. No major defects or omissions in internal control were found.

3. Opinions of the supervisory committee on the company's work

In 2019, the Company convened eight meetings of the board of directors and two General Meetings. The supervisory committee performed its duties of supervision in law, supervised the decision-making process of the General Meetings and meetings of the board of directors in legal compliance by attending the General Meetings and meetings of the board of directors. The supervisory committee attended the internal meetings of the Company on time, strengthened communications with the management and the related functional departments and paid close attention to the Company's significant decision about operating situation and internal reform. The supervisory committee agreed that in 2019, the company integrated party leadership into corporate governance to further strengthen party building, and gave full play to the leadership role of the party committee; seized domestic market opportunity of the time when China increased oil and gas exploration and development, made efforts to contribute to oil stabilizing, gas increase and costs reduction with its own technological advantages, while actively expanding external market. The total amount of newly signed contract in the year was RMB69.5 billion, representing a year-on-year increase of 10.7%. It also coordinated overall reform, optimized resource allocation, and strengthened cost control, which achieved good operating performance, laying a decisive foundation for achieving comprehensive and sustainable development. The supervisory committee has no objection on supervision affairs in 2019.

In 2020, the supervisory committee and all members will continue to uphold the principle of good faith and diligence, conscientiously perform supervisory duties, actively participate in the process supervision of significant decision-making matters and enhance the supervision and inspection to protect interests of shareholders and the company.

Chairman of the supervisory committee

Ma Xiang

Beijing, China

24 March 2020

1. Changes in Share Capital of Ordinary Shares

(1). Changes in Ordinary Shares

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

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

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

☐ Applicable √ Not applicable

C. The effects of changes in Share Capital of Ordinary Shares on the financial indicators of the Company such as earnings per share and net assets per share, in the previous year and the latest period

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

(2). Changes in Shares with Selling Restrictions

☐ Applicable √ Not applicable

2. Share issue and listings

(1). Share issue as at the end of the reporting period

During the reporting period, the Company didn't issue shares, convertible corporate bonds, convertible bonds, corporate bonds or other derivative securities, nor did it enter into any equity-linked agreements.

(2). Changes in total ordinary shares and share structure and changes in the structure of assets and liabilities

☐ Applicable √ Not applicable

(3). Internal employee shares

The Company has not issued any internal employee shares till the end of the reporting period.

3. Information on Shareholders and the de facto Controller

(1). Number of shareholders

As at 31 December 2019, the number of shareholders of the Company was 129,812 including 129,465 holders of A shares and 347 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules of the HKSE.

As at 29 February 2020, the number of shareholders of the Company was 128,756 including 128,410 holders of A shares and 346 registered holders of H shares.

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

Shareholdings of the top ten shareholders Names of shareholders	Nature of shareholders	Number of shares held increased/ decreased by (shares)[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	-167,234	5,401,943,744	28.45	2,595,786,987	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
China Minsheng Banking Corp., LTD., Hohhot branch	Domestic non-state legal person	127,447,400	127,447,400	0.67	0	0
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
Hong Kong Securities Clearing Company Limited[5]	Others	19,807,152	19,807,152	0.10	0	0
China Merchants Bank Co., Ltd. – Bosera China securities central enterprise innovation-driven exchange open index securities investment fund	Others	14,654,900	14,654,900	0.08	0	0
Bank of China Limited – Harvest China securities central enterprise innovation- driven exchange open index securities investment fund	Others	14,087,600	14,087,600	0.07	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
HKSCC (Nominees) Limited*	2,806,156,757	H Share
CITIC Limited	1,035,000,000	A Share
China Minsheng Banking Corp., LTD., Hohhot branch	127,447,400	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
Hong Kong Securities Clearing Company Limited	19,807,152	A Share
China Merchants Bank Co., Ltd. – Bosera China securities central enterprise innovation-driven exchange open index securities investment fund	14,654,900	A Share
Bank of China Limited – Harvest China securities central enterprise innovation- driven exchange open index securities investment fund	14,087,600	A Share
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that "Donghai Fund-Xingye Bank-Huaxin Trust – Huizhi Investment No. 49 Trust Plan" and "Donghai Fund-Xingye Bank-Huaxin Trust – Huizhi Investment No. 47 Trust Plan" belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

Note:

a. As compared with the number of shares held as of 31 December 2018.

b. 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.

c. "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.

d. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

e. Hong Kong Securities Clearing Company Limited is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an nominal holder to hold A shares of the company in the Shanghai Stock Exchange on behalf of the investors of the Hong Kong stock exchange.

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

Unit: share

Names of shareholders with selling restrictions	Number of shares with selling restrictions	Date when the shares could be traded through listing	Number of additional shares could be traded through listing	Selling restriction
China Petrochemical Corporation	1,503,568,702	24 January 2021	1,503,568,702	3 years
HKSCC (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 Capital Investment, Ltd., which is a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of China Petrochemical Corporation.			

4. Information on Controlling Shareholders and de facto Controller

(1). Information on controlling shareholder

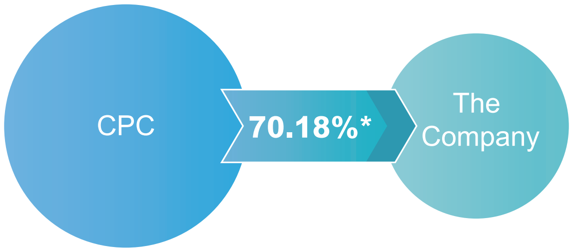
A. Legal Representative

Name of the holding shareholder	China Petrochemical Corporation
Legal representative	Zhang Yuzhuo
Date of establishment	14 September 1983
Organization number	9111000010169286X1
Registered capital	RMB326.547 billion
Principal activities	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

CPC's subsidiaries and associates listed in domestic and overseas during the reporting period	Name of company	Number of share held (shares)	Shareholding (%)
	Sinopec	82,709,227,393	68.31%
	SINOPEC Engineering (Group) Co., Ltd	2,907,856,000	65.67%
	Sinopec Oilfield Equipment Corporation	351,351,000	58.74%
	China Merchants Energy Shipping Co., LTD	912,886,426	15.05%

Note: China Petrochemical Corporation also held 553,150,000 H-shares through its Overseas wholly-owned subsidiary Century Bright Company. Such shares are not included in the directly holding shares by China Petrochemical Corporation.

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



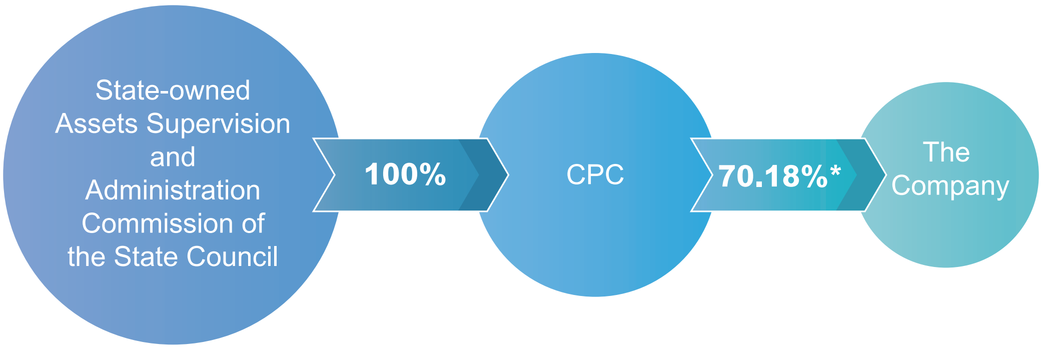
Note: Apart from directly holding 10,727,896,364 A-shares of the Company, Sinopec Group Company also held 2,595,786,987 H-shares through Century Bright Company. Therefore, Sinopec Group Company directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.

(2) The de facto controller

A. Legal Representative

The de facto controller is also China Petrochemical Corporation. See more information in this section relating to controlling shareholder.

B. The block diagram of the property and control relationship between the Company and the ultimate controller



5. Other Legal person shareholders that holding over 10% of the total shares of the Company

At the end of the reporting period, the Company has no other legal person shareholders that holding over 10% of the total shares of the Company.

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

As at 31 December 2019, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

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

Note: 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, Limited.

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2019, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") of the Company.

7. Management contract

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

8. Priority purchase rights

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

9. Share repurchase, sale and redemption

The Company has not repurchased, sold or redeemed any of the Company's listed shares during the twelve months ended 31 December 2019.

1. Information on the changes of shareholdings and on the remuneration

(1). Information on the change of shareholdings and on the remuneration of current directors, supervisors and senior management, and former directors, supervisors and senior management during the reporting period.

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether get payment from related party of the Company
Chen Xikun	Chairman	Male	55	19 December 2019	7 February 2021	0	0	No Change	889,080	No
	Executive Director			8 February 2018	7 February 2021					
	Former Deputy General Manager			8 February 2018	20 May 2019					
Yuan Jianqiang	General Manager	Male	56	20 May 2019	7 February 2021	0	0	No Change	511,631	No
	Executive Director			26 June 2019	7 February 2021					
Lu Baoping	Non-Executive Director	Male	58	8 February 2018	7 February 2021	0	0	No Change	–	Yes
Fan Zhonghai	Non-Executive Director	Male	54	8 February 2018	7 February 2021	0	0	No Change	–	Yes
Wei Ran	Non-Executive Director	Male	52	20 June 2018	7 February 2021	0	0	No Change	–	No
Jiang Bo	Independent Non-Executive Director	Female	64	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Pan Ying	Independent Non-Executive Director	Male	50	16 December 2015	7 February 2021	0	0	No Change	200,000	No
Chen Weidong	Independent Non-Executive Director	Male	64	20 June 2018	7 February 2021	0	0	No Change	200,000	No
Dong Xiucheng	Independent Non-Executive Director	Male	58	20 June 2018	7 February 2021	0	0	No Change	200,000	No
Ma Xiang	Chairman of the Supervisory Committee	Male	58	19 December 2019	7 February 2021	0	0	No Change	67,270	No
Du Jiangbo	Supervisor	Male	55	16 June 2015	7 February 2021	0	0	No Change	–	Yes
Zhai Yalin	Supervisor	Male	56	26 June 2019	7 February 2021	0	0	No Change	–	Yes
Zhang Qin	Supervisor	Female	57	9 February 2015	7 February 2021	0	0	No Change	–	Yes
Zhang Jianbo	Supervisor	Male	57	8 February 2018	7 February 2021	0	0	No Change	–	Yes
Zhang Hongshan	Employee Representative Supervisor	Male	59	23 February 2017	7 February 2021	0	0	No Change	851,988	No
Chen Weiguo	Employee Representative Supervisor	Male	56	30 May 2019	7 February 2021	0	0	No Change	452,830	No
Zhang Yongjie	Deputy General Manager	Male	56	9 February 2015	7 February 2021	0	0	No Change	910,331	No
Zuo Yaojiu	Deputy General Manager	Male	57	27 June 2017	7 February 2021	0	0	No Change	831,234	No
Zhang Jinhong	Deputy General Manager	Male	56	28 April 2015	7 February 2021	0	0	No Change	770,951	No
Xiao Yi	Chief Financial Manager	Male	50	19 December 2019	7 February 2021	0	0	No Change	–	No

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether get payment from related party of the Company
	Non-Executive Director			26 June 2019	19 December 2019					
Li Honghai	Secretary to the board	Male	56	9 February 2015	7 February 2021	0	0	No Change	615,364	No
Liu Zhongyun	Former Chairman	Male	57	24 December 2018	9 December 2019	0	0	No Change	–	Yes
Sun Qingde	Former Vice Chairman	Male	58	6 June 2016	10 May 2019	0	0	No Change	370,451	No
	Former General Manager			11 March 2016	10 May 2019					
Li Wei	Former Chairman of the Supervisory Committee	Male	42	27 June 2017	19 December 2019	0	0	No Change	702,796	No
Zou Huiping	Former Supervisor	Male	59	9 February 2015	30 May 2019	0	0	No Change	–	Yes
Li Tian	Former Chief Financial Officer	Male	45	29 August 2017	19 December 2019	0	0	No Change	736,767	No

Note:

A. Mr. Chen Xikun, Mr. Zhang Hongshan, Mr. Zhang Zongjie, Mr. Zuoyaojiu, Mr. Zhang Jinhong, Mr. Li Honghai and Mr. Li Tian all received 12 months of salary in 2019. Mr.Yuan Jianqiang started the position of general manager on 20 May 2019 and executive director on 26 June 2019, received 7 months of salary in 2019. Mr. Ma Xiang started the position of chairman of the supervisory committee on 19 December 2019, received 1 month of salary in 2019. Mr. Chen Weiguo was appointed as employee representative supervisor on 30 May 2019, received 7 months of salary in 2019. Mr. Xiao Yi started the position of Chief Financial Manager on 19 December 2019, no salary was received in 2019. Mr. Sun Qingde resigned as vice chairman and general manager on 10 May 2019, received 5 months of salary in 2019. Mr. Li Wei resigned as chairman of the supervisory committee on 19 December 2019, received 11 months of salary in 2019.

B. Ms. Jiang Bo, Mr. Pan Ying, Mr. Chen Weidong and Mr. Dong Xiucheng received 12 months of director's fee in 2019.

Information about current directors, supervisors and senior management

Director

Mr. CHEN Xikun#, aged 55, Chairman, Party Secretary. Mr Chen is a professor-level senior accountant with a Master degree. In January 2003, he was appointed as the chief accountant of Sinopec Jiangsu Oilfield Branch Company; in April 2006, he was appointed as deputy manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2008, he was appointed as deputy general manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2011, he was appointed as chief accountant of Sinopec Exploration & Production Department; since March 2015, he acted as deputy general director of Sinopec Exploration & Production Department; from June 2015 to June 2018, he acted as director of Sinopec Oilfield Equipment Corporation; from June 2017 to February 2018, he was appointed as executive deputy general manager of the Company; in January 2018, he was appointed as the Secretary of CPC Committee of the Company. Since February 2018, he has been appointed as the Director of the Company. From February 2018 to May 2019, he has been appointed as Deputy General Manager of the Company. Since May 2019, he has been appointed as the Vice Chairman of the Board of the Company. Since December 2019, he has been appointed as the Chairman of the Board of the Company.

Mr. YUAN Jianqiang#, aged 56, general manager, executive director. Mr. Yuan is a professor-level senior engineer with a Ph.D degree. He has been working for Henan Petroleum Exploration Administration of China Petrochemical Corporation as the deputy general manager and general manager of Drilling Company; in January 2008, he was appointed as deputy director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; since December 2012, he acted as the executive director and general manager of Sinopec Henan Oil Engineering Company Limited; since June 2016, he acted as the executive director and general manager of Sinopec Huadong Oil Engineering Company Limited; from July 2017, he acted as the chairman and the secretary of CPC Committee of Sinopec Oilfield Equipment Corporation. Since May 2019, he has been appointed as the general manager of the Company. Since June 2019, he has been appointed as the executive director of the Company.

Mr. LU Baoping*, aged 58, non-executive director. Mr. Lu is a professor-level senior engineer with a Ph.D. degree. In September 2001, he was appointed as Deputy General Manager of Sinopec Star Petroleum Co., Ltd. In June 2003, he was appointed as Deputy Manager of Sinopec International Petroleum Exploration and Production Corporation. Since April 2009, he has been served as the President of Sinopec Petroleum Engineering Technology Research Institute. From December 2012 to September 2014, he was appointed as Deputy Manager of SOSC. From August 2016 to December 2017, he was served as Deputy Manager of the Company. Since February 2018, he has been appointed as the Non-Executive Director of the company.

Mr. FAN Zhonghai*, aged 54, non-executive director.Mr. Fan is a professor-level senior engineer with a master degree. Mr. Fan joined the Henan Petroleum Exploration Bureau in 1989 and was appointed as Deputy Chief Geologist, Chief Geologist and Vice Dean of Research Institute of Petroleum Exploration and Development of Henan Petroleum Exploration Bureau consecutively. In September 2000, he was appointed as Deputy Chief Geologist of Henan Petroleum Exploration Bureau of China Petrochemical Corporation. In November 2001, he was appointed as General Manager of Henan Oilfield Branch Company of Sinopec Corp. In June 2016, he was appointed as Deputy Director of Petroleum Exploration & Development Research Department of Sinopec Corp. Since December 2019, he has been appointed as the Deputy Manager of Petroleum Exploration & Development Research Department of Sinopec.Since February 2018, he has been appointed as the Non-Executive Director of the company.

Mr. WEI Ran*, aged 52, non-executive director. Mr. Wei is a Senior Economist and obtained a Master degree in Finance from Maastricht School of Management. Mr. Wei has successively served as the Deputy Head and the Deputy General Manager of Credit Department, Vice President of Hunan Branch, General Manager of Investment Management Department and General Manager of Business Development and Innovation Department of the Export-Import Bank of China. Since April 2016, he has served as General Manager of China Chengtong Fund Management Co., Ltd., and since September 2016, he has served concurrently as Secretary to the Board of Directors of China Structural Reform Fund Co., Ltd. Since June 2018, he has been appointed as the Non-Executive Director of the Company.

Ms. JIANG Bo+, aged 64 independent non-executive Director. Ms. Jiang is a senior economist and senior accountant with PH.D. degree. Since August 1983, she has been working in the General Office, Accounting & Auditing Department, and the International Division of Head Office of the Agricultural Bank of China. In October 1993, she was appointed as General Manager of the International Division of China Everbright Bank.In May 1996, she was appointed as Managing Director and Vice President of China Everbright Bank. In April 2007, she was appointed as Managing Director, Vice President and Chief Auditing Officer of China Everbright Bank. In November 2007, she was appointed as Vice President and Chief Auditing Officer of China Everbright Bank.and from August 2009 to January 2017, she was appointed as Chief Financial Officer and Chairman of the Labour Union of China Everbright Group. Since June 2017, she has served as independent non-executive director of China Shenhua Energy Company Limited. Since December 2018, she has served as independent non-executive director of China Reinsurance Group. Since February 2015, she has been appointed as independent non-executive Director of the Company.

Mr. PAN Ying+, aged 50, independent non-executive Director, citizen of United States, bachelor degree. Mr. PAN began to work at China's State Administration of Foreign Exchange ("SAFE") in 1991, and was responsible for establishing SAFE Investment Company, Ltd., in 1994 based in Hong Kong. Mr. PAN joined Seagate Global Group Ltd., in Los Angeles in 1997 and served as CEO of SeaBright Asset Management Limited in 2004. He began to act as CEO of Everbright Ashmore (Beijing) Real Estate Investment Consultants Limited, a member of the management committee of China Everbright Limited, and a member of the investment & strategy committee, executive committee and audit committee of Everbright Prestige Capital. Since December 2015, he was appointed as independent non-executive Director of the Company.

Mr. CHEN Weidong+, aged 64, independent non-executive Director. Mr. Chen obtained a Master degree in Economic Law from China University of Political Science and Law. In 1982, Mr. Chen joined China National Offshore Oil Corporation ("CNOOC") and successively served as Deputy Manager of Exploration Department of CNOOC, General Manager of China Offshore Geophysical Company Limited under CNOOC, as well as Executive Vice President and Secretary to the Board of Directors, Chief Strategy Officer of China Oilfield Services Limited, etc. Since May 2017, he has served as the Dean of Beijing Zhongguancun Smart Energy Technology Innovation Institute. Since June 2018, he has been appointed as independent non-executive Director of the Company.

Mr. DONG Xiucheng+, aged 58, independent non-executive Director. Mr. Dong currently is a Professor and Ph.D. Supervisor of International Trade and Economics School of University of International Business and Economics, and concurrently serves as Vice President of China Petroleum Circulation Association, Vice Chairman of Energy Resources System Engineering Branch of Systems Engineering Society of China, member of the Price Expert Advisory Committee of National Development and Reform Commission and Distinguished Expert of National Energy Administration, etc. In 1985, Mr. Dong joined the Business Administration School of China University of Petroleum (Beijing) and he has been successively promoted as a Lecturer, Associate Professor and Professor, during which period he also served as Assistant Dean and Secretary of the Party Committee and other administrative positions. Since October 2017, he has served as a Professor and Ph.D. Supervisor in the International Trade and Economics School of University of International Business and Economics. Since June 2018, he has been appointed as independent non-executive Director of the Company.

Executive Director
* Non-executive Director
+ Independent non-executive Director

Supervisor

Mr. MA Xiang, aged 58, chairman of the Supervisory Committee and employee representative supervisor. Mr. Ma is a senior political engineer with bachelor's degree. Since September 1999, he worked in Supervisory Bureau of China Petrochemical Corporation. Since December 2012, he served as Deputy Secretary of the Communist Party Committee, Secretary of the Commission for Discipline Inspection and Chairman of the Labour Union of China Petrochemical Corporation Wuhan Petrochemical Plant. Since December 2014, he was appointed as Chief of Beijing Group of Discipline Inspection Group of the Communist Party Committee of China Petrochemical Corporation and Director of the Beijing Branch of Supervisory Bureau of China Petrochemical Corporation. Since January 2018, he was appointed as Chief of China Petrochemical Corporation Party Committee Discipline Inspection Group of Sinopec International Petroleum Exploration and Production Corporation. Since October 2019, he has been working as Deputy Secretary of the Communist Party Committee, Secretary of the Commission for Discipline Inspection and Chairman of the Labour Union of Sinopec Oilfield Service Corporation. Since December 2019, he has been appointed as employee representative supervisor and chairman of the Supervisory Committee.

Mr. DU Jiangbo, aged 55, Supervisor of the Company. Mr. Du is a professor-level Senior Economist with a M.A. degree. In September 2006, he was appointed as Head of the Legal Affairs Division of Headquarters of Sichuan-East China Gas Transmission Construction project. In November 2010, he was appointed as Deputy Director of the Legal Affairs Division of China Petrochemical Corporation; and in March 2015, he was appointed as Director of the Legal Affairs Department of China Petrochemical Corporation. In December 2019, he was appointed as Deputy general manager of business reform and Legal Affairs Department of China Petrochemical Corporation. Since June 2015, he has been appointed as Supervisor of the Company.

Mr. Zhai Yalin, aged 56, Supervisor of the Company. Mr. Zhai is a senior economist with a bachelor degree. Mr. Zhai successively served as deputy director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation. Since December 2001, Mr. Zhai has concurrently served as the deputy director of the Auditing Bureau of China Petrochemical Corporation and deputy director of Auditing Department of Sinopec Corp. Mr. Zhai has served as a supervisor of Sinopec Shanghai Petrochemical Company Limited since June 2008. Since April 2018, he was appointed as the director of the ninth team Party Inspection Group of China Petrochemical Corporation. In March 2019, he was appointed as the director of the first team Party Inspection Group of China Petrochemical Corporation. Since June 2019, he has been appointed as Supervisor of the Company.

Ms. ZHANG Qin, aged 57, Supervisor of the Company. Ms. Zhang is a professor-level senior administration engineer with a master degree. In December 1998, she was appointed as Head of the political Work Department, Propaganda Office of China Petrochemical Corporation; in January 2009, she was appointed as the Direct Deputy Secretary of CPC Committee, and the Direct Secretary of Discipline Inspection Committee of China Petrochemical Corporation; and from March 2015, she was appointed as the Deputy Director of the Political Work Department (administrative office of CPC Committee) of China Petrochemical Corporation. In December 2019, she was appointed as Deputy Director of Political Work Department of China Petrochemical Corporation. Since September 2014, she has been serving as a supervisor of SOSC. Since February 2015, she has been appointed as Supervisor of the Company.

Mr. ZHANG Jianbo, aged 57, Supervisor of the Company. Mr. Zhang is a professor-level senior engineer with a bachelor degree. He joined Shengli Petroleum Administrative Bureau in 1985. Since 1999,Mr. Zhang has served as Deputy Director and Director of the Human Resources Department of China Petrochemical Corporation. Mr.Zhang was appointed Deputy Secretary of the Communist Party Committee of Shanghai Petrochemical since August 2013 and concurrently, he successively held several positions such as the Secretary of the Communist Party Discipline Supervisory Committee, Chairman of the Labor Union and Chairman of the Supervisory Committee of Shanghai Petrochemical. In June 2017, Mr. Zhang was appointed as Deputy Director of Supervision Bureau of China Petrochemical Corporation. In May 2019, he was appointed as Deputy Director of the Supervisory Administration of China Petrochemical Corporation. Since February 2018, he has been appointed as the Supervisor of the Company.

Mr. ZHANG Hongshan, aged 59, Employee Representative Supervisor. Mr Zhang is a professor-level senior engineer with a M.A. degree. In April 2005, he was appointed as Deputy Chief Engineer of the Shengli Petroleum Administration, and Director of the Production Management Department of the Shengli Petroleum Administration of China Petrochemical Corporation; in August 2007, he was appointed as Assistant Director of the Shengli Petroleum Administration, and Director of the Production Management Department of Shengli Petroleum Administration of China Petrochemical Corporation; in July 2010, he was appointed as Deputy General Manager of Sinopec Shengli Oilfield Branch Company. Since December 2016, he was appointed as the Secretary and vice of CPC Committee and Deputy General Manager of Sinopec Shengli Oil Engineering Company Limited. Since December 2018，he was appointed as Executive Directive and Deputy General Manager of CPC Committee and Deputy General Manager of Sinopec Shengli Oil Engineering Company Limited. Since February 2017, he has been appointed as employee representative supervisor of the Company.

Mr. Chen Weiguo, aged 56, Employee Representative Supervisor. Mr. Chen is a Professor-level Senior Engineer with a Master Degree. In September 2006, he was appointed as the vice chief engineer of China Petroleum & Chemical Corporation ("Sinopec Corp,") Zhongyuan Oilfield Branch Company; in November 2010, he was appointed as the deputy general manager of Sinopec Corp. Zhongyuan Oilfield Branch Company. Since November 2018, he was appointed as executive director and secretary to CPC of Sinopec Zhongyuan Oil Engineering Company Limited. Since May 2019, he has been appointed as employee representative supervisor of the Company.

Senior management

Mr. ZHANG Yongjie, aged 56, Deputy General Manager. Mr. Zhang is a senior engineer with a Master degree. In April 2002, he was appointed as Deputy General Manager and General Manger of the Foreign Trade and Economic Corporation under Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in December 2003, he was appointed as Deputy General Manager of Sinopec International Petroleum Service Corporation; and in November 2010, he was appointed as Director and General Manager of Sinopec International Petroleum Service Corporation. In August 2013, he was appointed as Executive Director and General Manager of Sinopec International Petroleum Service Corporation. In March 2018, he was appointed concurrently as secretary of CPC Committee of Sinopec International Petroleum Service Corporation. Since June 2012, Mr. Zhang has acted as Deputy General Manager of SOSC. Since February 2015, he has been appointed as Deputy General Manager of the Company.

Mr. ZUO Yaojiu, aged 57, Deputy General Manager. Mr Zuo is a Professor-level Senior Engineer with a Bachelor degree. In December 2003, he was appointed as deputy general manager of Sinopec International Petroleum Service Corporation; since November 2011, he also acted as General Manager of Sinopec (Brazil) Co., Ltd. and chief representative of China Petrochemical Corporation's South America Representative Office; in August 2012, he was appointed as secretary of CPC Committee and deputy general manager of Sinopec Engineering & Construction Co., Ltd.; in September 2014, he was appointed as executive director and general manager of Sinopec Engineering & Construction Co., Ltd. From September 2014 to February 2015, he acted as deputy general manager of the Company. Since June 2017, he has been appointed as Deputy General Manager of the Company.

Mr. ZHANG Jinhong, aged 56, Deputy General Manager. Mr. Zhang is a Professor-level Senior Accountant, Master degree. In October 2000, he was appointed as the vice chief accountant and manager of drilling department of Jiangsu Petroleum Exploration Bureau of Sinopec Group; in July, 2004, he was appointed as the vice chief accountant and manager of the engineering technology management department; in June 2008, he was appointed as the vice director of Huadong Bureau of Sinopec Group; in December 2012, he was appointed as the Executive Director, General Manager and Party Secretary of Sinopec Huadong Oilfield Service Corporation. In June 2018, he was appointed as director of Sinopec Oilfield Equipment Corporation. Since April 2015, he has been appointed as Deputy General Manager of the Company.

Mr. Xiao Yi, aged 50, Chief Financial Officer. Mr. Xiao is a senior accountant with a MBA degree. He has successively served as the deputy head and head of financial division under the Finance Department of Sinopec Corp. In October 2006, he was appointed as Chief Financial Manager of SINOPEC Zhanjiang Dongxing Petroleum Enterprise Company Limited. In July 2009, he was appointed as Chief Financial Manager of SINOPEC Zhanjiang Dongxing Petrochemical Company Limited. Since December 2016, he has served as the deputy director of Finance Department of China Petrochemical Corporation. From June 2019 to December 2019, he has been appointed as independent non-executive Director of the company.In December 2019, he was appointed as Chief Financial Officer of the Company.

Mr. LI Honghai, aged 56, Secretary to the Board. Mr. Li is a professor-level senior economist with a Ph.D. degree. Since June 2000, he had held the position of Deputy Manager, Secretary to the Board, and Assistant to the Chairman of Zhongyuan Petroleum Company Limited; in December 2004, he was appointed as Manager of Zhongyuan Petroleum Company Limited; in December 2006, he was appointed as Deputy Chief Economist of Sinopec Zhongyuan Oilfield Company; in May 2007, he was appointed as Head of the General Administration under the Enterprise Reform Department of China Petrochemical Corporation, and also as Head of the Assets Operation Division in August the same year; in June 2008, he was appointed as Head of the Assets Operation Division under the Enterprise Reform Department of China Petrochemical Corporation; and in July 2010, he was appointed as Head of the Assets Operation Division under the Capital Operations Department of China Petrochemical Corporation. Since September 2014, he has been serving as Secretary to the Board of SOSC. Since February 2015, he was appointed as Secretary to the Board of the Company. He has served as the senior expert of China Petrochemical Corporation in capital operation Since January 2019.

(2). Information on share option scheme provided to directors, supervisors and senior management

√ Applicable ☐ Not Applicable

Unit: Share

Name	Position	Number of share options held at the beginning of 2018	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (yuan/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period (yuan/share)
Zhang Yongjie	Deputy Manager	133,000	0	0	-57,000	5.63	76,000	2.34
Liu Rushan	Deputy Party Secretary	133,000	0	0	-57,000	5.63	76,000	2.34
Zuo Yaojiu	Deputy Manager	126,000	0	0	-54,000	5.63	72,000	2.34
Zhang Jinhong	Deputy Manager	126,000	0	0	-54,000	5.63	72,000	2.34
Li Honghai	Secretary to the Board	98,000	0	0	-42,000	5.63	56,000	2.34
Sun Qingde	Former Vice Chairman, Former General Manager	147,000	0	0	-147,000	5.63	0	2.34
Total	/	763,000	0	0	-411,000	/	352,000	/

(3). Qi Xin Gong Ying Scheme participated by directors, supervisors and senior management

On 25 January, 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 share of restricted-sale A shares in private to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension 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 chief executives of the Company have subscribed 3.55 million, accounting for approximately 5.9% of the total scheme shares of Qi Xin Gong Ying Scheme. There are 10 directors, supervisors and chief executives of the Company in total who have subscribed for Qi Xin Gong Ying Scheme, the subscription by the directors, supervisors and chief executives of the Company under Qi Xin Gong Ying Scheme are as follows:

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

2. Information on directors, supervisors and senior management holding positions

(1). Information on holding positions

Name	Name of corporate shareholders	Position held in corporate shareholders	The starting date of term in office	The termination date of term in office
Liu Zhongyun	China Petrochemical Corporation	Deputy Manager	March 2017	December 2019
Du Jiangbo	China Petrochemical Corporation	Deputy general manager of business reform and Legal Affairs Department	December 2019	–
Zhai Yalin	China Petrochemical Corporation	Director of the first team Party Inspection Group	March 2019	–
Zhang Qin	China Petrochemical Corporation	Deputy Director of the Political Work Department	March 2015	–
Zhang Jianbo	China Petrochemical Corporation	Deputy Director of the Supervisory Administration	May 2019	–

(2). Information on holding positions in other enterprises

Name	Name of other enterprises	Position held in other enterprises	Beginning date of term	End date of term
Liu Zhongyun	Sinopec	Senior Vice President	February 2018	December 2019
		Director	May 2018	December 2019
Lu Baoping	Sinopec Petroleum Engineering Technology Research Institute	President	April 2009	–
Fan Zhonghai	Sinopec	Deputy Manager of Petroleum Exploration & Development Research Department	December 2019	–
Zou Huiping	Sinopec	Supervisor	May 2006	–
		Chief Representative of Hong Kong	September 2018	–
	Sinopec Century Bright Capital Investment Limited	Chairman of the Supervisory Committee	August 2019	–
Zhang Jinghong	Sinopec Oilfield Equipment Corporation	Director	June 2018	June 2021
Xiao Yi	Pecinternational Leasing Co.,LTD	Vice Chairman	June 2019	–
	Taiping Petrochemical Financial Leasing co. LTD	Director	June 2019	–
	Shanghai Zheshi Futures Brokerage Co., Ltd.	Director	June 2019	–

3. Information on the remuneration of the Company's directors, supervisors and senior management

Decision procedure of the remuneration of directors, supervisors and senior management.	The remuneration of directors and supervisors is approved by the General Meeting of shareholders, the remuneration of senior management is approved by the board of directors.
The basis of remuneration determination of directors, supervisors and senior management.	Decided by the duties and responsibilities of directors, supervisors and senior management, and by the performance of the company.
The information of payable remuneration of directors, supervisors and senior management.	RMB8,510,693
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB8,510,693

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

Name	Position	Change	Reason for change
Chen Xikun	Chairman	Elected as Chairman	Elected by the Board of Directors
Yuan Jianqiang	General Manager	Appointed as General Manager	Appointed by the Board of Directors
Yuan Jianqiang	Director	Elected as Director;	Elected by General Meeting of Shareholders
Xiao Yi	Director	Elected as Director;	Elected by General Meeting of Shareholders
Ma Xiang	Employee Representative Supervisor	Elected as Employee Representative Supervisor	Elected by Employee Representative Meeting
Ma Xiang	Chairman of Supervisory Committee	Elected as Chairman of Supervisory Committee	Elected by Supervisory Committee
Zhai Yalin	Supervisor	Elected as Supervisor	Elected by General Meeting of Shareholders
Chen Weiguo	Employee Representative Supervisor	Elected as Employee Representative Supervisor	Elected by Employee Representative Meeting
Xiao Yi	Chief Financial Officer	Appointed as Chief Financial Officer	Appointed by the Board of Directors
Liu Zhongyun	Chairman of the Board	Resigned	Change of Work
Chen Xikun	Deputy General Manager	Resigned	Change of Work
Sun Qingde	Vice Chairman, General Manager	Resigned	Change of Work
Zou Huiping	Supervisor	Resigned	Change of Work
Li Wei	Chairman of Supervisory Committee	Resigned	Change of Work
Xiao Yi	Director	Resigned	Change of Work
Li Tian	Chief Financial Officer	Resigned	Change of Work

Note:

The thirteenth meeting of the ninth Session of the Board of Directors of the Company was held on 20 May 2019, 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 elected 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).

The eighteen meeting of the ninth Session of the Board of Directors of the Company was held on 19 December 2019, Mr. Chen Xikun was elected as the Chairman of the ninth Session of the Board of Directors of the Company, whose term of office commenced from 19 December 2019 due to the expiration of the ninth Session of the Board (February 2021). Nominated by the General Manager, Mr. Xiao Yi was appointed as Chief Financial Manager of the Company whose term of office commenced from 19 December 2019 due to the expiration of the ninth Session of the Board (February 2021).

Elected by employee representative meeting of the Company held on 19 December 2019, Mr. Ma Xiang was elected as the employee representative supervisor of the ninth Session of the Supervisory Committee since 19 December 2019 due to the expiration of the ninth Session of the Supervisory Committee (February 2021). The twelfth meeting of the ninth Session of the Supervisory Committee of the Company was held on 19 December 2019， Mr. Ma Xiang was elected as the Chairman of Supervisory Committee of the ninth Session of the Supervisory Committee since 19 December 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 change in his work position. Mr Zou Huiping, Supervisor, ceased to serve as Supervisor of the Company since 30 May 2019 due to new working arrangement.

Mr.Liu Zhongyun, Chairman of the Board of the Company, ceased to serve as the Chairman of the Board of the Board, Non-Executive Director and Director of the Strategy Committee of the Board since 9 December 2019. Mr Li Wei，Chairman of Supervisory Committee, Mr. Xiao Yi, Director and Mr. Li Tian，Chief Financial Officer, ceased to serve as Chairman of Supervisory Committee，Director and Chief Financial Officer of the Company since 19 December 2019 due to new working arrangement.

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

☐ Applicable √ Not Applicable

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

(1). Personnel information

The number of the Company' serving staff	128
The number of the Company's subsidiaries' serving staff	73,135
The total number of the serving staff	73,263
The number of retired staff whose expense should be borne by the company and its subsidiaries	11,620
Professional composition	
Type of Professional	Number of the staff
Production Staff	40,116
Technical Staff	22,584
Researcher	3,428
Financial Staff	1,895
Market and Administrative Staff	4,026
Others	1,214
Total	73,263
Education	
Type	Number of the staff
Master or above	2,235
Bachelor	23,588
Junior college	14,565
Others	32,875
Total	73,263

(2) Remuneration Policies

The Company's Remuneration system consists of basic salary, performance bonuses, allowance, subsidies and mid/long-term incentives. The Company has established differentiation incentive system based on different positions and different kinds of professionals to create a fair competition environment to keep the remuneration in reasonable income difference.

(3) Training plan

Committed to staff training, the Company has established a differentiated and multi-tiered training management system which focuses on promoting staff fulfillment of responsibilities and talent building. Centered on central tasks in production and operation, the Company carries out the management, professional skills, operating skills and international training programs, highlights trainings in market development, overseas key positions, domestic project managers, conducts training for transferred employees and ability trainings, make effective use of various trainings such as on-job training, off-job training and online training to realize the mutual development of l employees and the Company.

7. Directors' and Supervisors' rights to acquire shares and debentures and short position

As at 31 December 2019, none of the Directors or Supervisors or Chief Executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors,Supervisors and Chief Executive pursuant to the Model Code.

8. Directors' and Supervisors' service contracts

Each Directors and Supervisors entered into a service contract with the Company. Main contents are set out below:

1. More details about the expired date of the terms of Directors of the ninth session of the Board and the Supervisors of ninth session of Supervisory Committee, please see the section in "Directors, Supervisors, Senior Management and Employees".

2. The remuneration for executive Directors and Employee Representative Supervisor of the Ninth Session for their service offered under the service contract will be determined in accordance with relevant laws and regulations and the Measures for Implementation of Remuneration Packages for Senior Management. It is provided in the Measures for Implementation of Remuneration Packages for Senior Management of the Company that the remuneration consists of a basic salary, performance bonus and mid- and long term incentives, with specific functions and responsibilities of the management members and performance of the Company as a whole being taken into account. An independent non-executive Director is entitled to a director's fee of RMB200,000 per annum (pre-tax). Non-executive directors and non-employee representative Supervisors shall not receive any remuneration from the Company.

In addition, the Company has purchase liability insurance for the Directors and Supervisors in order to safeguard the interests of the Directors and Supervisors. The permissible compensation provisions are set out in the liability insurance policy for Directors, which will indemnify Directors for costs associated with potential legal proceedings arising from negligence in the performance of their duties.

No Director or Supervisor has entered into a service contract with the Company which is not terminated by the Company within one year without payment other than statutory compensation.

9. Directors' and Supervisors' interests in contracts

No contract of significance to which the Company, its parent companies or any of their subsidiaries was a party, in which a Director or Supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

10. Special treatment to Directors, Supervisors and Senior Management

There has been no special treatment granted to the Directors, Supervisors or Senior Management during the reporting period.

Section X Corporate Governance

1. Information on Corporate Governance

During the reporting period, the Company operated regularly according to domestic and foreign regulations. Due to changes in the Company Law of People's Republic of China, the Guidelines on Articles of Association of Listed Companies and other laws and regulations, the Company has amended the "Articles of Association" and relevant contents of appendix thereof including of the Rules of Procedures on Shareholders' General Meeting of Sinopec Oilfield Service Corporation and the Rules of Procedures on Board Meeting of Sinopec Oilfield Service Corporation to further improve corporate governance and in combination with the actual condition of the Company, which has played a good role in promoting the company's decision-making science, effective implementation, and strong supervision of corporate governance mechanisms.

The Company coordinated the operation effectively by way of general meetings, the board of directors, specialized committees, the supervisory committee and the management under the leadership of the general manager, and implemented efficient internal control system, bringing about further normalization of internal management and improvement of management level. The Company has formed a board of directors that is diversified in terms of expertise, nationality and gender by actively promoting the construction of board diversity, which improved corporate governance and ensured scientific decision-making. In addition, the members of the special committees under the board of directors were readjusted in accordance with the relevant directors' professional expertise and changes in directors.

The Company stayed focus on information disclosure and strictly discloses information in a timely and compliant manner in strict accordance with the requirements and procedures of the regulatory rules of the place where our shares are listed. During the reporting period, the Company disclosed information timely, accurately, precisely and completely to ensure all the shareholders have equal access to the company information and improving transparency in corporate governance.

In 2019, the Company kept managing the insider registration, and enhanced the confidentiality of insider information such as annual reports before official disclosure, etc. During the reporting period, the Information Disclosure System, and Insider Registration Management System were effectively executed by the management of the Company, and there were no insiders' illegal trading of company stock or significant mistakes of annual reports.

During the reporting period, corporate governance of the Company was complied with the relevant regulation requirements related with listed companies' corporate governance which were published by regulators and stock exchanges. In strict accordance with the requirements of relevant laws and regulations including "Company Law", "the Securities Law", "Administrative Measures for the Disclosure of Information of Listed Companies", domestic and overseas "Listing Rules", the Company will continuously perfect management system of the Company, improve the standard operation and management level of the Company, protect the interests of the Company and all the shareholders and promote the sustainable and healthy development of the Company.

2. Summary of Shareholders' Meetings

During the reporting period, the Company held the annual general meeting for the year 2018 on 26 June 2019, and the 2019 first extraordinary general meeting on 6 November 2019. 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
The 2019 first extraordinary general meeting	6 November 2019	www.sse.com.cn www.hkexnews.hk	7 November 2019

3. Performance of the Directors

(1) The Directors' attendance at the Board Meetings and Shareholders' General Meetings

Name of Director	Whether as Independent Director	Attendance at Board meetings: Supposed Number of times for attending at meetings of the Board during the year	Number of times for attending in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Whether not attending in person for two consecutive times	Attendance at the shareholders' general meetings: Number of times for attending at shareholders' general meetings
Chen Xikun	No	8	8	5	0	0	No	2
Yuan Jianqiang	No	5	5	3	0	0	No	1
Lu Baoping	No	8	7	5	1	0	No	1
Fan Zhonghai	No	8	7	5	1	0	No	2
Wei Ran	No	8	6	5	2	0	No	0
Jiang Bo	Yes	8	8	5	0	0	No	2
Pan Ying	Yes	8	6	5	2	0	No	0
Chen Weidong	Yes	8	8	5	0	0	No	2
Dong Xiucheng	Yes	8	8	5	0	0	No	2
Liu Zhongyun	No	7	7	5	0	0	No	2
Sun Qingde	No	2	2	1	0	0	No	0
Xiao Yi	No	4	4	2	0	0	No	1

The Board meetings held during the year (No. of times)	8
Including: meetings held on site (No. of times)	3
Meetings held by correspondence (No. of times)	5
Meetings held by correspondence on site and by correspondence (No. of times)	0

(2) The information of the objections proposed by the independent directors

During the reporting period, the Company's independent directors did not raise objections against the proposals of the meetings of board of directors or the proposals which does not require the review on the board meetings. The detail information related to the performance of the independent directors is published in the report of the Company's independent directors 2019 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

4. Important comments and suggestions from the special committee under the board of directors during the reporting period

The audit committee made significant suggestions as follows:

(1) To continue to increase the recovery of accounts receivable and further shorten turnover of receivables. The Company shall further increase the intensity of the recovery of accounts receivable and inventory, fully implement the mechanism for supervision, and intensify the evaluation of rewards and punishments to ensure that the recovery of accounts receivable is cleared up to obtain substantial results.

(2) To further reduce the gearing ratio of the Company. The current gearing ratio remains at a high level of around 90%. The Company will reduce the overall debt and improve its cash flow condition by increasing profits, reducing costs, putting more efforts to recover accounts receivable and inventory, and optimizing the debt structure.

(3) To continue to improve the sustainable profitability of the Company. The 10 subsidiaries are currently profitable, but the profit base is weak. Besides, there is potential for further improvement in gross margin of the principal business. The company should further strengthen internal management reforms, optimize business structure, and develop high-end businesses.

(4) To continue to pay attention to foreign exchange risks and rationally use financial derivatives to effectively prevent exchange rate fluctuations.

5. The information on the existence of risk found by the supervisory committee

The supervisory committee has no objection on the supervised matters during the reporting period.

6. The note to the information of that it can not be guaranteed the independence with respect to Business, Personnel, Assets, Organisation and Finance between the Company and the Controlling Shareholders and can not be guaranteed the independent operation ability between the Company and the Controlling Shareholders

There is no existence of non independence between the Company and the Controlling Shareholders with respect to Business, Personnel, Assets, Organisation and Finance.

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

☐ Applicable √ Not Applicable

7. Regarding the performance evaluation, stimulating and binding mechanism

Under the guidance of the annual operation and management target set by the Board, Remuneration Committee of the Company effectively appraised the performance of senior management. The Company has been working hard to establish and optimize evaluation criteria and a stimulating and binding mechanism for senior management.

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

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

Whether disclose the internal control self-evaluation report: yes

In 2019, the Company kept improving the internal control system and risk management system, and made the operation of the Company more normalized, scientific and systematic by way of strengthening control and enhancing supervision. The board of directors will take responsibility for establishing and maintaining sufficient internal control of financial report, and the annual review of the company's risk management and internal control system. The supervisory committee conduct supervision on the board of directors about establishment and implement of internal control. Managers take charge of organizing routine operation of internal control. In 2019, the board of directors assessed internal control of the Company during the past year, in accordance with "basic norms of enterprise internal control", "application guidelines of enterprises internal control", "evaluation guidelines of enterprises internal control" and concluded that there is no important deficiency or significant deficiencies till 31 December, 2019. The internal control system of the Company's financial report is sound and effective.

The board of directors approved the Company's 2019 annual self-assessment of internal control on 24 March 2020. Please visit the website of the Hong Kong stock exchange or the website of the Shanghai Stock Exchange for details of the report. All members of the board of directors ensure that this report is true, accurate and complete and there is no false records, misleading statements or major omissions.

Description about major defects of the internal control during the reporting period

☐ Applicable √ Not Applicable

9. Information about the audit report of internal control

Whether disclose the audit report of internal control: yes

Grant Thornton UK (LLP) audited the Company's internal control till 31 December 2019 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2019 annual internal control audit report disclosed on March 25, 2020.

10. Compliance with Code of Corporate Governance Practices of HKSE

The company has not established a nomination committee. The duties of the nomination committee as stipulated in the "Corporate Governance Code" are implemented by the board of directors of the company. The company believes that the selection of director candidates by the board of directors is more in line with the actual operation of the company. In addition to the foregoing, during the reporting period, the Company has been in strict compliance with the Code of Corporate Governance of HKSE. The details are as follows:

A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The ninth session of the Board held eight meetings in 2019, including four regular meetings. The Directors' attendance of the Board meetings is set forth in item 3 "Performance of duties by the Directors" of this section.

(2) All Directors can raise matters in the agenda for the Board meetings and have the right to ask for more related documents.

(3) The notice has been given 14 days before regular meetings and the notice of the other Board meetings has usually been given 10 days before.

(4) The Board Secretary records and keeps the minutes of the Board meetings and meetings of Board Committees. The Articles of Association regulates the contents of the minutes, and the procedure that the minutes should be sent to all Directors for their comment and signature after the Board meetings.

(5) The Secretary to the Board continuously provides service for the Directors and reminds all Directors in order to ensure them to follow all applicable rules and regulations of domestic and overseas regulatory authorities.

A.2 Chairman and Chief Executive Officer

(1) Mr. Chen Xikun was elected as Chairman of the Company by the Board. Mr. Yuan Jianqiang was appointed as General Manager of the Company by the Board. The responsibilities between Chairman and General Manager are set out clearly in the Articles of Association.

(2) Procedures to acquire necessary information for decision were regulated in the "the Rules of Procedures on Board Meeting" of the Company. Directors can require General Manger or relevant departments through General Manger to provide information and explanation. If necessary, Independent Directors can consult independent professionals and the Company should pay the relevant expenses.

A.3 The Board composition

(1) The Board of Directors of the Company consists of 9 members with extensive professional and management experiences, one of which is female (Please refer to the Section headed "Directors, Supervisors, Other Senior Management and Employees" in this annual report for detailed information). Among the 9 members, there are 2 executive directors, 3 non-executive directors and 4 independent non-executive directors. The independent non-executive directors represent one third of the Board. The company's executive directors and non-executive directors have extensive management experiences in petrochemical and large-sized enterprises; Independent non-executive directors have working background as well-known finance experts with rich experience in international capital management and investment. The composition of the Board of Directors is reasonable and diversified. On the first meeting of the eighth term of the Board dated 9 February 2015, the Company has approved the boards' diversified policy. This policy specifies that the company shall consider the diversity of board members from multiple aspects when setting the composition of board members, including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service tenure and other regulatory requirements of the listed place.

(2) The Company has received from each independent non-executive director a letter of confirmation regarding its compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that each of the independent non-executive directors is independent.

(3) The independent non-executive directors are identified in all corporate communications in which also listed all the directors' names. The list of the current Directors of the Company had been published on its website and the HKSE's website.

A.4 Appointment, re-election and removal

(1) All Directors are elected by shareholders' general meetings for a term of not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.

(2) The term of office of Independent Directors shall not be more than 6 years. The term of the independent non-executive directors is set forth in the section 9 "Directors, Supervisors, Senior Management and Employees" of this Annual Report.

A.5 Nomination Committee

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

A.6 Responsibilities of Directors

(1) All the non-executive directors have the same authorities as the executive directors. In addition, the non-executive directors, especially the independent non-executive directors are entitled to certain specific authorities. The Articles of Association and the Rules and Procedures of Board of Directors' Meetings clearly specify for the authorities of directors including independent non-executive directors, which are published on the website http://ssc.sinopec.com.

(2) Each of the directors was able to devote sufficient time and efforts to handling the matters of the Company. Directors shall abstain from voting at the Board meeting due to conflicts of interests.

(3) Each of the directors confirmed that he or she has complied with the "Model Code for Securities and Transactions by Directors of Listed Company" during the reporting period. In addition, the company formulated the "Rules Governing Shares Held by Company Directors, Supervisors and Senior Manager and changes in shares" and the "Model Code of Securities Transactions by Company Employees" to regulate the activities of Sinopec Corp.'s personnel in purchase and sale of the securities of the company.

(4) The Company has arranged trainings for directors and provided relevant training fees. The directors actively participated in the sustainable professional development program. During the reporting period, all directors and supervisors of the Company have attended professional trainings no less than 8 training courses.

A.7 Supply of and access to information

(1) The Company provides information relating to business operation of the Company regularly, to help Directors to understand the Company's operation. Where any director requires information, the Company will supply the related materials in a timely manner.

(2) All Directors usually acquire adequate information 3 working days before the Board meetings which can help them to make accurate decisions.

(3) The Board Secretary provides sustainable services for all Directors. Directors can review all Board documents and relevant information at all times.

B. Remuneration of Directors and Senior Management

(1) The company has set up the Remuneration Committee. The Remuneration Committee under the ninth term of the Board consists of independent non- executive Director Mr. Pan Ying as the Chief Officer, the non-executive director Mr. Fan Zhonghai and the independent non-executive director Ms. Jiang Bo，Mr. Chen Weidong and Mr. Dong Xiucheng as the member, and they have made the rules. The Remuneration Committee has its working rules which can be found in the website of the company or the Hong Kong Stock Exchange. During the reporting period, the Remuneration Committee held 2 meetings.

(2) Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and approved the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period are set forth in the section "Directors, Supervisors, Senior Management and Employees" of this Annual Report.

(3) The members of Remuneration Committee can consult Chairman or General Manager, and can consult independent professionals and the Company shall pay the relevant expenses.

C. Accountability and audit

C.1 Financial reporting

(1) The Company assures that the Senior Management has provided adequate financial information to the Board and the Audit Committee.

(2) The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Company as at 31 December 2019 and of the Company's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis. The Board of directors and all directors warranted that there were no material omissions, or misrepresentations or misleading statements contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

(3) Required under the Listing Rules by HKSE, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

(4) The external auditors of the company made a statement about their reporting responsibilities in the auditor's report contained in the financial statements.

C.2 Risk management and internal control

(1) The Company has set up and kept improving risk management and internal control system to guard against the operational, financial and compliance risks. The Board is the decision-making body of internal control and risk management, and takes responsibility for examining the effect of internal control system and risk management procedures. The board of directors and the audit committee receive documents about internal control and risk management from the Company's management regularly (at least once a year). Significant issues about internal control and risk management will be reported to the Board and the audit committee. The Company has set up the internal audit department, which is equipped with sufficient professional staff. Internal control & management department and internal audit department report to the audit committee regularly (at least twice a year).

(2) As for internal control, the Company adopts the international internal control frame structure proposed by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. Based on the Articles of Association and current management system, and combined with domestic and foreign supervisory regulations, the Company made the internal control manual and continuously improved it, and realized total-factor internal control of internal environment, risk evaluation, control activities, information & communication, and internal supervision. Meanwhile, the Company continuously supervised and evaluated its internal control, included the corporate and regional companies into the internal control and evaluation scope by comprehensive inspections such as periodic test, self-examination, audit examination, etc., and made internal control evaluation report. The board of directors reviews internal control evaluation report annually. For the information about the internal control during the reporting period, please refer to 2019 Internal Control Evaluation Report Prepared by the Company.

The Company developed and implemented Information disclosure system and insider registration system. The Company assessed the implement of system periodically and disclosed it according to related regulations. For detailed information about information disclosure system, please refer to the website of the Company.

(3) As for the risk management, the Company adopts the enterprise risk management frame made by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. It developed risk management system and established risk management organization system. The Company organizes annual risk evaluation every year, recognizes significant risks, implements responsibilities for risk management, makes corresponding strategies and measures for significant risks based on internal control system, and tracks the implement of corresponding measures for significant risks on a regular basis, in order to make sure that the Company's significant risks can get enough attention, supervision and response.

(4) During the reporting period, the Board of the Company assessed internal control and risk management, and the Board considers the Company's internal control and risk management is effective.

C.3 The Audit Committee

(1) The Audit Committee consists of independent non-executive director Ms. Jiang Bo who acts as the committee chairman, and independent non-executive director Mr. Pan Ying, Mr. Chen Weidong and Dong Xiucheng who acted as committee members. As verified, none of them had served as a partner or former partner in our current auditing firm.

(2) The Company has published the terms of reference of the Audit Committee. According to the terms of reference, the Audit Committee assist the Board in financial reports, risk management and internal control. The terms of reference are available for inspection at the website of the Company and the Hong Kong Stock Exchange for reference.

(3) The Audit Committee may consult independent professionals. Reasonable costs arising from or in connection with such consultation are borne by the Company. The working expenses of the committee are included in the budget of the Company. Meanwhile, according to the Company policies, the senior management and relevant departments of the company shall actively cooperate with the Audit Committee.

(4) During the reporting period, the Audit Committee held 4 meetings. The review opinions were given at the meetings and submitted to the Board of Directors after signed by members. During the reporting period, the Board and the Audit Committee did not have any different opinion.

As the recommend of the tenth audit meeting of the ninth session of the Board, the nineteenth meeting of the ninth session of Board of Directors of the Company has resolved to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2020, appoint Grant Thornton (Special General Partnership) as the Company's auditor regarding internal control for 2020, and proposed to authorize the Board to fix their remuneration. The proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2019 annual general meeting.

An analysis of remuneration in respect of audit services is set forth in item 6 of the "Significant Events" section in this Annual Report.

D. Delegation by the Board

(1) The Strategy Committee, the Audit Committee and the Remuneration Committee under the Board have the specific authority and duties delegated by the Board, and should report to the Board.

(2) The Board, the Senior Management and each committees under the Board have specific authority and duties, which are set forth in the Articles of Association, the Rules of Procedures on shareholders' general meeting, the Rules of Procedures on Board Meeting.

(3) The attendance record of the ninth session of the Board's Committee meeting during the reporting period is as follows.

The Audit Committee

Name	Attended in Person	Attended by Proxies	Times of Absence
Jiang Bo	4	–	–
Pan Ying	4	–	–
Chen Weidong	4	–	–
Dong Xiucheng	4	–	–

The Remuneration Committee

Name	Attended in Person	Attended by Proxies	Time of Absence
Pan Ying	2	–	–
Jiang Bo	2	–	–
Fan Zhonghai	2	–	–
Chen Weidong	1	–	–
Dong Xiucheng	1	–	–

E. Communication with shareholders

(1) Shareholders who individually or jointly hold more than 10% of the total number of shares with voting rights issued by the company may request the board of directors to convene a general meeting of shareholders in writing; if the board of directors fails to agree to the shareholders' meeting convening meeting in accordance with the Rules of Procedure of the shareholders' meeting, shareholders may To convene and hold a meeting, the reasonable expenses incurred by the company shall be borne by the company. The foregoing provisions are based on the premise that the contents of the shareholders' meeting proposal shall fall within the scope of the general meeting of shareholders, have clear issues and specific resolutions, and comply with the relevant provisions of laws, administrative regulations and the Articles of Association.

(2) When the company convened a general meeting of shareholders, shareholders who hold more than 3% of the total number of shares with voting rights of the company, either individually or in combination, may submit an interim proposal 10 days before the general meeting of shareholders.

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

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

(5) Chairman attends the shareholders' general meetings as president. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The auditors of the Company also attend the 2018 annual general meetings.

F. The secretary to the Board

(1) Relevant qualifications of the secretary to the board are recognized by the HKSE as the company secretary, and the secretary nominated by the Board Chairman and appointed by the Board of Directors. He is the senior management officer who reports to SSC and the Board of Directors. The secretary makes recommendation to the Board in respect of corporate governance and arranges orientation training and professional development for directors.

(2) The secretary to the board will actively participate in career development trainings. Mr. Li Honghai, the secretary to the Board has participated in the professional trainings organized by the Hong Kong Institute of Chartered Secretaries and has already been trained over 15 hours during the reporting period.

G. Investor relations

(1) In order to further improve corporate governance, adapt to the company's business expansion needs, considering the company's situation, the company revised the relevant provisions of the Articles of Association after being considered and approved at the company's 2019 first extraordinary general meeting of shareholders.

For details, please refer to the relevant announcements disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times" on 20 September 2019 and on the website of the Hong Kong Stock Exchange on 19 September 2019.

(2) The company attaches great importance to investor relations work. The management leads the team to introduce roadshows to investors every year, introducing the company's development strategy, production and operation performance and other issues of concern to investors; the company set up a person responsible for communication with investors. Under the regulatory requirements, the Company strengthen communication with investors by holding meetings with institutional investors, set up investor hotlines and communicated via online platforms.

Section XI Financial Reports

I. Prepared in accordance with PRC Accounting Standards for Business Enterprises

Grant Thornton
致同

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Auditor's Report

GTCSZ(2020)NO. 110ZA1926

To the Shareholders of Sinopec Oilfield Service Corporation:

I. OPINION

We have audited the accompanying Financial Statements of Sinopec Oilfield Service Corporation ("SSC"), which comprises the company and consolidated balance sheets at 31 December 2019, the company and consolidated income statement, the company and consolidated cash flow statement, the company and consolidated statement of changes in owners' equity and notes to the financial statements for the years ended 31 December 2019.

In our opinion, the accompanying financial statements are prepared in accordance with Accounting Standards for Business Enterprises.The financial position of SSC for the year ended 31 December 2019, and the results of its operations and cash flows for the year ended 31 December 2019 are fairly presented in all material respects.

II. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statement section of our report. We are independent of the Group in accordance with the Code of Ethics for Chinese Certified Public Accountant (Ethics Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we fulfilled our other ethical responsibilities in accordance with these requirements and the Ethics Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follow:

(I) The recognition of revenue and cost

Descriptions of the matter

Revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to PRC and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services.

The Group's petroleum engineering and technical services income would be recognized over a period of time. The recognition of related labor income and profits depends on management's estimation of the estimated total revenue of the contract and performance of the contract. The management of the Group adopts the expected value method according to the contract or the most likely amount to estimate the estimated total revenue of the contract, and evaluates the estimated total cost of the contract according to historical information and construction plan. The significant accounting estimates of management will be continuously evaluated and revised during the execution of the contract.

With the progress towards satisfaction of a performance obligation becomes certain, the Group should recognized revenue and costs in accordance with the progress of performance obligation being satisfied on the balance sheet date. The recognition of revenue mainly depends on the management's critical estimation and judgments, including the estimated total revenue of the contract, estimated total cost, variable consideration, remaining contract costs, estimated progress and contract execution risk. Any alteration for the final progress billing or actual progress for performance obligation being satisfied, which would lead to the variance exists between the management's budgeted revenue and actual amount incurred. Therefore, we identified this matter as a key audit matter.

Refer to Notes III. 25 (Revenue), Notes III. 33(6) (Critical accounting judgment and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about revenue recognition, other detailed information are set out in Notes V. 39 and Note XIV. 5.

How our audit addressed the Key Audit Matter

Our audit procedures for the recognition of revenue and cost include:

We checked whether the accounting policies for recognizing revenue and costs are appropriate combined with the relevant provisions of accounting standards in accordance with the specific circumstances of the Group's business and contract terms.

Confirmed the effectiveness of internal controls by understanding, assessing and testing the design and implementation of key internal controls about management's determination on the estimated total revenue of the contract, estimated total contract costs, actual costs incurred and remaining contract costs, and the progress of the performance.

Through reviewing business contracts and interviews with management, we understood and assessed the reasonableness of the basis and assumptions of estimated total revenue and estimated total cost. We checked the consistency of the preparation and assumptions of various types of projects. We compared the cumulative cost as of December 31, 2019 to the estimated total cost, and checked the large cost recorded after the balance sheet date to analyze and evaluate the management's reasonableness of future workload and estimated residual cost of the contract.

Sampling tests were carried out for the determination of the progress of contract performance, and the supporting documents such as the main clauses in the relevant business contracts and the settlement statements or acceptance sheets and completion schedules issued by the customers were checked. The estimated revenue and estimated cost of the sub-projects were analyzed and calculated to confirm its reasonableness. In addition, the sample was tested for the amount and period of revenue and cost recognition to analyze whether it was accurately confirmed on the balance sheet date according to the progress of contract performance. The budgeted cost was compared with the accumulated costs incurred up to the end of the reporting period on a sample basis to verify the existence of cost overrun.

(II) Measurement of expected credit losses of accounts receivable and contract assets

Descriptions of the matter

The accounts receivable and contract assets of the Group (hereinafter referred to as "receivables") mainly come from related parties and other PRC and overseas petroleum exploration and development companies. On December 31, 2019, the book value of accounts receivable of the Group was RMB14.51 billion, and the book value of contract assets was RMB9.609 billion, which aggregated to 34.75% of total assets. As at 31 December 2019, the accumulated expected credit losses for account receivables and contract assets amounted to RMB2.553 billion.

The measurement of expected credit losses involves management's subjective judgment and is inherently uncertain. In determining the expected credit losses of receivables, the management needs to comprehensively assess the current credit rating of the counterparty, the experience of historical credit losses, and the current operating conditions, macroeconomic environment, external market environment, technical environment and changes in customer conditions.

Due to the inherent uncertainty of the expected credit loss measurement of the receivables, involving the subjective judgment of the management, and the amount of the receivables has a significant impact on the consolidated financial statements of the Group, we identified the measurement of expected credit losses of receivables as a key audit matter.

Refer to Notes III. 10 Financial instruments (Measurement of expected credit losses), Notes III. 33(2)(Critical accounting judgment and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about Measurement of expected credit losses. Other detailed information is set out in Notes V. 3 and Notes V. 8.

How our audit addressed the Key Audit Matter

Our audit procedures for measurement of expected credit losses include:

We understood and assessed the internal controls of the Group related to the expected credit loss measurement. In addition, we tested the effectiveness of such internal controls.

We reviewed the relevant considerations and objective evidence of the management's expected credit loss measurement, and evaluated the management's method and calculation which divide the receivables into several combinations by considering the actual amount of bad debts and the situation of similar receivables in the history, combined with factors such as customer credit and market environment.

For major customers whose balance of receivables is large or exceeds the credit period, we gathered information about the debtor or its industry development status to identify whether there is any situation that affects the expected credit loss assessment results of receivables.

We have obtained ageing analysis of receivables as at 31 December 2019. We checked the supporting documents such as accounting vouchers and invoices. We also reviewed the key information such as aging analysis, overdue days, and relationship by sampling basis in order to ascertain the accuracy and classification on receivables.

We arranged audit confirmation to those customers who have significant balance of trade receivables and contract assets, and compared the results for the returned confirmation with the Group's record.

We recalculated the expected credit losses of the receivables and compared our calculations with the amount recorded by the Group.

We evaluated the reasonableness of management's expected credit losses assessment by considering the customer's settlement subsequent to the reporting period.

IV. OTHER INFORMATION

The directors of the Group are responsible for the other information. The other information comprises all the information in the 2019 annual report of the Group, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGE WITH GOVERNANCE FOR THE FINANCIAL STATEMENT

Management of the Group is responsible for the preparation and fair presentation of the financial statement in accordance with Accounting Standards for Business Enterprises, and for such internal control as management determines in necessary to enable the preparation of financial statements that are free form material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charge with governance are responsible for overseeing the Group's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENT

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise form fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, further events or conditions may cause the Group to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton China

Certified Public Accountants: Zhang Yaxu

Certified Public Accountants: Wang Tao

Beijing, China

March 24, 2020

CONSOLIDATED AND COMPANY BALANCE SHEET

Prepared by：Sinopec Oilfield Service Corporation

As at 31 December 2019 Expressed in RMB thousand

		As at 31/12/2019		As at 31/12/2018	
Item	**Note**	**Consolidated**	**Company**	**Consolidated**	**Company**
Current assets:					
Cash at bank and on hand	V.1	1,668,837	170	2,203,441	58,679
Financial assets held for trading					
Bills receivable	V.2	500		481,196	
Accounts receivable	V.3	11,996,355		15,630,004	
Accounts receivable financing	V.4	1,446,389			
Prepayments	V.5	553,726		444,749	
Other receivables	V.6				
	XV.1	2,365,418	4,399,759	1,712,575	4,357,230
Including: Interest receivables					
Dividend receivables				188	
Inventories	V.7	1,185,504		1,411,638	
Contract assets	V.8	9,570,249		8,871,704	
Assets classified as held for sale					
Non-current assets due within one year	V.9			40,477	
Other current assets	V.10	1,742,338	83	1,218,035	
Total current assets		30,529,316	4,400,012	32,013,819	4,415,909
Non-current assets:					
Debt investments					
Other debt investments					
Long-term receivables	V.11				
Long-term equity investments	V.12				
	XV.2	39,718	27,891,662	232,823	27,891,662
Other equity instrument investments	V.13	32,847		39,011	
Other non-current financial assets					
Investment property					
Fixed assets	V.14	23,516,427		23,842,767	
Construction in progress	V.15	213,819		365,414	
Right-of-use assets	V.16	1,547,822			
Intangible assets	V.17	392,947		237,275	
Research and development expenditure					
Long-term deferred expenses	V.18	5,379,478		3,681,168	
Deferred income tax assets	V.19	417,004		492,438	
Other non-current assets					
Total non-current assets		31,540,062	27,891,662	28,890,896	27,891,662
Total assets		62,069,378	32,291,674	60,904,715	32,307,571

CONSOLIDATED AND COMPANY BALANCE SHEET (Continued)

Prepared by：Sinopec Oilfield Service Corporation

As at 31 December 2019 — Expressed in RMB thousand

Item	Note	As at 31/12/2019		As at 31/12/2018	
		Consolidated	Company	Consolidated	Company
Current liabilities:					
Short-term loans	V.20	20,403,075		17,606,082	
Financial liabilities at fair value through profit or loss					
Bills payable	V.21	4,733,932		3,797,742	
Accounts payable	V.22	20,068,294	11,800	23,261,762	1,535
Advances from customers					
Contract liabilities	V.23	3,575,654		4,390,293	
Employee benefits payable	V.24	421,938		510,507	
Taxes payable	V.25	843,715	26,531	1,053,477	26,371
Other payables	V.26	1,770,597	8	2,186,009	
Non-current liabilities due within one year	V.27	535,475		156,559	
Other current liabilities				917	
Total current liabilities		52,352,680	38,339	52,963,348	27,906
Non-current liabilities:					
Long-term loans	V.28	474,382		536,291	
Bonds payables					
Lease liabilities	V.29	1,134,746			
Long-term payables	V.30	784,377		868,672	
Provisions	V.31	449,256		595,742	
Deferred income	V.32	92,211		139,594	
Deferred income tax liabilities	V.19	17,854		22,658	
Other non-current liabilities					
Total non-current liabilities		2,952,826		2,162,957	
Total liabilities		55,305,506	38,339	55,126,305	27,906
Equity:					
Share capital	V.33	18,984,340	18,984,340	18,984,340	18,984,340
Capital reserve	V.34	11,714,581	14,564,824	11,710,763	14,561,006
Other comprehensive income	V.35	6,447		11,676	
Special reserve	V.36	373,238		300,609	
Surplus reserve	V.37	200,383	200,383	200,383	200,383
Retained earnings	V.38	-24,515,117	-1,496,212	-25,429,361	-1,466,064
Equity attributable to the parent company		6,763,872	32,253,335	5,778,410	32,279,665
Non-controlling interests					
Total equity		6,763,872	32,253,335	5,778,410	32,279,665
Total liabilities and equity		62,069,378	32,291,674	60,904,715	32,307,571

Chairman： *Chen Xikun*　　*General Manager：* *Yuan Jianqiang*　　*Chief Financial Officer：* *Xiao Yi*　　*Manager of accounting department：* *Pei Defang*

CONSOLIDATED AND COMPANY INCOME STATEMENT

Prepared by：Sinopec Oilfield Service Corporation

For the year ended 31 December 2019 — Expressed in RMB thousand

Item	Note	Year ended 31/12/2019 Consolidated	Year ended 31/12/2019 Company	Year ended 31/12/2018 Consolidated	Year ended 31/12/2018 Company
I. Revenue	V.39	69,870,147		58,409,078	
Less: Cost of sales	V.39	63,695,235		53,320,296	
Taxes and surcharges	V.40	286,062		286,719	
Selling and distribution expenses	V.41	63,787		64,249	
General and administrative expenses	V.42	2,965,864	34,359	3,239,084	9,835
Research and development expenses	V.43	1,194,198		928,586	
Finance costs	V.44	945,344	-4,211	441,190	-39,921
Including: Interest expenses		980,463		662,443	
Interest income		103,499	4,211	87,886	1,302
Add: Other income	V.45	370,829		733,308	
Investment income (“-” for losses)	V.46	204,951		27,083	
Including: Income from investment in associates and joint ventures	V.46	13,899		26,483	
Gains from derecognition of financial assets measured at amortized cost (“-” for losses)	V.46	154,539			
Gains from changes in fair value (“-” for losses)					
Credit impairment losses(“-” for losses)	V.47	-111,239		-37,068	
Impairment of assets (“-” for losses)					
Gains from assets disposal (“-” for losses)	V.48	67,044		1	
II. Operating profit (“-” for losses)		1,251,242	-30,148	852,278	30,086
Add: Non-operating income	V.49	162,862		458,857	
Less: Non-operating expenses	V.50	58,336		795,498	
III. Profit before income tax (“-” for losses)		1,355,768	-30,148	515,637	30,086
Less: Income tax expenses	V.51	441,524		373,581	
IV. Net profit for the year (“-” for losses)		914,244	-30,148	142,056	30,086
(1) Classification according to operation continuity					
Including: Net profit from continuing operations(“-” for net loss)		914,244	-30,148	142,056	30,086
(2) Classification according to attribute					
Including: Shareholders of the company		914,244	-30,148	142,056	30,086
Non-controlling interests					
V. Other comprehensive income, net of tax		-5,229		11,676	
Other comprehensive income (net of tax) attributable to shareholders of the company		-5,229		11,676	
A.Items that will not be reclassified to profit or loss		-5,229		11,676	
a.Changes in fair value of other equity instruments	V.35	-5,229		11,676	
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		909,015	-30,148	153,732	30,086
Attributable to: Shareholders of the company		909,015	-30,148	153,732	30,086
Non-controlling interests					
VII. Earnings per share:					
(1) Basic earnings per share	XVI.2	0.048		0.008	
(2) Diluted earnings per share	XVI.2	0.048		0.008	

Chairman：	*General Manager：*	*Chief Financial Officer：*	*Manager of accounting department：*
Chen Xikun	*Yuan Jianqiang*	*Xiao Yi*	*Pei Defang*

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

Prepared by:Sinopec Oilfield Service Corporation

For the year ended 31 December 2019

Expressed in RMB thousand

		Year ended 31/12/2019		Year ended 31/12/2018	
Item	Note	Consolidated	Company	Consolidated	Company
I. Cash flows from operating activities:					
Cash received from the sales of goods and rendering of services		65,122,758		57,450,008	
Refunds of tax		331,262		375,483	
Cash received from other operating activities	V.52	3,661,508	1,015,471	2,612,319	1,132,440
Subtotal of cash inflow from operating activities		69,115,528	1,015,471	60,437,810	1,132,440
Cash paid for goods and services		47,732,202		43,257,951	
Cash paid to employees and on behalf of employees		15,638,635		14,701,830	
Taxes paid		1,860,359		1,615,629	
Cash paid for other operating activities	V.52	2,507,279	1,078,191	3,802,189	192,117
Subtotal of cash outflow from operating activities		67,738,475	1,078,191	63,377,599	192,117
Net cash flow from operating activities	V.53	1,377,053	-62,720	-2,939,789	940,323
II. Cash flows from investing activities:					
Cash received from disposal of investments					
Cash received from the investment income		2,368		1,306	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		167,338		104,024	
Cash received from other investing activities					
Subtotal of cash inflow from investing activities		169,706		105,330	
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		3,208,997		1,272,413	
Cash paid for the investments					7,719,955
Net cash paid for acquisition of subsidiaries and other business units		139,466		7,388	
Cash paid for other investing activities					
Subtotal of cash outflow from investing activities		3,348,463		1,279,801	7,719,955
Net cash flow from investing activities		-3,178,757		-1,174,471	7,719,955
III. Cash flows from financing activities:					
Cash received from the acquisition of investments				7,639,698	7,639,698
Cash received from borrowings		38,367,042		35,585,650	
Cash received for other financing activities	V.52	4,211	4,211	500,520	520
Subtotal of cash inflow from financing activities		38,371,253	4,211	43,725,868	7,640,218
Cash paid for repayments of borrowings		35,715,939		35,608,897	
Cash paid for distribution of dividend, profit or payments of interests		855,364		613,895	
Cash paid for other financing activities	V.52	550,324		3,884,291	1,120,892
Subtotal of cash outflow from financing activities		37,121,627		40,107,083	1,120,892
Net cash flow from financing activities		1,249,626	4,211	3,618,785	6,519,326
IV. Effect of exchange rate changes on cash and cash equivalents		29,230		135,618	82,240
V. Net decrease in cash and cash equivalents	V.53	-522,848	-58,509	-359,857	-178,066
Add: Cash and cash equivalents at beginning of the year	V.53	2,173,580	58,679	2,533,437	236,745
VI. Cash and cash equivalents at the end of the year	V.53	1,650,732	170	2,173,580	58,679

Chairman: *Chen Xikun* *General Manager:* *Yuan Jianqiang* *Chief Financial Officer:* *Xiao Yi* *Manager of accounting department:* *Pei Defang*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2019

Expressed in RMB thousand

Items	Amount of this period								
	Equity attributable to 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 Others									
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)		3,818		-5,229	72,629		914,244		985,462
(I) Total comprehensive income				-5,229			914,244		909,015
(II) Shareholders' contributions and decrease of capital		3,818							3,818
1. Contribution by ordinary shareholders									
2. Share payments recognised in equity		3,818							3,818
3. Others									
(III) Appropriation of profits									
1. Appropriation for surplus reserves									
2. Distributions to shareholders									
(IV) Transfer within equity									
(V) Specific Reserve					72,629				72,629
1. Appropriation during the year					1,437,814				1,437,814
2. Utilisation during the year (expressed in "-")					-1,365,185				-1,365,185
(VI) Others									
IV. Balance at 31/12/2019	18,984,340	11,714,581		6,447	373,238	200,383	-24,515,117		6,763,872

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2018 | Expressed in RMB thousand

Items	Amount of previous period								
	Equity attributable to 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	8,925,950			202,477	200,383	-25,571,417	-1,372	-2,101,318
Add: Changes in accounting policies Correction of prior period errors Others									
II. Balance at 01/01/2018	14,142,661	8,925,950			202,477	200,383	-25,571,417	-1,372	-2,101,318
III. Changes in equity during the year ("-" for decrease)	4,841,679	2,784,813		11,676	98,132		142,056	1,372	7,879,728
(I) Total comprehensive income				11,676			142,056		153,732
(II) Shareholders' contributions and decrease of capital	4,841,679	2,785,110						1,372	7,628,161
1. Contribution by ordinary shareholders	4,841,679	2,796,036							7,637,715
2. Share payments recognised in equity									
3. Others		-10,926						1,372	-9,554
(III) Appropriation of profits									
1. Appropriation for surplus reserves									
2. Distributions to shareholders									
(IV) Transfer within equity									
(V) Specific Reserve					98,132				98,132
1. Appropriation during the year					970,710				970,710
2. Utilisation during the year (expressed in "-")					-872,578				-872,578
(VI)Others		-297							-297
IV. Balance at 31/12/2018	18,984,340	11,710,763		11,676	300,609	200,383	-25,429,361		5,778,410

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2019 | 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)		3,818					-30,148	-26,330
(I) Total comprehensive income							-30,148	-30,148
(II) Shareholders' contributions and decrease of capital		3,818						3,818
1. Contribution by ordinary shareholders								
2. Share payments recognised in equity		3,818						3,818
3. Others								
(III) Appropriation of profits								
1. Appropriation for surplus reserves								
2. Distributions to shareholders								
(IV) Transfer within equity								
(V) Specific Reserve								
1. Appropriation during the year								
2. Utilisation during the year (expressed in "-")								
(VI) Others								
IV. Balance at 31/12/2019	18,984,340	14,564,824				200,383	-1,496,212	32,253,335

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2018 — Expressed in RMB thousand

Items	Amount of previous period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
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					30,086	7,667,801
(I) Total comprehensive income							30,086	30,086
(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. Share payments recognised in equity								
3. Others								
(III) Appropriation of profits								
1. Appropriation for surplus reserves								
2. Distributions to shareholders								
(IV) Transfer within equity								
(V) Specific Reserve								
1. Appropriation during the year								
2. Utilisation during the year (expressed in "-")								
(VI) Others								
IV. Balance at 31/12/2018	18,984,340	14,561,006				200,383	-1,466,064	32,279,665

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

NOTES TO THE FINANCIAL INFORMATION

I. COMPANY GENERAL INFORMATION

1. Company Profile

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

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

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

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

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

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

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

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

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 nineteenth meeting of the ninth term Board of Directors of the Company on 24 March 2020.

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 acquired a subsidiary, 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 RMB24,515,117 thousand, current liabilities exceed current assets of approximately RMB21,823,364 thousand as at 31 December 2019(Current liabilities exceed current assets of RMB20,949,529 thousand in 2018),committed capital expenditures are approximately RMB517,738 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 December 2019, the company obtained a credit line of RMB17 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 31 December 2019 and the Company's and the consolidated operating results during at 31 December 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.

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.

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

5. Business combinations (Continued)

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

Business combinations involving enterprises under common control and achieved in stages

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

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

(2) Business combination involving entities not under common control

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

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

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

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

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

(3) Transaction fees attribution during the combination

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

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.

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

6. Method of preparing consolidated financial statements (Continued)

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

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.

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

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

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

② These transactions can only achieve one complete business results;

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

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

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

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

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

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

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

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

(1) Joint operation

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

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

7. Classification of joint arrangement and accounting treatment for joint operation (Continued)

(1) Joint operation (Continued)

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

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

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

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

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

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

(2) Joint ventures

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

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

8. Standard of determining cash and cash equivalents

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

9. Foreign currency transactions and translation of foreign currency statement

(1) Foreign currency transactions

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

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

(2) Translation of foreign currency information

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

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

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

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

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

10. Financial instruments

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

(1) Recognition and Derecognition of financial instruments

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

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

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

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

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

10. Financial instruments (Continued)

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

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.

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.

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 profit or loss (Continued)

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.

(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:

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

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

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

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

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.

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

10. Financial instruments (Continued)

(5) Fair value of financial instruments

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

(6) Impairment of financial assets

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 considers reasonable and basis information about past events, current situation and forecast of future economic situation to calculate expected credit losses. Expected credit losses are a probability-weighted estimate of the difference between the cash flows in accordance with the contract and the cash flows expect to receive by the risk of default.

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 when a single financial asset cannot assess the expected credit losses information at a reasonable cost. 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

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Measurement of expected credit losses (Continued)

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.

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 type 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 occured 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.

(7) Transfer of financial assets

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

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

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

(8) Offsetting financial assets and financial liabilities

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

11. Fair value measurement

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

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

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

11. Fair value measurement (Continued)

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

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

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

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

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

12. 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.

(5) Amortization methods of low-value consumables

Low-value consumables are charged to profit or loss when they are used.

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.

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

13. Assets Held for sale and discontinued operations (Continued)

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

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.

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.

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

14. Long-term equity investment (Continued)

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

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.

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.

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

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 costs can be reliably measured.

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

(2) Depreciation methods of fixed assets

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

Category	Useful years (year)	Residual rate %	Annual depreciation rate %
Buildings	12-50	3	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.

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

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

(5) Overhaul costs

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

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.

(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.

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

17. Borrowing costs (Continued)

(2) Capitalization period of borrowing costs (Continued)

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.

(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.

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

22. Employee benefits (Continued)

(3) Post-employment benefits (Continued)

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.

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.

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

24. Share-based payment and equity instruments (Continued)

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

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

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

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

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.

Provide construction services

The Group recognizes revenue during the progress of providing the services of construction. The progress of completed performance obligations of construction services is determined by input method and based on the proportion of incurred construction costs to the estimated total contract costs. 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.

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.

29. Leases

(1) Identification of leases

On the contract start date, the Group, as the lessee or lessor, evaluates whether the client in the contract is entitled to obtain almost all the economic benefits arising from the use of the identified assets during the period of use, and has the right to dominate the identified asset. If one of the parties in the contract surrenders the right to control the use of one or more identified assets within a certain period in exchange for consideration, the Group considers the contract to be a lease or includes a lease.

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

29. Leases (Continued)

(2) As a lessee

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.

For the accounting policies of Right-of-use assets, refer to note III, 30.

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 and 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. 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.

Short-term leases

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.

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.

For short-term leases, the Group adopted a simplified method for the types of leased assets which are meet the short-term lease conditions.

Leases of low-value assets

The Group recognizes a lease with a low value when the individual leased assets are new assets as lease of low-value assets.

For leasing of low-value assets, the Group adopted a simplified method according to the specific conditions of each lease.

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.

(3) 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.

Finance leases

In finance leases, at the beginning date of lease period, the Group will recognize the net lease investment as the recorded value of the finance lease receivables. The net lease investment is the sum of unguaranteed residual value and the present value of the lease receipts that have not been received at the commencement date are discounted according to the interest rate embedded in the lease. As a lessor, the Group calculates and recognizes interest income for each period of the lease at a fixed periodic interest rate. The variable lease payments obtained by the Group as the lessor that are not included in the measurement of the net lease investment are counted in the current profit and loss when they actually occur.

The derecognition and impairment of financial lease receivables shall be recognized in accordance with "CASBE 22-Recognition and Measurement of Financial Instruments" and "Accounting Standards for Business Enterprises No. 23 – Finance Asset Transfer".

Operating leases

Lease from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The initial direct costs incurred in connection with operating leases shall be capitalized and allocated on the same basis as the recognition of rental income during the lease period, and shall be included in the current profit and loss in installments. The variable lease payments obtained related to operating leases and not included in the lease receipts are counted in the current profit and loss when they actually occur.

(4) Sublease

When the Group is a sub-lessor, it classifies the sublease based on the right-of-use assets generated by the original lease. If the original lease was a short-term lease and the Group simplified the original lease, the sublease is classified as an operating lease.

(5) Sale and leaseback transactions

The Group shall apply the requirements for determining when a performance obligation is satisfied in Accounting Standards for Business Enterprises No. 14 – 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.. The lessor accounts for asset purchases in accordance with other applicable CASBE and performs accounting for asset leases in accordance with this standard.

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

29. Leases (Continued)

(5) Sale and leaseback transactions (Continued)

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 CASBE 22-Recognition and Measurement of Financial Instruments. If the Group as the lessor, not continue to recognize the transferred asset, then will recognize a financial asset equal to the transfer proceeds in accordance with "CASBE 22-Recognition and Measurement of Financial Instruments".

30. Right-of-use assets

(1) Conditions for confirmation of right-of-use assets

The right-of-use asset refers to the right of the Group as a lessee to use the leased asset over the lease term.

At the commencement date, the right-of-use asset is initially measured at cost. The cost includes: the initial measurement amount of the lease liability; the lease payment paid on or before the start of the lease period, if there is a lease incentive, deduct the relevant amount of the lease incentive that has been enjoyed; the initial direct expenses; the costs of demolishing and removing leased assets as a lessee, restoring the site where the leased assets are located, or restoring the leased assets to the state agreed in the lease terms. As a lessee, the Group recognizes and measures the costs of demolition and restoration in accordance with Accounting Standards for Business Enterprises No. 13-Contingencies. Subsequent adjustments to any remeasurement of lease liabilities.

(2) Depreciation methods of right-of-use assets

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.

(3) Refer to note III, 20 for the impairment testing and the impairment provision of right-of-use assets.

31. 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.

32. 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.

33. 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.

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

33. Significant accounting judgments and estimates (Continued)

(1) Classification of financial assets (Continued)

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.

(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.

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

33. Significant accounting judgments and estimates (Continued)

(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.

34. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

① ***New Lease Standard***

The Ministry of Finance issued the revised “Accounting Standards for Business Enterprises No. 21 – Leases” (referred to as “new lease standards”) in 2018. The standard requires part companies to implement from 1 January 2019, including listed at home and abroad at the same time and companies that are listed overseas and use international financial reporting standards or business accounting standards to prepare financial statements. The Company implemented the new leasing standards on 1 January 2019, and adjusted the relevant content of accounting policies. For the changed accounting policies, please refer to Note III.29.

As a lessee

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.

For contracts that existed before the first implementation date, the Group chose not to re-evaluate whether it is a lease or includes a lease on the first implementation date.

The new lease standard allows lessees to choose one of the following methods for convergence accounting of leases:

- In accordance with the “Accounting Standards for Business Enterprises No. 28-Changes in Accounting Policies, Accounting Estimates and Error Corrections”, the retrospective adjustment method is adopted.
- Based on the cumulative impact of the first implementation of the new revenue standards, the Group adjusted the retained earnings and other related items in the financial statements at the beginning of 2018 without adjusting the comparative financial statements data.

In accordance with the provisions of the new leasing standards, the Group retroactively adjusted the differences between the new leasing standards and the current leasing standards on first implementation date into retained earnings at the beginning of 2019. At the same time, the Group has not adjusted the comparative financial statement data.

- 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.
- 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.
- Refer to Note III.30 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:

- 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.
- 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.
- 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, 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.
- 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.

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

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

(1) Changes in significant accounting policies (Continued)

① ***New Lease Standard (Continued)***

As a lessee (Continued)

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

Item	As at 31 December 2018	Construction completed	re-measured	**As at 1 January 2019**
Assets:				
Fixed assets	23,842,767	-71,599		**23,771,168**
Right-of-use assets		76,148	944,479	**1,020,627**
Intangible assets	237,275	-4,549		**232,726**
Total assets	60,904,715		944,479	**61,849,194**
Liabilities				
Non-current liabilities due within one year	156,559		310,302	**466,861**
Lease liabilities		12,318	634,177	**646,495**
Long-term payables	868,672	-12,318		**856,354**
Provisions				
Total liabilities	55,126,305		944,479	**56,070,784**

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
Add:Extension option reasonably certain to be exercised	825,742
Add:Finance leases obligation as at 31 December 2018	34,452
Add(or Less):Other adjustment	
The minimum lease payments recognized at 1 January 2019	1,098,677
Discounting using incremental borrowing rate as at 1 January 2019	4.83%
Lease liabilities recognized at 1 January 2019	975,219

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

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

(1) Changes in significant accounting policies (Continued)

① ***New Lease Standard (Continued)***

As a lessee (Continued)

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
Assets:			
Fixed assets	23,516,427	23,538,376	-21,949
Right-of-use assets	1,547,822		1,547,822
Intangible assets	392,947	397,350	-4,403
Total assets	62,069,378	60,547,908	1,521,470
Liabilities			
Non-current liabilities due within one year	535,475	146,446	389,029
Lease liabilities	1,134,746		1,134,746
Long-term payables	784,377	791,395	-7,018
Provisions			
Total liabilities	55,305,506	53,788,749	1,516,757

The impacts on the Consolidated Income Statement arising from the adoption of new standard for 2019 are as follows:

Item	Amount of financial statement	Assume amount of used standard	Impacts
Operating costs	63,695,235	63,711,376	-16,141
Financial expenses	945,344	870,520	74,824
General and administrative expenses	2,965,864	2,990,849	-24,985
Profit before income tax	1,355,768	1,389,466	-33,698

As a lessor

Under the new lease standard, the Group does not need to adjust its lease as a lessor in accordance with the convergence requirements, but it needs to be accounted in accordance with the new lease standard from the date when the new lease standard is first implemented.

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

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

(1) Changes in significant accounting policies (Continued)

② ***New Debt Restructuring Standard***

The Ministry of Finance issued "Accounting Standards for Business Enterprises No. 12-Debt Restructuring" (hereinafter referred to as the "New Debt Restructuring Standard") on 16 May 2019, amending the definition of debt restructuring and clarifying the financial instruments involved in debt restructuring that apply "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments", it clarifies that assets other than financial assets assigned by creditors are initially measured at cost, and the debtor no longer distinguishes between gain or loss on disposal with gain or loss on debt restructuring when the debt is settled by the asset.

According to the provisions of Caihui [2019] No. 6, the "non-operating income" and "non-operating expenses" items no longer include the gains or losses arising from the disposal of non-current assets in debt restructuring.

The Group adopts the future applicable method for the new debt restructuring that occurred on 1 January 2019, and does not retroactively adjust the debt restructuring that occurred before 1 January 2019.

The impact of the new debt restructuring standards on the Group 's financial position and operating results is as follows:

Contents and reasons for changes in accounting policies	Item	Amount
Gains and losses of debt restructuring	Non-operating income	-157,612
	Non-operating expense	-3,073
	Investment income	154,539

③ ***New Non-monetary Exchange Standards***

The Ministry of Finance issued "Accounting Standards for Business Enterprises No. 7 – Exchange of Non-Monetary Assets" (hereinafter referred to as "new non-monetary exchange standards") on 9 May 2019, which clarifies the concepts and guidelines of monetary assets and non-monetary assets, and standards clarifies the timing of the recognition of non-monetary asset exchanges, clarifies the value measurement basis and accounting methods of non-monetary exchanges under different conditions, and improves relevant information disclosure requirements. The Group adopts the future applicable method for new non-monetary asset exchange transactions that occurred after 1 January 2019, and does not retroactively adjust non-monetary asset exchange transactions that occurred before 1 January 2019.

The new non-monetary asset exchange standards have no significant impact on the Group 's financial position and operating results.

④ ***Financial statements format***

The Ministry of Finance issued the "Notice of the Ministry of Finance on Revising and Issuing the Format of General Financial Statements for 2019" (Caihui [2019] No. 6) in April 2019, and the "Ministry of Finance on Revising and Issuing General Enterprises of 2018 in June 2018" Notice of Financial Statement Format "(Caihui [2018] No. 15) is also abolished; the Ministry of Finance issued the" Notice of the Ministry of Finance on Revising and Issuing the Consolidated Financial Statement Format (2019 Version) "(Caihui [2019] No. 16) in September 2019), "Notice of the Ministry of Finance on Revising the Format of the 2018 Consolidated Financial Statements" (Caihui [2019] No. 1) is also abolished. According to Caikuai [2019] No.6 and Caikuai [2019] No.16, the Company revised the financial statements format as follows:

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".

The company adjusted the comparative data for the comparable period according to Caihui [2019] No. 6.

The revision of the financial statement format has no impact on the company's total assets, total liabilities, net profit, and other comprehensive income.

(2) Changes in accounting estimates

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

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

34. 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:

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
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	
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

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

34. 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
Non-current liabilities:			
Long-term loans	536,291	536,291	
Lease liabilities		646,495	646,495
Long-term payables	868,672	856,354	-12,318
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

Company Balance Sheet

Item	2018.12.31	2019.01.01	Adjustment
Current assets:			
Cash at bank and on hand	58,679	58,679	
Other receivables	4,357,230	4,357,230	
Total current assets	4,415,909	4,415,909	
Non-current assets:			
Long-term equity investments	27,891,662	27,891,662	
Total non-current assets	27,891,662	27,891,662	
Total assets	32,307,571	32,307,571	
Current liabilities:			
Accounts payable	1,535	1,535	
Taxes payable	26,371	26,371	
Total current liabilities	27,906	27,906	
Non-current liabilities:			
Total non-current liabilities			
Total liabilities	27,906	27,906	
Equity:			
Share capital	18,984,340	18,984,340	
Capital reserve	14,561,006	14,561,006	
Surplus reserve	200,383	200,383	
Retained earnings	-1,466,064	-1,466,064	
Equity attributable to the parent company	32,279,665	32,279,665	
Total equity	32,279,665	32,279,665	
Total liabilities and equity	32,307,571	32,307,571	

IV. TYPES OF TAXES AND TAX RATES

1. Major taxes and tax rate

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

Corporate income tax:

Taxpayer	Tax rate%
Sinopec 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 31 December 2019			As at 31 December 2018		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:			6,792			8,114
RMB			13			553
USD	417	6.9762	2,908	476	6.8632	3,267
EUR	33	7.8155	257	38	7.8473	295
BRL	48	1.7280	83	21	1.7741	38
DZD	9,553	0.0585	559	11,290	0.0580	655
SAR	123	1.8597	228	314	1.8287	574
KWD	6	22.9820	139	21	22.5726	474
KZT	41,192	0.0183	754	30,936	0.0185	572
XAF	19,558	0.0119	233	18,230	0.0119	218
BOB	538	1.0096	544	81	0.9932	81
Others			1,074			1,387
Cash at banks:			1,659,092			2,186,785
RMB			279,378			335,668
USD	103,250	6.9762	720,291	171,988	6.8632	1,180,389
EUR	210	7.8155	1,640	209	7.8473	1,638
BRL	100	1.7280	173	98	1.7741	173
DZD	1,010,253	0.0585	59,116	862,705	0.0580	50,067
SAR	44,748	1.8597	83,218	106,345	1.8287	194,469
KWD	11,583	22.9820	266,192	6,140	22.5726	138,588
KZT	1,641,129	0.0183	30,049	854,247	0.0185	15,804
XAF	1,454,689	0.0119	17,353	566,629	0.0119	6,763
BOB	14,968	1.0096	15,112	70,216	0.9932	69,740
KES	108,152	0.0688	7,445	147,596	0.0674	9,949
Others			179,125			183,537
Among cash at bank:Related party			805,461			1,058,840
Including：RMB			55,388			60,455
USD	73,351	6.9762	511,713	106,655	6.8632	731,993
SAR	24	1.8597	44	88,023	1.8287	160,965
KWD	10,110	22.9820	232,341	4,610	22.5726	104,052
EUR	178	7.8155	1,388	165	7.8473	1,293
Others			4,587			82
Other monetary funds:			2,953			8,542
RMB			50			901
AED	131	1.9003	250	131	1.8706	246
DZD	8,444	0.0585	494	8,454	0.0580	491
Others			2,159			6,904
Total:			1,668,837			2,203,441
Amount deposited abroad:			1,379,650			1,693,181

At 31 December 2019, the Group's restricted cash such as margin deposit is RMB18,105 thousand (At 31 December 2018: RMB29,861 thousand), including frozen deposit is RMB15,267 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 31 December 2019			As at 31 December 2018		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Bank acceptance bills	500		500	394,009		394,009
Trade acceptance bills				87,187		87,187
Total	500		500	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.

3. Accounts receivable

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

Category	As at 31 December 2019	As at 31 December 2018
Within 1 year	10,645,810	14,273,578
Including: No overdue	9,386,890	12,465,752
Overdue within 1 year	1,258,920	1,807,826
Subtotal of within 1 year	10,645,810	14,273,578
1 – 2 years	1,416,599	1,336,538
2 – 3 years	563,666	1,035,758
3 – 4 years	736,767	964,447
4 – 5 years	716,238	201,736
Over 5 years	431,265	343,138
Subtotal:	14,510,345	18,155,195
Less: provision for bad debts	2,513,990	2,525,191
Total:	11,996,355	15,630,004

(2) Accounts receivable disclosed by bad debt provision:

Type	As at 31 December 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	1,082,918	7.46	1,082,918	100		1,180,800	6.50	1,180,800	100	
Provision for bad and doubtful debts collectively:	13,427,427	92.54	1,431,072	10.66	11,996,355	16,974,395	93.50	1,344,391	7.92	15,630,004
Including:Related party grouping	4,885,648	33.67	99,509	2.04	4,786,140	7,682,527	42.32	122,102	1.59	7,560,425
Third party grouping	8,541,779	58.87	1,331,563	15.59	7,210,215	9,291,868	51.18	1,222,289	13.15	8,069,579
Total	14,510,345	100	2,513,990	17.33	11,996,355	18,155,195	100	2,525,191	13.91	15,630,004

Provision made on an individual basis

Name	As at 31 December 2019			
	Amount	Bad debt provision	Expected credit loss(%)	Provision reason
Entity A	987,545	987,545	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity B	46,469	46,469	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity C	26,554	26,554	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Others	22,350	22,350	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Total	1,082,918	1,082,918	100.00	/

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

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

Provision for bad and doubtful debts collectively:

Provision for bad and doubtful debts due from related party grouping

	As at 31 December 2019			As at 31 December 2018		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	4,232,756	15,005	0.35	6,832,696	21,613	0.32
Including: No overdue	3,903,164	11,709	0.30	6,673,453	20,020	0.30
Overdue within 1 year	329,592	3,296	1.00	159,243	1,593	1
1 – 2 years	416,992	21,308	5.11	507,011	25,351	5
2 – 3 years	121,794	12,507	10.27	209,514	20,951	10
3 – 4 years	58,920	14,491	24.59	77,409	15,482	20
4 – 5 years	27,248	13,848	50.82	20,040	10,020	50
Over 5 years	27,938	22,350	80.00	35,857	28,685	80
Total	4,885,648	99,509	2.04	7,682,527	122,102	1.59

Provision for bad and doubtful debts due from third party grouping

	As at 31 December 2019			As at 31 December 2018		
	Amount	Bad debt provision	Amount	Bad debt provision	Amount	Bad debt provision
Within 1 year	6,357,594	85,950	0.95	7,236,137	89,569	0.51
Including: No overdue	5,483,724	16,452	0.30	5,792,299	17,377	0.30
Overdue within 1 year	873,870	43,693	5.00	1,443,838	72,192	5
1 – 2 years	814,767	207,480	25.46	822,863	205,716	25
2 – 3 years	435,209	221,626	50.92	377,086	188,543	50
3 – 4 years	232,752	186,583	80.16	411,320	329,057	80
4 – 5 years	298,129	252,401	84.66	175,284	140,227	80
Over 5 years	403,328	403,328	100.00	269,178	269,177	100
Total	8,541,779	1,331,563	15.59	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	415,974
Recovery or reversal	417,104
Written-off	10,071
As at 31 December 2019	2,513,990

(4) Accounts receivable written off during this year

Item	Amount
Accounts receivable written off	10,071

The amount of accounts receivable actually written off during the period was RMB10,071 thousand. There were no no accounts receivable form related parties, and the individual amount was not significant.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(5) 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	4,110,584	28.33	54,284
Entity B	1,188,959	8.19	58,849
Entity C	987,545	6.81	987,545
Entity D	649,501	4.48	40,565
Entity E	510,731	3.52	4,832
Total	7,447,320	51.33	1,146,075

4. Accounts receivable financing

Item	As at 31 December 2019	As at 31 December 2018
Bills receivable	**1,446,389**	–
Accounts receivable		–
Subtotal:	**1,446,389**	–
Less: Other comprehensive income from changes in fair values		–
Total	**1,446,389**	–

Some subsidiaries of the Group discount and endorse part of bank acceptance bills and trade acceptance bills according to their daily fund management needs, and derecognize the discounted or endorsed bills receivable based on the fact that almost all risks and rewards have been transferred to the relevant counterparty. As at 31 December 2019, the bills receivables that had been endorsed or discounted but not yet due were RMB4,226,882 thousand. The business model of the relevant subsidiary's management of bills receivable is to both collect contractual cash flows and sell the financial asset. Therefore, the bank acceptance bills and trade acceptance bills of this subsidiary are classified as measured financial assets which changes included in other comprehensive income at fair value.

The Group does not have a single bank acceptance bill or trade acceptance bill for impairment provision. As at 31 December 2019, the Group believes that the bank acceptance bills and trade acceptance bills held are accepted by banks or finance companies with higher credit ratings, there is no significant credit risk, and no major losses will be caused by defaults. The Group did not accrue credit impairment losses for accounts receivables financing.

5. Prepayments

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

	As at 31 December 2019		As at 31 December 2018	
Ageing	Amount	Proportion %	Amount	Proportion %
Within 1 year	**517,085**	**93.38**	431,000	96.91
1 – 2 years	**14,955**	**2.70**	13,027	2.92
2 – 3 years	**11,889**	**2.15**	654	0.15
Over 3 years	**9,797**	**1.77**	68	0.02
Total	**553,726**	**100.00**	444,749	100.00

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

The total amount of the five largest prepayments is 230,291 thousand, which contributed 41.58% of the total ending balance amount of prepayments.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables

Items	As at 31 December 2019	As at 31 December 2018
Dividends receivable		188
Other receivables	2,365,418	1,712,387
Total	2,365,418	1,712,575

(1) Dividends receivable

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

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

① The ageing analysis is as follows:

Category	As at 31 December 2019	As at 31 December 2018
Within 1 year	1,994,210	1,359,350
1 – 2 years	328,161	235,806
2 – 3 years	155,985	279,926
3 – 4 years	212,106	127,671
4 – 5 years	116,053	36,069
Over 5 years	269,588	272,081
Subtotal:	3,076,103	2,310,903
Less: provision for bad debts	710,685	598,516
Total:	2,365,418	1,712,387

② Other receivables disclosed by nature:

	As at 31 December 2019			As at 31 December 2018		
Items	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Imprest	12,249	838	11,411	22,440		22,440
Guarantee	1,412,018	191,575	1,220,443	668,383	175,072	493,311
Amount paid on behalf	732,671	140,267	592,404	676,630	130,600	546,030
Temporary payment	623,580	338,308	285,272	622,173	260,252	361,921
Escrow funds	39,529	6,502	33,027	9,738	5,756	3,982
Deposits	46,742	5,659	41,083	40,709	5,297	35,412
Export tax refund receivable	8,663	457	8,206	28,671	1,664	27,007
Others	200,651	27,079	173,572	242,159	19,875	222,284
Total	3,076,103	710,685	2,365,418	2,310,903	598,516	1,712,387

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

(2) The details of accounts receivable is as follows: (Continued)

③ ***Provision for bad debts***

As at 31 December 2019, provision for bad and doubtful debts in the first stage:

Category	Ending balance	Expected credit loss rate in the next 12 months (%)	Provision for diminution in value	Carrying amount
Provision for bad and doubtful debts collectively				
Imprest	12,249	6.84	838	11,411
Guarantee and deposits	1,275,320	4.30	54,809	1,220,511
Others	1,035,713	4.36	45,184	990,529
Total	2,323,282	4.34	100,831	2,222,451

As at 31 December 2019, the company did not have interests receivable, dividends receivable and other receivables in the second stage.

As at 31 December 2019, provision for bad and doubtful debts in the third stage:

Category	Ending balance	Lifetime expected credit losses rate (%)	Provision for diminution in value	Carrying amount
Provision for bad and doubtful debts collectively				
Imprest				
Guarantee and deposits	183,440	71.02	130,278	53,162
Others	569,381	84.23	479,576	89,805
Total	752,821	81.01	609,854	142,967

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

Bad debt provision	In the first stage 12-month ECL	In the second stage Lifetime ECL – not credit-impaired	In the third stage Lifetime ECL – credit-impaired	Total
As at 1January 2019	135,850		462,666	598,516
Provision	57,244		226,027	283,271
Recovery	92,263		75,096	167,359
Reversal			3,743	3,743
As at 31 December 2019	100,831		609,854	710,685

⑤ ***Other receivables written off during this year***

Item	Written-off amount
Other receivables written off	3,743

The amount of other receivable actually written off during 2019 was RMB3,743 thousand with no arrears from related parties, and the individual amounts were not significant.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

(2) The details of accounts receivable is as follows: (Continued)

⑥ 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	522,611	Within 2 years	16.99	13,443
Entity B	Temporary payment	324,944	1 – 4 years	10.56	161,495
Entity C	Guarantee	198,995	Within 1 year	6.47	9,694
Entity D	Guarantee	182,520	Within 1 year	5.93	3,008
Entity E	Guarantee	170,014	1 – 5 years	5.53	15,768
Total		1,399,084		45.48	203,408

7. Inventories

(1) Inventories by categories

	As at 31 December 2019			As at 31 December 2018		
Items	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,030,568	52,489	978,079	1,136,487	58,808	1,077,679
Work in progress	8,781	1,671	7,110	11,986	1,987	9,999
Finished goods	53,875	615	53,260	124,201	3,290	120,911
Turnover materials	10,016		10,016	8,734		8,734
Costs to fulfil a contract	137,039		137,039	194,315		194,315
Total	1,240,279	54,775	1,185,504	1,475,723	64,085	1,411,638

(2) Provision for diminution in value of inventories

		Increase during the period		Written back during the period		
Category	As at 1 January 2019	Provision	Others	Reversal or Write-off	Others	As at 31 December 2019
Raw materials	58,808			6,319		52,489
Work in progress	1,987			316		1,671
Finished goods	3,290			2,675		615
Total	64,085			9,310		54,775

Any excess of the cost over the net realisable value of of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes.

(3) As at 31 December 2019 and 31 December 2018, the Group had no capitalized borrowing costs included in the year end balance of inventories. The inventories were not used for collateral or guarantee.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Contract assets

Items	As at 31 December 2019	As at 31 December 2018
Contract assets	9,609,431	8,898,229
Less: Impairment of contract assets	39,182	26,525
Subtotal	9,570,249	8,871,704
Less: Contract assets listed in other non-current assets		
Total	9,570,249	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 31 December 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	9,609,431	100	39,182	0.41	9,570,249	8,898,229	100	26,525	0.3	8,871,704
Including：										
Petroleum Engineering	9,609,431	100	39,182	0.41	9,570,249	8,898,229	100	26,525	0.3	8,871,704
Total	9,609,431	100	39,182	0.41	9,570,249	8,898,229	100	26,525	0.3	8,871,704

9. Non-current assets due within one year

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

10. Other current assets

Items	As at 31 December 2019	As at 31 December 2018
Prepaid VAT	571,886	353,291
Value-added tax to be certified	10,285	29,772
Excess value-added tax paid	1,135,967	827,769
Prepaid income tax	24,200	7,203
Total	1,742,338	1,218,035

11. Long-term receivables

(1) Long-term receivables by nature

Item	As at 31 December 2019			As at 31 December 2018		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Rendering of services by instalments				40,477		40,477
including: Unearned finance income						
Subtotal				40,477		40,477
Less: due within one year				40,477		40,477
Total						

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Long-term equity investments

Name of company	As at 31 December 2018	The fluctuation of this period								As at 31 December 2019	The ending balance of impairment
		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		
① Joint venture											
SinoFTS Petroleum Services Ltd. (SinoFTS)	194,921	181,959	423,108	46,228							–
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	8,962			-659						8,303	–
Sinopec Gulf Petroleum Engineering Services, LLC	13,383									13,383	–
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,547			558						2,105	–
Subtotal	218,813	181,959	423,108	46,127						23,791	–
② associates											
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	4,540			1,401			851			5,090	–
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,865			765			660			2,970	–
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,209			246			257			2,198	–
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	1,723			686						2,409	–
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	2,673			587						3,260	–
Subtotal	14,010			3,685			1,768			15,927	–
Total	232,823	181,959	423,108	49,812			1,768			39,718	–

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.

13. Other equity instrument investments

Item	As at 31 December 2019	As at 31 December 2018
Sinopec&Tharwa Drilling Company	**23,699**	29,712
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd	**9,010**	9,142
Dongying Kewei Intelligent Technology Co., Ltd	**138**	157
Total	**32,847**	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.

Item	**Dividend income recognized during the period**
Sinopec&Tharwa Drilling Company	
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd	600
Dongying Kewei Intelligent Technology Co., Ltd	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets

Category	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Fixed assets	**23,502,540**	23,769,159	23,840,758
Disposal of fixed assets	**13,887**	2,009	2,009
Total	**23,516,427**	23,771,168	23,842,767

(1) Fixed assets

① ***Fixed assets by categories***

Items	Buildings	Equipment and others	Total
Cost:			
1. At 31 December 2018	1,545,881	59,218,964	60,764,845
2. Impacts from the first implementation of the New Leases Standard		-105,013	-105,013
3. At 1 January 2019	1,545,881	59,113,951	60,659,832
4. Increase in the year	101,369	2,861,139	2,962,508
(1) Purchase	6,610	1,634,803	1,641,413
(2) Transferred from construction in progress	94,759	847,207	941,966
(3) Additions due to business combinations		301,232	301,232
(4) Reclassification		77,897	77,897
5. Written back during the year	9,490	1,072,080	1,081,570
(1) Disposal or retirement	9,490	1,072,080	1,081,570
6. At 31 December 2019	1,637,760	60,903,010	62,540,770
Accumulated depreciation:			
1. At 31 December 2018	500,517	35,042,629	35,543,146
2. Impacts from the first implementation of the New Leases Standard		-33,414	-33,414
3. At 1 January 2019	500,517	35,009,215	35,509,732
4. Increase in the year	53,843	3,089,420	3,143,263
(1) Depreciation	53,843	2,974,344	3,028,187
(2) Additions due to business combinations		78,686	78,686
(3) Reclassification		36,390	36,390
5. Written back during the year	8,713	967,808	976,521
(1) Disposal or retirement	8,713	967,808	976,521
6. At 31 December 2019	545,647	37,130,827	37,676,474
Provision for impairment			
1. At 31 December 2018	8,436	1,372,505	1,380,941
2. Impacts from the first implementation of the New Leases Standard			
3. At 1 January 2019	8,436	1,372,505	1,380,941
4. Increase in the year			
5. Written back during the year		19,185	19,185
(1) Disposal or retirement		19,185	19,185
6. At 31 December 2019	8,436	1,353,320	1,361,756
Net carrying amount			
1. At 31 December 2019	1,083,677	22,418,863	23,502,540
2. At 1 January 2019	1,036,928	22,732,231	23,769,159
3. At 31 December 2018	1,036,928	22,803,830	23,840,758

Notes:
A. At 31 December 2019, the net amount of the Group's fixed assets were pledged is RMB880,352 thousand.

② ***The situation of premises without qualified ownership certificates***

There had been a total amount of 29 premises without qualified ownership certificates up to 31 December 2019, totaling amount in cost of 223,063 thousand, in accumulated depreciation of 28,628 thousand and net book value of 194,435 thousand.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fixed assets (Continued)

(2) Disposal of fixed assets

Items	As at 31 December 2019	As at 31 December 2018	Reasons for moving to disposal
Equipment	13,887	2,009	Written off

As at 31 December 2019, no disposal of fixed assets were turned in more than a year.

15. Construction in progress

Category	As at 31 December 2019	As at 31 December 2018
Construction in progress	213,819	365,414

(1) Construction in progress

① Details of construction in progress

Items	As at 31 December 2019			As at 31 December 2018		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	5,631	3,502	2,129	108,832	3,502	105,330
Major Materials and equipment procurement projects	273,086	68,232	204,854	320,801	68,232	252,569
Other construction projects	6,836		6,836	7,515		7,515
Total	285,553	71,734	213,819	437,148	71,734	365,414

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 31 December 2019
	A	B	C	D		E=A+B-C-D
Geophysics-Construction equipment purchase project of Saudi S84 3D geophysical exploration		494,388	493,118			1,270
Modification of ZJ90DB Drilling Rig	36,650					36,650
Upgrade of ZJ90DB Drilling Rig		39,836	8,142			31,694
5700 Series Ultra High Temperature and High Pressure Logging Instrument Update Project		16,400				16,400
Purchase Project of Coiled Tubing Operation Equipment		24,752	13,044			11,708
Purchase Project of 2500 fracturing pump truck		62,728	55,720			7,008
Geophysical construction project of Pneumatic gun Focus Vessel in Paralic Zone	658	8,760				9,418
Production and living base construction of Zhuangxi oceaneering	36,767	5,070	41,837			
DISCOVERER 2's geophysical exploration equipment replacement	269	14,828	15,097			
Long-term pipeline construction equipment of Xinyuezhe	4,800		4,800			
Total	79,144	666,762	631,758			114,148

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Construction in progress (Continued)

(1) Construction in progress (Continued)

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

Continued:

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
Geophysics-Construction equipment purchase project of Saudi S84 3D geophysical exploration	499,630	98.95	99.00	Selfraised
Modification of ZJ90DB Drilling Rig	36,850	99.00	99.00	Selfraised
Upgrade of ZJ90DB Drilling Rig	39,930	99.00	99.00	Selfraised
5700 Series Ultra High Temperature and High Pressure Logging Instrument Update Project	21,140	77.58	77.58	Selfraised
Purchase Project of Coiled Tubing Operation Equipment	25,150	98.42	98.42	Selfraised
Purchase Project of 2500 fracturing pump truck	168,120	37.31	37.31	Selfraised
Geophysical construction project of Pneumatic gun Focus Vessel in Paralic Zone	19,180	49	49	Selfraised
Production and living base construction of Zhuangxi oceaneering	42,150	95	95	Selfraised
DISCOVERER 2's geophysical exploration equipment replacement	79,290	70.63	70.63	Selfraised
Long-term pipeline construction equipment of Xinyuezhe	91,380	72.38	100	Fundraising
Total	1,022,820	–	–	–

16. Right-of-use assets

Items	Land	Buildings	Equipment and others	Total
Cost:				
At 31 December 2018	–	–	–	–
Add: Changes in accounting policies	125,592	439,690	493,036	1,058,318
1. At 1 January 2019	125,592	439,690	493,036	1,058,318
2. Increase in the year	85,943	332,851	529,440	948,234
(1) Lease	2,733	293,098	529,440	825,271
(2) Adjustment of lease liability	83,210	39,753		122,963
3. Written back during the year			77,897	77,897
(1) Reclassification			77,897	77,897
4. At 31 December 2019	211,535	772,541	944,579	1,928,655
Accumulated depreciation:				
At 31 December 2018	–	–	–	–
Add: Changes in accounting policies	4,278		33,413	37,691
1. At 1 January 2019	4,278		33,413	37,691
2. Increase in the year	42,169	178,350	159,013	379,532
(1) Depreciation	42,169	178,350	159,013	379,532
(2) Others				
3. Written back during the year			36,390	36,390
(1) Reclassification			36,390	36,390
(2) Others				
4. At 31 December 2019	46,447	178,350	156,036	380,833
Provision for impairment				
At 31 December 2018	–	–	–	–
Add: Changes in accounting policies				
1. At 1 January 2019				
2. At 31 December 2019				
Net carrying amount				
1. At 31 December 2019	165,088	594,191	788,543	1,547,822
2. At 1 January 2019	121,314	439,690	459,623	1,020,627

Notes:
At 31 December 2019, the lease expense of the Group's short-term leases and leases of low-value assets is RMB927,772 thousand.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Computer software	Contract revenue right	Others	Total
Cost:					
1. At 31 December 2018	144,531	159,914	212,002	30,723	547,170
2. Impacts from the first implementation of the New Leases Standard	-8,827				-8,827
3. At 1 January 2019	135,704	159,914	212,002	30,723	538,343
4. Increase in the year	956	10,730	187,069	55,503	254,258
(1) Purchase	956	10,706		46,205	57,867
(2) Construction completed			187,069		187,069
(3) Additions due to business combinations		24		9,298	9,322
5. Written back during the year		47		9,298	9,345
(1) Disposal		47		9,298	9,345
6. At 31 December 2019	136,660	170,597	399,071	76,928	783,256
Accumulated amortization:					
1. At 31 December 2018	26,196	118,552	146,965	18,182	309,895
2. Impacts from the first implementation of the New Leases Standard	-4,278				-4,278
3. At 1 January 2019	21,918	118,552	146,965	18,182	305,617
4. Increase in the year	3,292	12,932	64,019	13,794	94,037
(1) Provision	3,292	12,912	64,019	12,703	92,926
(2) Additions due to business combinations		20		1,091	1,111
5. Written back during the year		47		9,298	9,345
(1) Disposal		47		9,298	9,345
6. At 31 December 2019	25,210	131,437	210,984	22,678	390,309
Provision for impairment					
Carrying amount					
1. At 31 December 2019	111,450	39,160	188,087	54,250	392,947
2. At 1 January 2019	113,786	41,362	65,037	12,541	232,726
3. At 31 December 2018	118,335	41,362	65,037	12,541	237,275

Notes:
At 31 December 2019, no internal research form intangible assets.
At 31 December 2019, the above intangible assets were not pledged.

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

18. Long-term deferred expenses

Items	As at 31 December 2018	Increase in the year	Decrease in the year		As at 31 December 2019
			Amortization in the year	Other decreases	
Special tools of petroleum engineering	2,718,769	2,771,915	1,326,753		4,163,931
Other tools of Petroleum engineering	649,685	426,186	352,812		723,059
Camping house	274,459	353,254	155,092		472,621
Other long-term deferred expenses	38,255	9,957	12,893	15,452	19,867
Total	3,681,168	3,561,312	1,847,550	15,452	5,379,478

Long-term deferred expenses mainly represent special drilling and logging tools of petroleum engineering, geophysical special tools, camping house etc.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Deferred income tax assets and deferred income tax liabilities

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

Items	As at 31 December 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	1,466,534	245,249	1,494,331	289,261
provision for bad debts	880,471	162,393	874,990	187,904
Deferred income	59,936	9,362	101,818	15,273
Subtotal	2,406,941	417,004	2,471,139	492,438
Deferred income tax liabilities				
Revaluation of assets	62,810	15,359	78,535	19,202
Depreciation of fixed assets	1,937	484	2,039	510
Changes in fair value through other comprehensive income	8,737	2,011	14,881	2,946
Subtotal	73,484	17,854	95,455	22,658

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

Items	As at 31 December 2019	As at 31 December 2018
Deductible temporary differences	2,290,907	2,704,729
Tax losses	17,746,849	19,576,148
Total	20,037,756	22,280,877

Note: 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.

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

Years	As at 31 December 2019	As at 31 December 2018
year 2019	–	1,192,966
year 2020	626,781	633,847
year 2021	10,696,304	11,216,550
year 2022	6,017,933	6,160,927
year 2023	371,858	371,858
year 2024	33,973	–
Total	17,746,849	19,576,148

20. Short-term loans

(1) Classification of short-term loans

Items	Currency	As at 31 December 2019	As at 31 December 2018
Unsecured borrowings from related parties	RMB	18,080,000	14,600,000
	USD	2,323,075	3,006,082
Total		20,403,075	17,606,082

As at 31 December 2019, no assets of the Group were pledged.

As at 31 December 2019, the Group has no overdue short-term borrowings.

As at 31 December 2019, the interest rate range of short-term borrowings is 3.09%-3.92% (31 December 2018: 3.30%-3.98%).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Bills payable

Category	As at 31 December 2019	As at 31 December 2018
Bank acceptance bills	4,596,462	3,481,297
Trade acceptance draft	137,470	316,445
Total	4,733,932	3,797,742

Notes：There is no unpaid bills and bank deposit pledged for bills payable at 31 December 2019.

22. Accounts payable

Items	As at 31 December 2019	As at 31 December 2018
Payables for materials	5,155,319	5,710,618
Payables for construction	5,252,570	7,186,037
Payable for labour cost	5,969,634	6,987,172
Payables for equipment	2,967,070	2,740,517
Others	723,701	637,418
Total	20,068,294	23,261,762

Important accounts payable aged over one year:

Items	As at 31 December 2019	Overdue reasons
Entity A	53,893	Retention money, Unsettled
Entity B	44,019	Retention money, Unsettled
Entity C	40,460	Retention money, Unsettled
Entity D	35,673	Retention money, Unsettled
Entity E	29,619	Retention money, Unsettled
Total	203,664	

23. Contract liabilities

Items	As at 31 December 2019	As at 31 December 2018
Petroleum Engineering	1,628,189	2,507,146
Construction Engineering	1,947,465	1,883,147
Total	3,575,654	4,390,293

The balance of contract liabilities as at 1 January 2019 is RMB4,390,293 thousand, in which RMB3,575,654 thousand was recognized as revenue during the period.

24. Employee benefits payable

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 31 December 2019
Short term employee benefits	510,507	13,796,886	13,885,714	421,679
Post-employment benefits		1,874,054	1,873,795	259
Termination benefits		37,601	37,601	
Total	510,507	15,708,541	15,797,110	421,938

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Employee benefits payable (Continued)

(1) Short-term employee benefits

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 31 December 2019
Wages or salaries, bonuses, allowances and subsidies	361,880	9,355,466	9,454,442	262,904
Staff welfare		1,095,540	1,095,540	
Social security contributions	16	953,799	953,271	544
Including: 1. Basic medical insurance		712,326	712,148	178
2. Supplementary medical insurance		100,603	100,603	
3. Work-related injury insurance		52,927	52,905	22
4. Birth insurance		38,925	38,912	13
5. Other insurance	16	49,018	48,703	331
Housing funds	1,656	893,309	892,420	2,545
Labor union and employee education funds	139,330	304,673	296,437	147,566
Others	7,625	1,194,099	1,193,604	8,120
Total	510,507	13,796,886	13,885,714	421,679

(2) Post-employment benefits

Items	As at 31 December 2018	Increase in the year	Decrease in the year	As at 31 December 2019
Basic pension insurance	–	1,260,770	1,260,543	227
Unemployment insurance	–	50,806	50,793	13
Annuity	–	562,478	562,459	19
Total	–	1,874,054	1,873,795	259

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 37,601 thousand compensation to the resigning employee for terminating labor relation.

25. Taxes payable

Items	As at 31 December 2019	As at 31 December 2018
VAT	**259,488**	486,166
Urban maintenance and construction tax	**33,433**	43,746
Education surtax	**20,613**	27,207
Corporate income tax	**324,190**	261,753
Individual income tax	**89,876**	114,721
Withholding tax	**28,009**	30,969
Others	**88,106**	88,915
Total	**843,715**	1,053,477

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Other payables

Items	As at 31 December 2019	As at 31 December 2018
Interest payable	**19,158**	12,893
Other payables	**1,751,439**	2,173,116
Total	**1,770,597**	2,186,009

(1) Interest payable

Items	As at 31 December 2019	As at 31 December 2018
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	**1,849**	1,802
Interest payable of short term loan	**17,309**	11,091
Total	**19,158**	12,893

The Group have no overdue interest to pay at 31 December 2019.

(2) Other payables

Items	As at 31 December 2019	As at 31 December 2018
Guarantee	**385,596**	724,468
Deposits	**112,746**	64,712
Amount paid on behalf	**688,996**	601,140
Temporary receipts	**237,657**	458,704
Escrow payments	**51,789**	66,355
Withheld payments	**65,867**	48,657
Others	**208,788**	209,080
Total	**1,751,439**	2,173,116

As at 31 December 2019, other payables with aging over 1 year with a carrying amount of 597,901 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.

27. Non-current liabilities due within one year

Items	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Long-term payables within one year	**141,147**	138,137	156,559
Lease liabilities within one year	**394,328**	328,724	
Total	**535,475**	466,861	156,559

(1) Long-term payables within one year

Items	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Loans of sale-leaseback	**141,047**	130,600	130,600
Obligations under finance leases			18,422
Other long-term payables	**100**	7,537	7,537
Total	**141,147**	138,137	156,559

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term loans

Items	As at 31 December 2019	Range of interest rate	As at 31 December 2018	Range of interest rate
Loans on credit	474,382	7.89%-8.80%	536,291	7.35%-8.80%
Subtotal	474,382		536,291	
Less: Long-term loans within one year				
Total	474,382		536,291	

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

29. Lease liabilities

Item	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Land and buildings	755,689	556,455	–
Equipment and others	773,385	418,764	–
Subtotal	1,529,074	975,219	–
Less: Lease liabilities within one year	394,328	328,724	–
Total	1,134,746	646,495	–

Note:
The amount of interest expenses for lease liabilities accrued in 2019 is RMB76,203 thousand, which is included in interest expenses of financial expenses.

30. Long-term payables

Items	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Long-term payables	784,377	856,354	868,672
Special payables			
Total	784,377	856,354	868,672

(1) Long-term payables

Items	As at 31 December 2019	As at 1 January 2019	As at 31 December 2018
Loans payable	839,747	959,900	959,900
Obligations under finance leases			30,740
Others	85,777	34,591	34,591
Subtotal	925,524	994,491	1,025,231
Less: Long-term payables within one year	141,147	138,137	156,559
Total	784,377	856,354	868,672

31. Provisions

Items	As at 31 December 2019	As at 31 December 2018	Reasons
Outstanding litigation	1,915		
Executory onerous contracts	82,736	120,466	Expected loss of construction contract
Expected loss of judicial restructuring	364,605	475,276	Estimated payment of judicial restructuring
Total	449,256	595,742	

Estimated losses of judicial restructuring refer to Note XII. No.2 (2).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Deferred income

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 31 December 2019	Reason for deferral
Government grants	139,594	319,697	367,080	92,211	Received government grants

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

33. Share capital (Unit: ten thousand shares)

At 31 December 2019:

Items	As at 31 December 2018	Changes in current(+, -)			As at 31 December 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

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 Collective Group Pension Insurance Management Products Progressive Profits No. 2 Combination.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 at a price of HK$1.35 per share. After deducting the issuance fee of RMB20,783 thousand, the net proceeds raised were approximately RMB7,637,715 thousand.

34. Capital reserve

At 31 December 2019:

Items	As at 1 January 2019	Increase for the period	Decrease for the period	As at 31 December 2019
Share premium	11,629,142			11,629,142
Other capital reserve	81,621	3,818		85,439
Total	11,710,763	3,818		11,714,581

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:
(1) The increase in other capital reserve is share payment.
(2) In 2018, the decrease amount in capital reserve is 11,223 thousand, including repurchase minority shares cost 1,372 thousand, the difference between the carrying amount of the net assets obtained and the carrying amount of assets paid is 9,554 thousand.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Other comprehensive income

Items		For the year ended 31 December					
	As at 31 December 2018 (1)	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	As at 31 December 2019 (3)=(1)+(2)
I. Items that will not be reclassified to profit or loss							
1. Changes in fair value through other equity instrument investments	11,676	-6,164		-935	-5,229		6,447
II. Items that may be reclassified to profit or loss							
Total	11,676	-6,164		-935	-5,229		6,447

Note: Net-of-tax amount of other comprehensive income during the year is RMB -5,229 thousand, in which net-of-tax amount of other comprehensive income attributable to shareholders of the Company is RMB -5,229 thousand.

36. Special reserve

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 31 December 2019
Safety costs	300,609	1,437,814	1,365,185	373,238

In accordance with PRC regulations, the Group appropriated production safety fund of RMB1,437,814 thousand to specific reserve for the year ended 31 December 2019 (For the year ended 31 December 2018: RMB970,710 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2019, the Group utilised production safety fund amounting to RMB1,365,185 thousand (For the year ended 31 December 2018: RMB872,578 thousand) which was of expenditure nature.

37. Surplus reserve

Items	As at 31 December 2018	Increase for the period	Decrease for the period	As at 31 December 2019
Statutory surplus reserve	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.

38. Retained earnings

Items	For the year ended 31 December 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	914,244	142,056	–
Less: Withdrawal of statutory surplus reserves			10%
Retained earnings at 31 December 2019	-24,515,117	-25,429,361	
Including: Surplus reserve attributable to parent company extracted by subsidiaries	39,616	16,993	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Revenue and cost of sales

Items	For the year ended 31 December 2019		For the year ended 31 December 2018	
	Revenue	Cost	Revenue	Cost
Major business	**68,787,225**	**63,237,610**	57,297,141	52,615,885
Other business	**1,082,922**	**457,625**	1,111,937	704,411

(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	3,733,756	26,516,643	2,463,019	7,653,249	14,260,559	1,284,870	55,912,096
Other countries or regions	485,965	9,971,057	40,243	3,899	2,121,171	252,794	12,875,129
Total	4,219,721	36,487,700	2,503,262	7,657,148	16,381,730	1,537,664	68,787,225
Customer types							
Related party	3,762,537	20,769,025	2,059,755	5,396,080	7,261,764	855,389	40,104,550
Third party	457,184	15,718,675	443,507	2,261,068	9,119,966	682,275	28,682,675
Total	4,219,721	36,487,700	2,503,262	7,657,148	16,381,730	1,537,664	68,787,225
Time of revenue recognition							
Recognized (outputs) at a certain time	2,178	42,183	11,858		221,588	180,973	458,780
Recognized (services) over time	4,217,543	36,445,517	2,491,404	7,657,148	16,160,142	1,356,691	68,328,445
Total	4,219,721	36,487,700	2,503,262	7,657,148	16,381,730	1,537,664	68,787,225

(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 31 December 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 19.846 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.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Tax and surcharges

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Urban maintenance and construction tax	43,591	35,127
Education surtax	34,964	26,864
Overseas tax	70,468	87,048
Property tax	10,337	9,537
Land use tax	67,771	84,467
Vehicle and vessel usage tax	7,966	9,509
Vehicle usage tax	45,629	31,375
Others	5,336	2,792
Total	286,062	286,719

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

41. Selling and distribution expenses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Freight	2,497	2,754
Staff costs	45,982	44,744
Depreciation	272	383
Travel expenses	5,483	5,656
Sales service fees	121	1,747
Business promotion fee	144	651
Rental expenses	1,358	1,549
Office expense	3,155	2,474
Others	4,775	4,291
Total	63,787	64,249

42. General and administrative expenses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Repair and maintenance	701,193	522,590
Staff costs	1,216,341	1,247,596
Integrated service	392,571	1,002,930
The information system runs maintenance fees	123,258	42,314
Business entertainment	30,989	32,311
Travel expenses	63,909	58,977
Rental expenses	39,717	43,914
Depreciation and amortization	87,284	24,938
Consultation	24,775	23,256
Property insurance	3,050	2,013
Others	282,777	238,245
Total	2,965,864	3,239,084

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Research and development expenses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Staff costs	**411,157**	353,648
Material cost	**539,038**	374,024
Technical collaboration fee	**97,419**	90,201
Experimental expenses	**23,391**	40,210
Depreciation	**25,925**	25,157
Others	**97,268**	45,346
Total	**1,194,198**	928,586

44. Finance costs

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest expenses on borrowings	**904,260**	662,443
Interest expenses on lease liabilities	**76,203**	
Less: Interest capitalized		
Interest income	**-103,499**	-87,886
Exchange losses/(gains)	**7,444**	-173,931
Bank charges and others	**60,936**	40,564
Total	**945,344**	441,190

45. Other income

Items	For the year ended 31 December 2019	For the year ended 31 December 2018	Related to assets/ income
Subsidy funds for resettlement		375,146	Related to income
National research grants	**101,530**	65,266	Related to income
Subsidies of enterprise development	**5,789**	1,107	Related to income
Subsidies of stable post	**44,677**	20,520	Related to income
Government incentives	**300**	3,501	Related to income
Subsidies of assets replacement	**2**	1,199	Related to income
Self-use consumption tax refund	**196,634**	257,479	Related to income
Non-profit compensation of relocation		5,032	Related to asset
National research grants	**1,188**	798	Related to asset
Additional input VAT credit	**16,960**		Related to income
Return of individual income tax fee	**3,749**	3,260	Related to income
Total	**370,829**	733,308	

Notes:
(1) The analysis information of the government grants refer to Note XIV No.6.
(2) Specific reason for government grants as a regular profit or loss refer to Note XVI No.1.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Investment income

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Investment income from long-term equity	**13,899**	26,483
Dividend income from other equity instrument investments	**600**	600
Gains from remeasurement of remaining equity interests to fair value upon the acquired of control	**27,474**	
The amount of the cost of the business combination involving entities not under common control less than the fair value of the identifiable net assets obtained	**8,439**	
Gains from derecognition of financial assets measured at amortised cost	**154,539**	
Total	**204,951**	27,083

47. Credit impairment losses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Losses form impairment of accounts receivable(loss in "-")	**-98,582**	-10,543
Losses form impairment of contract assets(loss in "-")	**-12,657**	-26,525
Total	**-111,239**	-37,068

48. Disposal income on assets

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Gains from disposal of fixed assets (loss in "-")	**61,442**	-7,446
Others	**5,602**	7,447
Total	**67,044**	1

49. Non-operating income

Items	For the year ended 31 December 2019	For the year ended 31 December 2018	Recognised as non-recurring income
Gains from debt restructuring		395,916	
Waived payables	**122,414**	29,969	122,414
Compensation received	**11,724**	581	11,724
Penalty income	**2,636**	3,566	2,636
Gains from assets counts	**470**	5,534	470
Insurance compensation	**15,221**	11,451	15,221
Others	**10,397**	11,840	10,397
Total	**162,862**	458,857	162,862

50. Non-operating expenses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018	Recognised as non-recurring income
Debt restructuring loss		655	
Donation	**1,197**	610	1,197
Expected loss of pending claims	**286**	10,241	286
Expected loss of judicial restructuring		475,276	
Compensation	**8,354**	8,227	8,354
Penalty	**9,418**	13,593	9,418
Non-current assets written off	**1,976**	8,837	1,976
Others	**37,105**	278,059	37,105
Total	**58,336**	795,498	58,336

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Income tax expense

(1) Details of income taxes expenses

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Current tax in accordance with tax laws and related regulations	369,959	398,002
Deferred income tax	71,565	-24,421
Total	441,524	373,581

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

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Profit before income tax	1,355,768	515,637
Taxation calculated at the statutory tax rate	338,942	128,909
Effect of other tax rates used by certain subsidiaries	111,699	255,179
Adjustments of current tax in previous years	16,643	3,719
Equity method accounting for the joint venture and associates' profit or loss	-3,442	-6,730
Non-deductible costs, expenses and losses	76,651	98,888
Effect on the change in statutory tax rate on opening balance of deferred tax	65,659	-368
Effect of utilization of unrecognised tax losses and deductible temporary differences(expressed in "-")	-122,189	-220,689
Effect of unrecognised tax losses and deductible temporary differences	60,717	210,514
Tax effect on research and development expenses (expressed in "-")	-103,156	-95,841
Income tax expense	441,524	373,581

52. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Amount paid on behalf	898,937	496,940
Government grants	126,732	479,111
Temporary receipt and payment	721,422	232,178
Guarantee	1,138,059	815,989
Compensation	30,730	25,970
Deposits	67,217	70,621
Others	678,411	491,510
Total	3,661,508	2,612,319

(2) Cash paid for other operating activities

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Temporary receipt and payment	141,772	303,130
Guarantee	784,560	1,207,214
Integrated service	701,223	658,267
Repair and maintenance expenses	392,571	522,708
Other period expenses	415,560	951,635
Others	71,593	159,235
Total	2,507,279	3,802,189

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52. Notes to Cash Flow Statement (Continued)

(3) Cash received from other financing activities

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Temporary loans		500,000
Interest received from selfraised funds special deposit	4,211	520
Total	4,211	500,520

(4) Cash paid for other financing activities

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
Finance lease expense	518,657	117,546
Net profit or loss during the major asset restructuring		1,118,903
Payment of capital structure adjustment funds to Sinopec Group		2,600,000
Notes acceptance fees	139	863
Payment of guarantee and commitment fees	31,528	44,989
Others		1,990
Total	550,324	3,884,291

53. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	For the year ended 31 December 2019	For the year ended 31 December 2018
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	914,244	142,056
Add: Credit impairment losses	111,239	37,068
Depreciation of fixed assets and right-of-use assets	3,407,719	3,074,468
Amortization of intangible assets	92,926	69,240
Amortization of long-term deferred expenses	1,847,550	1,559,809
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	-67,044	-1
Losses on retirement of fixed assets (Gain as in "-")	1,976	8,837
Finance costs (Income as in "-")	1,032,708	538,286
Investment losses(Income as in "-")	-50,412	-27,083
Decrease in deferred tax income assets (Increase as in "-")	75,434	-20,254
Increase in deferred income tax liabilities (Decrease as in "-")	-3,869	-4,167
Decrease in inventories (Increase as in "-")	235,444	6,582,590
Decrease in operating receivables (Increase as in "-")	558,047	-6,704,432
Increase in operating payables (Decrease as in "-")	-6,855,356	-8,294,338
Safety costs	72,629	98,132
Unexercised share-based payment	3,818	
Net cash flows from operating activities	1,377,053	-2,939,789
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	1,650,732	2,173,580
Less: Opening balance of cash	2,173,580	2,533,437
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net decrease/(increase) in cash and cash equivalents	-522,848	-359,857

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Supplement information to Cash Flow Statement (Continued)

(2) Net cash paid for acquisition of subsidiaries in the current period

Item	For the year ended 31 December 2019
Cash and cash equivalents paid for business combination in the current period	189,952
Including: SinoFTS	189,952
Less: Cash and cash equivalents held by the subsidiary on the acquisition date	50,486
Including: SinoFTS	50,486
Net cash paid for acquisition of subsidiaries	139,466

(3) Composition of cash and cash equivalents

Items	For the year ended 31 December 2019	For the year ended 31 December 2018
1. Cash	1,650,732	2,173,580
Including：Cash in hand	6,792	8,114
Cash at bank	1,643,824	2,160,530
Other monetary funds	116	4,936
2. Cash equivalents		
3. Closing balance of cash and cash equivalents	1,650,732	2,173,580
Including：Restricted cash and cash equivalents by the parent company or its subsidiary subsidiaries		

54. Assets with restrictive ownership title or right of use

Item	As at 31 December 2019	Reason for restriction
Cash at bank and on hand	18,105	Guarantee and funds that are blocked frozen
Fixed assets	880,352	Sale-leaseback assets
Total	898,457	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Foreign currency items

(1) Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,389,395
Including: USD	103,667	6.9762	723,199
KWD	11,589	22.9820	266,331
SAR	44,871	1.8597	83,446
DZD	1,028,250	0.0585	60,169
Others			256,252
Accounts receivable			5,158,984
Including: USD	538,987	6.9762	3,760,077
KWD	22,223	22.9820	510,730
SAR	140,983	1.8597	262,186
DZD	250,072	0.0585	14,633
Others			611,358
Other receivables			1,727,425
Including: USD	135,467	6.9762	945,041
KWD	4,895	22.9820	112,493
SAR	291,463	1.8597	542,034
DZD	81,611	0.0585	4,776
Others			123,081
Accounts payable			1,525,363
Including: USD	115,803	6.9762	807,863
KWD	2,019	22.9820	46,403
SAR	249,301	1.8597	463,624
DZD	359,756	0.0585	21,051
Others			186,422
Other payables			552,417
Including: USD	38,653	6.9762	269,653
KWD	3,571	22.9820	82,064
SAR	61,092	1.8597	113,613
DZD	609,334	0.0585	35,656
Others			51,431
Interest payable			1,849
Including: USD	265	6.9762	1,849
Short-term loans			2,323,075
Including: USD	333,000	6.9762	2,323,075
Long-term loans			474,382
Including: USD	68,000	6.9762	474,382

VI. CHANGE OF CONSOLIDATION SCOPE

1. Business combinations involving enterprises not under common control

(1) Business combinations involving enterprises not under common control occurred during the year

Acquiree	Acquisition date of equity investment	Cost of equity investment	Shareholding acquired %	Acquisition method	Acquisition date	Basis of acquisition date determination	Acquiree's income from acquisition date to 31/12/2019	Acquiree's net profit from acquisition date to 31/12/2019
SinoFTS Petroleum Services Ltd. (SinoFTS)	In August 2019	181,959	45	Acquisition of equity in cash	In August 2019	Obtain the actual control of the acquiree	110,763	23,365

The Group's subsidiary Sinopec Oilfield Service Corporation jointly established SinoFTS Petroleum Services Ltd. (hereinafter referred to as SinoFTS) with FTS International Nether Lands B.V. (hereinafter referred to as FTSI) in October 2014. Sinopec Oilfield Service Corporation originally held a 55% stake in SinoFTS. In May 2019, the two parties negotiated that Sinopec Oilfield Service Corporation acquire the 45% equity held by FTSI in cash. The company held 100% equity of SinoFTS after this equity acquisition.

(2) Acquisition cost and goodwill

Item	SinoFTS Petroleum Services Ltd.
Acquisition cost:	
Cash	181,959
Fair value of equity interests held before acquisition date	232,710
Total acquisition cost	414,669
Less: share of the fair value of the identifiable net assets acquired	423,108
Goodwill/amount of acquisition cost less than share of the fair value of the identifiable net assets acquired	8,439

(3) Identifiable assets and liabilities of the acquiree at the acquisition date

The fair value and book value of SinoFTS Petroleum Services Ltd.'s identifiable assets and liabilities at the date of purchase are as follows:

Item	Fair value	Book value
Assets		
Current assets	228,645	228,645
Fixed assets	222,546	187,000
Intangible assets	8,211	4
Other non-current assets	10,543	10,544
Liabilities		
Current liabilities	46,837	46,837
Net assets	423,108	379,356
Less: non-controlling interests		
Net assets acquired	423,108	379,356

Notes: (1) The fair value of the identifiable assets and liabilities of the acquiree at the acquisition date is determined based on the asset evaluation report issued by the company's asset evaluation agency for the target asset.

(4) Gain or loss from remeasurement of equity interests held prior to acquisition date to fair value

The Company originally held 55% equity of SinoFTS Petroleum Services Ltd., which was accounting by equity method. In 2019, the Company further acquired 45% equity of SinoFTS Petroleum Services Ltd. and paid consideration of RMB181,995 thousand in cash. The acquisition date is 13 August 2019.

Acquiree	**Carrying amount of the previously-held equity interests at acquisition date**	**Fair value of the previously-held equity interests at acquisition date**	**Gain or loss from remeasurement of the previously-held equity interests to fair value**	**Method and key assumptions for determining fair value of the previously-held equity interests at acquisition date**	**Investment income or loss transferred from other comprehensive income related to the previously-held equity interests**
SinoFTS Petroleum Services Ltd.	205,236	232,710	27,474	Asset-based approach	

VII. INTEREST IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise groups

Name	Place of Major operation activities	Place of registration	Nature of business	% of shareholding held		Ways of acquisition
				directly	indirectly	
Sinopec Oilfield Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control
Sinopec Shengli Petroleum Engineering Corporation	China	Dongying, Shandong	Petroleum Engineering	100		Business combination under common control
Sinopec Zhongyuan Petroleum Engineering Corporation	China	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
SinoFTS Petroleum Services Ltd.	China	Beijing	Petroleum Engineering	100		Business combination not under common control

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

Name	Place of major operational activities	Place of registration	Nature of business	% of shareholding held		Method of accounting
				Directly	Indirectly	
① Joint ventures						
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	China	Beijing	Oilfield Service	50.00		Equity method

VII. INTEREST IN OTHER ENTITIES (Continued)

2. Equities in joint ventures and associates (Continued)

(2) Financial information of principal joint ventures

	Zhong Wei Energy Service Co. Ltd.	
Items	**Closing balance**	Opening balance
Current assets	**23,584**	23,905
Including: Cash and cash equivalents	**6,460**	3,335
Non-current assets	**4,656**	5,366
Total assets	**28,240**	29,271
Current liabilities	**11,623**	11,316
Non-current liabilities		
Total liabilities	**11,623**	11,316
Net assets	**16,617**	17,955
Equity attributable to shareholders of the Company	**8,308**	8,977
Adjustments	**-6**	-15
Including: Goodwill		
Others	**-6**	-15
Carrying amount of equity investment in joint ventures	**8,303**	8,962
Fair value of investments in joint ventures which have quoted market price		

Continued:

	Zhong Wei Energy Service Co. Ltd.	
Items	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Revenue	**15,418**	5,163
Finance costs	**-67**	-2
Income tax expense		
Net profit	**-1,318**	-5,728
Other comprehensive income		
Total comprehensive income	**-1,318**	-5,728
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	**15,487**	14,930
Equity contributed to the Group		
Net profit	**558**	412
Other comprehensive income		
Total comprehensive income	**558**	412
Associates:		
Total investment from the Group	**15,928**	14,010
Equity contributed to the Group:		
Net profit	**3,526**	2,174
Other comprehensive income		133
Total comprehensive income	**3,526**	2,307

(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 31 December 2019.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The major financial instruments of the Group include cash at bank and on hand, bills receivable, accounts receivable financing, accounts receivable, other receivables, non-current assets due within one year, other current assets, trading financial assets, debt investments, other debt investments, other equity instrument investments, other non-current financial assets, long-term receivables, bills payable, accounts payable, other payables, short-term loans, financial liabilities at fair value through profit or loss, non-current liabilities due within one year, long-term loans, lease liabilities, 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, 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 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 51.33% (2018:58.64%); among the other receivable of the Group, the other receivable of the top five customers accounted for 45.48% (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 31 December 2019, the amount of bank loans not yet used by the Group is 6,308,264 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 31 December 2019 are analyzed by their maturity date below at their undiscounted contractual cash flows:

	As at 31 December 2019				
Items	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	1,668,837				1,668,837
Bills receivable	500				500
Accounts receivable	11,996,355				11,996,355
Accounts receivable financing	1,446,389				1,446,389
Other receivables	2,365,418				2,365,418
Long-term receivables					
Other current assets	1,742,338				1,742,338
Total assets	19,219,837				19,219,837
Financial liabilities:					
Short-term loans	20,922,846				20,922,846
Bills payable	4,733,932				4,733,932
Accounts payable	20,068,294				20,068,294
Other payables	1,770,597				1,770,597
Non-current liabilities due within 1 year	574,973				574,973
Long-term loans	37,933	37,933	512,315		588,181
Lease liabilities		422,298	796,863	96,606	1,315,767
Long-term payables		156,236	427,506	280,079	863,821
Total liabilities	48,108,575	616,467	1,736,684	376,685	50,838,411

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
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 year ended 31 December 2018 and 31 December 2019, the Company did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not principal because the fixed term deposits are short-term deposits etc.

Interest-bearing financial instruments held by the Group:

Items	31-Dec-19	31-Dec-18
Fixed interest rate financial instruments		
Financial assets	35,270	201,840
including: Cash and cash equivalents	35,270	161,363
Long-term receivables		40,477
Financial liabilities	19,999,123	15,590,640
Including: Short-term borrowings	18,080,000	14,600,000
Lease liabilities	1,529,074	
Long-term payables	839,747	990,640
Floating interest rate financial instruments		
Financial assets	1,633,567	2,042,078
including: Cash and cash equivalents	1,633,567	2,042,078
Financial liabilities	2,797,457	3,542,373
Including: Short-term borrowings	2,323,075	3,006,082
Long-term borrowings	474,382	536,291

As at 31 December 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 RMB10,490 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.

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.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

(3) Market risk (Continued)

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at 31 December 2019:

Items	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
	As at 2019/12/31	As at 2018/12/31	**As at 2019/12/31**	As at 2018/12/31
USD	**3,876,822**	4,772,398	**5,428,317**	6,430,789
SAR	**577,237**	490,601	**887,666**	857,262
KWD	**128,467**	94,834	**889,554**	720,132
Others	**294,560**	347,711	**1,070,266**	979,330
Net exposure in RMB	**4,877,086**	5,705,544	**8,275,803**	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 31 December 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%**	**58,181**	5%	62,190
Depreciation in USD	**-5%**	**-58,181**	-5%	-62,190
Appreciation in SAR	**5%**	**11,641**	5%	13,750
Depreciation in SAR	**-5%**	**-11,641**	-5%	-13,750
Appreciation in KWD	**5%**	**28,541**	5%	23,449
Depreciation in KWD	**-5%**	**-28,541**	-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-trolling interest and equity attributed to the parent company.

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

Items	**As at 31 December 2019**	As at 31 December 2018
Short-term borrowings	**20,403,075**	17,606,082
Long-term borrowings due within 1 year		
Lease liabilities due within 1 year	**394,328**	
Long-term payables due within 1 year	**141,147**	150,142
Long-term loans	**474,382**	536,291
Lease liabilities	**1,134,746**	
Long-term payables	**698,600**	840,498
Less: cash and cash equivalents	**1,650,732**	2,173,580
Net debt	**21,595,546**	16,959,433
Shareholder's equity	**6,763,872**	5,778,410
Total equity	**28,359,418**	22,737,843
Debt to equity ratio	**76.15**	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 31/12/2019, 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			32,847	32,847
Accounts receivable financing			1,446,389	1,446,389
Total assets measured at fair value on a recurring basis			1,479,236	1,479,236
II. Non-recurring fair value measurements				
Identifiable assets and liabilities of the acquiree in a business combination not under common control			404,353	404,353
Total assets measured at fair value on a non-recurring basis			404,353	404,353
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 2019, 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.

(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 31/12/2019	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instrument investments:				
Unlisted equity investments	32,847	Net assets	N/A	N/A
Identifiable assets and liabilities of the acquiree in a business combination not under common control	404,353	Asset-based valuation	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			
	As at 31/12/2018	Included in profit or loss	Included in other comprehensive income	**As at 31/12/2019**	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		-6,164	**32,847**	8,458

Including gains or losses related to financial assets and non-financial assets included in profit or loss are as follows:

Item	Related to financial assets	Related to non-financial assets
Total gain or loss included in profit or loss		
Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year		

IX. FAIR VALUE (Continued)

(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 (Continued)

	As at 31/12/2017	Total gains or losses for the year		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
		Included in profit or loss	Included in other comprehensive income		
Other equity instrument investments	24,389		14,622	39,011	14,622

(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, accounts receivable, other receivables, short-term loans, bills payable, 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.

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.	326.547 billion	56.51	70.18

The Company's ultimate controlling party is Sinopec Group.

China Petrochemical Corporation Co., Ltd. directly holds 56.51% equity of the Group, and holds 13.67% equity of the Group through its wholly-owned subsidiary Sinopec Century Bright Capital Investment Limited, with a total voting rights ratio of 70.18%.

2. Subsidiaries

Details of subsidiaries refer to Note VII.1.

3. Joint ventures and associates of the Group

Details of principal joint ventures and associates refer to Note VII.2

Other joint ventures and associates which have related party transactions for the current period or balances brought forward from the prior period arising with the Group are as follows:

Names of joint ventures or associates	Relationship with the Group
Sinopec Bayshore Petroleum Service Co., LTD	Joint venture
Qianjiang Hengyun Motor Vehicle Performance Testing Corporation	Joint venture
Huabei Ruida Oil Service Company Limited	Associate
Xinjiang North China Tianxiang Oil Service Company Limited	Associate
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd	Associate
Henan Zhongyuan Oil & Gas Engineering Technology Service Co., Ltd	Associate
Oil & Gas Engineering Technology Service Co., Ltd	Associate

X. RELATED PARTIES AND TRANSACTION (Continued)

4. Other related parties of the Group

Names of other related parties	Relationships with the Group
China Petroleum & Chemical Corporation	Controlled by Sinopec Group
Sinopec Shengli Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Zhongyuan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jianghan Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Henan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jiangsu Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Star Petroleum Co., LTD	Controlled by Sinopec Group
Sinopec East China Petroleum Bureau	Controlled by Sinopec Group
Sinopec North China Petroleum Bureau	Controlled by Sinopec Group
Sinopec Southwest Petroleum Bureau	Controlled by Sinopec Group
Sinopec Northeast Petroleum Bureau	Controlled by Sinopec Group
Sinopec Pipeline Storage & Transportation Company	Controlled by Sinopec Group
Sinopec Shanghai Offshore Petroleum Bureau	Controlled by Sinopec Group
Sinopec 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
Sinopec International Petroleum Exploration And Production Corporation	Associates of the Sinopec Group
Director, General Manager, Chief Financial Office And the Secretary of the Board of Directors	Key Managers

5. Transactions with related parties

(1) Details of related purchase and sales

① ***Purchase of goods and Receiving of services***

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	**10,836,069**	8,097,321
Joint ventures and associates of the Group	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	**137,157**	

② ***Sales of goods and provision of services***

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	**280,583**	111,870

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering of engineering services

① *Rendering of engineering services:*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	39,565,759	36,501,508
Joint ventures and associates of the Group	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	308,687	312,970
Joint ventures and associates	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	6,722	22,580
Total			39,881,168	36,837,058

② *Receiving of services*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Services	Based on normal commercial terms or relevant agreements		394,110
Joint ventures and associates of the Group	Services	Based on normal commercial terms or relevant agreements	2,133,557	2,065,450

(3) Details of related comprehensive services

① *Rendering of comprehensive services:*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Comprehensive resident services	Based on normal commercial terms or relevant agreements	139,086	

② *Receiving of comprehensive services*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Purchase of comprehensive resident services	Based on normal commercial terms or relevant agreements	392,571	1,002,930
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	149,848	325,003

(4) Technology research and development service

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	191,215	271,345

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	**938**	571

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	**205,628**	150,425
	Including: Short-term leases		**37,019**	
	Right-of-use assets		**168,609**	

The Group signed the Framework agreement of land use right and building leasing between 2019 to 2021 with Sinopec Group in 2018. The above lease expense paid to Sinopec Group and its subsidiaries have been included in the framework agreement.

(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 Group	Anti-guarantee	RMB500,000	November 2019	November 2021	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD588,000 thousand	December 2015	December 2020	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD61,830 thousand	September 2015	December 2024	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	THB314,290 thousand; USD123,929 thousand	April 2017	October 2020	Incomplete
International Petroleum Service Corporation	Performance guarantee	USD4,079 thousand	April 2019	December 2020	Incomplete
International Petroleum Service Corporation	Performance guarantee	USD67,000 thousand	April 2019	November 2021	Incomplete
Sinopec Oil Engineering geophysical Company Limited	Performance guarantee	USD12,000 thousand	August 2019	September 2020	Incomplete

(7) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms	**2,289**	1,877
	Loan interest expense	Based on normal commercial terms or relevant agreements	**768,972**	582,557
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	**38,367,042**	35,585,650
	Payment of the loan	Based on normal commercial terms or relevant agreements	**35,715,939**	35,608,897
Joint ventures and associates of the Group	Financial leasing interest expense	Based on normal commercial terms or relevant agreements	**48,015**	30,154

As at 31 December 2019, the balance of borrowings from Sinopec Group and its subsidiaries was 20,877,457 thousand.

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(8) Security funds

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2019	For the year ended 31 December 2018
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	80,643	81,630
	Return on security fund	Based on normal commercial terms or relevant agreements	113,180	171,495

(9) Transfer of assets and debt restructuring

Related party	Content of related transaction	For the year ended 31 December 2019	For the year ended 31 December 2018
Subsidiaries of Sinopec Group	Accepting asset transfer		75,024

(10) Remuneration of key management personnel

The Group has 26 key management personnel for the year ended 31 December 2019 and 27 for the prior period. The remuneration payment is as follows:

Item	For the year ended 31 December 2019	For the year ended 31 December 2018
Remuneration	8,511	6,782
Retirement scheme contribution	462	538
Share options	152	
Total	9,125	7,320

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

Item	Related party	As at 31 December 2019 Amount	As at 31 December 2018 Amount
Bank deposit	Sinopec Finance Co., LTD	52,438	53,605
	Sinopec Century Bright Capital Investment Limited	753,019	1,005,234
	CITIC Bank	1	1
Accounts receivable	Sinopec Group and its subsidiaries	4,760,085	7,539,486
	Joint ventures of the Group	13,848	14,854
	Joint ventures and associates of Sinopec Group	111,715	128,187
Contract assets	Sinopec Group and its subsidiaries	4,683,457	3,825,329
	Joint ventures and associates of Sinopec Group	232,917	113,261
Prepayments	Sinopec Group and its subsidiaries	85,051	28,064
Other receivables	Sinopec Group and its subsidiaries	270,291	162,000
	Joint ventures of the Group	356	11,015
	Joint ventures and associates of Sinopec Group	82,678	15,510

X. RELATED PARTIES AND TRANSACTION (Continued)

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

(2) Payables to related parties

Item	Related party	As at 31 December 2019	As at 31 December 2018
Accounts payable	Sinopec Group and its subsidiaries	**1,148,614**	1,208,415
	Joint ventures and associates of the Group	**19,723**	14,950
	Joint ventures and associates of Sinopec Group	**1,311**	75,055
Contract liabilities	Sinopec Group and its subsidiaries	**2,386,904**	3,286,382
	Joint ventures and associates of Sinopec Group	**12,304**	7,855
Other payables	Sinopec Group and its subsidiaries	**42,026**	41,249
	Joint ventures and associates of the Group	**466**	
Short-term borrowings	Sinopec Finance Co., LTD	**12,080,000**	9,600,000
	Sinopec Century Bright Capital Investment Limited	**2,323,075**	3,006,082
	Sinopec Group	**6,000,000**	5,000,000
Interest payable	Sinopec Group and its subsidiaries	**19,158**	12,893
Lease liabilities	Sinopec Group and its subsidiaries	**590,713**	372,297
Long-term loan	Sinopec Finance Co., LTD		
	Sinopec Century Bright Capital Investment Limited	**474,382**	536,291
Long-term payable	Joint ventures and associates of Sinopec Group	**839,747**	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.

1. Changes of share options for 2019

	For the year ended 31 December 2019
Number of share options at 1 January 2019	18,384,000
Number of share options granted in the period	
Number of share options exercised in the period	
Number of share options lapsed in the period	1,300,000
Number of share options in the end of balance sheet date	17,084,000

XI. PAYMENT OF SHARE OPTION (Continued)

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 RMB54,229,200.

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	3,818
The accumulated amount of equity-settled share-based payment in capital reserves	17,470

XII. COMMITMENTS AND CONTINGENCES

1. Principle commitments

(1) Capital commitments

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	**As at 31 December 2019**	As at 31 December 2018
Construction of long-term assets commitments	**517,738**	136,467
Investment commitments	**129,625**	129,625

(2) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2019.

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.

According to the relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganization plan upon the Court of Rio has approved that the Brazil Subsidiary enters into the legal reorganization procedure. Such legal reorganization is conditional upon the approval of the reorganization plan from the creditors' meeting and the Court of Rio.

For the purpose of obtaining approval from creditors' meeting and the Court of Rio in Brazil, 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. As at 31 December 2019, the amount of provisions is 364,605 thousand.

XII. COMMITMENTS AND CONTINGENCES (Continued)

2. Contingency (Continued)

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

As at 31 December 2019, there is no contingent liability from guarantee provided for other entities.

As at 31 December 2019, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD836,838 thousand and THB 3,142,900 thousand guarantee to its subsidiaries(31 December 2018: USD860,759 thousand and THB 3,142,900 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 BRL 80,459,100, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. On 30 December 2019, the Brazilian subsidiary received an administrative second-level review notice, which approved some project expenditures, and the tax penalty has been changed to BRL 73,195,500 (approximately USD18,130,700). On 13 January 2020, the Brazilian subsidiary has filed a new administrative review. Since the tax penalties are not predictable, SOSC Group did not provide the provision of such incident.

(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 31 December 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.

XIII. Post balance sheet date events

Since the outbreak of the novel coronavirus (hereinafter referred to as "COVID-19") occurs nationwide in January 2020, the prevention and control measures are carried out continuously.

The COVID-19 has affected the Group's operations in certain regions, including Sinopec Jianghan Petroleum Engineering Company Limited, a subsidiary in Hubei, and the extent of impact will depend on the situation of epidemic prevention and control, its duration, and the implementation of various regulatory policies.

In order to combat the COVID-19, all subsidiaries of the Group actively implement the decision-making and deployment of the Central Committee of the Communist Party of China, the State Council and the region's epidemic prevention and control, improve the prevention and control mechanisms, measures and arrangements, combined with the actual situation of each enterprise, take multiple measures and ensure that the production of the enterprise runs smoothly.

The Group will continue to pay close attention to the development of the COVID-19 and assess and actively respond to its impact on the financial status and operating results of the Group. As at report date, the assessment is still under processing.

As at 24 March 2020, 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 157,612 thousand. The amount of losses which cash back below the book value of the claims is RMB3,073 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. 23(3).

4. Discontinued operation

There is no discontinued operation during the reporting period.

XIV. OTHER SIGNIFICANT EVENTS (Continued)

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.

The Group's reportable segments include:

(1) Geophysics, which provides geophysical exploration, development and technical services;

(2) Drilling engineering, which provides customers with drilling construction, technical services and drilling instrumentation;

(3) Logging and mud logging, which provides logging and mud logging technology services;

(4) Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments;

(5) 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.

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.

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.

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2019 and as at 31 December 2019	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	4,313,105	38,463,083	3,971,812	8,193,341	16,678,288	2,740,116	-4,489,598	69,870,147
Including:External revenue	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175		69,870,147
Inter-segment revenue	7,550	1,521,809	1,435,830	517,391	75,077	931,941	-4,489,598	
Including: Major business revenue	4,227,271	38,009,509	3,939,092	8,174,539	16,456,807	2,469,605	-4,489,598	68,787,225
Cost of sales	4,024,878	34,987,574	3,426,302	7,720,151	15,506,626	2,519,302	-4,489,598	63,695,235
Including: Major business cost	4,010,884	34,663,628	3,419,067	7,735,031	15,417,939	2,480,659	-4,489,598	63,237,610
Operating expenses	434,856	2,132,696	376,448	324,692	1,330,527	967,274		5,566,493
Operating profit/(loss)	-120,744	1,598,506	171,394	171,398	57,445	-626,757		1,251,242
Total assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	-38,075,970	62,069,378
Total liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	-38,075,970	55,305,506
Supplementary information:								
Capital expenditure	719,255	1,580,542	108,445	618,414	246,302	533,955		3,806,913
Depreciation and amortization	454,444	3,318,987	220,343	795,220	257,877	301,324		5,348,195
Impairment loss on assets	18,212	-4,385	-6,664	32,000	73,331	-1,255		111,239

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities (Continued)

For the year ended 31 December 2018 and as at 31 December 2018	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	5,132,418	30,269,319	2,864,545	6,112,458	13,323,175	2,563,852	-1,856,689	58,409,078
Including:External revenue	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706		58,409,078
Inter-segment revenue		183,139	819,793	441,421	80,190	332,146	-1,856,689	
Including: Major business revenue	5,131,649	30,066,259	2,825,973	6,085,729	13,213,047	1,831,173	-1,856,689	57,297,141
Cost of sales	4,738,216	27,691,655	2,794,712	5,544,467	12,251,200	2,156,735	-1,856,689	53,320,296
Including: Major business cost	4,737,771	27,485,300	2,787,647	5,544,458	12,040,137	1,877,261	-1,856,689	52,615,885
Operating expenses	352,915	2,031,942	359,489	335,361	1,194,762	722,427		4,996,896
Operating profit/(loss)	63,779	753,194	-282,351	263,938	302,179	-248,461		852,278
Total 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
Total 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
Supplementary information:								
Capital expenditure	126,784	940,162	80,021	112,999	236,676	19,130		1,515,772
Depreciation and amortization	454,600	2,874,758	204,168	518,436	214,795	436,760		4,703,517
Impairment loss on assets	37,029	149,116	7,165	-3,208	-137,487	-15,547		37,068

(2) Other segment information

① External revenue of goods and services

Item	**For the year ended 31 December 2019**	For the year ended 31 December 2018
Geophysics	**4,305,555**	5,132,418
Drilling engineering	**36,941,274**	30,086,180
Logging and mud logging	**2,535,982**	2,044,752
Special down-hole operations	**7,675,950**	5,671,037
Engineering construction	**16,603,211**	13,242,985
Others	**1,808,175**	2,231,706
Total	**69,870,147**	58,409,078

② Geographical information

For the year ended 31 December 2019 and as at 31 December 2019	PRC	Other countries or regions		Total
External revenue	56,894,888	12,975,259		69,870,147
Non-current assets	27,134,461	4,405,601		31,540,062

For the year ended 31 December 2018 and as at 31 December 2018	PRC	Other countries or regions		Total
External revenue	45,268,611	13,140,467		58,409,078
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

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 31 December 2019	Presentation item in current income statements	Related to assets/ income
Consumption tax refund of self-used refined oil	Financial appropriation		196,634	196,634		Other income	Related to income
Special funds for national scientific research	Financial appropriation	136,276	52,839	101,530	87,585	Other income	Related to income
Stabilization allowance	Financial appropriation		44,677	44,677		Other income	Related to income
Subsidies for enterprises' development	Financial appropriation		5,789	5,789		Other income	Related to income
Subsidies of assets replacement	Financial appropriation		2	2		Other income	Related to income
Government incentives	Financial appropriation		300	300		Other income	Related to income
Additional input VAT credit	Financial appropriation		16,960	16,960		Other income	Related to income
National special research related to assets	Financial appropriation	3,318	2,496	1,188	4,626	Other income	Related to assets
Total	139,594		319,697	367,080	92,211		

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 (RMB196,634 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. RMB101,530 thousand was recognized as other income in 2019.

(2) The government subsidy of RMB367,080 thousand which was recognized in current profit and loss was counted in other income.

7. Lease

As a lessee

Additional information of lease expenses

① The Group adopted a simplified method to measure the short-term leases, low-value assets. Under this method, the right-of-use assets and lease liabilities do not have to be recognized. Short-term leases, low-value assets and the variable lease payments that are not included in the measurement of lease liabilities are included in the current expenses as follows:

Item	2019
Short-term leases	927,772
Low-value assets	
The variable lease payments that are not included in the measurement of lease liabilities	
Total	927,772

As a lessor

Additional information of lease expenses

As a lessor under operating leases

① Lease income

Item	2019
Lease income	40,012
Income of the variable lease payments that are not included in the measurement of lease liabilities	

XIV. OTHER SIGNIFICANT EVENTS (Continued)

7. Lease (Continued)

Additional information of lease expenses (Continued)

② The amount of undiscounted lease receipts to be received each year for five consecutive fiscal years after the balance sheet date, and the total amount of undiscounted lease receipts to be received in the remaining years.

Years	As at 31 December 2019
Year 2020	59,706
Year 2021	18,377
Year 2022	13,946
Year 2023	10,147
Year 2024	9,313
After year 2024	11,804
Total	123,293

XV. Notes to parent company's financial statements

1. Other receivables

Items	As at 31 December 2019	As at 31 December 2018
Interest receivables		
Dividends receivable		188
Other receivables	4,399,759	4,357,230
Total	4,399,759	4,357,230

(1) Other receivable

① ***The ageing analysis is as follows:***

Ageing	As at 31 December 2019	As at 31 December 2018
Within 1 year	4,399,759	4,357,230
Over 1 years		
Subtotal	4,399,759	4,357,230
Less: provision for bad debts		
Total	4,399,759	4,357,230

② ***Other receivables disclosed by nature:***

	As at 31 December 2019			As at 31 December 2018		
Items	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Amounts due from wholly-owned subsidiaries	4,399,759		4,399,759	4,357,230		4,357,230
Others						
Total	4,399,759		4,399,759	4,357,230		4,357,230

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

1. Other receivables (Continued)

(1) Other receivable (Continued)

③ ***Provision for bad debts***

As at 31 December 2019, provision for bad and doubtful debts in the first stage:

Category	Ending balance	Expected credit loss rate in the next 12 months (%)	Provision for diminution in value	Carrying amount	Reason
Provision made on an individual basis	4,399,759			4,399,759	Subsidiaries within the scope of consolidation
Amounts due from wholly-owned subsidiaries					
Provision for bad and doubtful debts collectively					
Total	4,399,759			4,399,759	

As at 31 December 2019, the company did not have interests receivable, dividends receivable and other receivables in the second and third stage.

④ ***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	4,399,759	Within 1 year	100	

2. Long-term equity investment

Item	As at 31 December 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

(1) Investment in subsidiary

Investee	As at 31 December 2018	Increase during the period	Decrease during the period	As at 31 December 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 year ended 31 December 2019	Notes
Gain or loss on disposal of non-current assets	67,044	
Government grants recognized in profit or loss for the year/period	170,446	
Gain or loss from debt restructuring	154,539	
Gain or loss on previously held equity interests re-measured at acquisition date	27,474	
Non-operating income/(expenses) excluding the aforesaid items	104,526	
Other gains and losses that meet the definition of non-recurring profit and loss	-1,292	
Total non-recurring gains or losses	522,737	
Less: Effects of income tax on non-recurring gains or losses	112,197	
Net non-recurring gains or losses	410,540	
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	410,540	

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 equity shareholders	14.66	0.048	0.048
Net profit attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	8.08	0.027	0.027

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 year ended 31 December 2019	For the year ended 31 December 2018	**As at 31 December 2019**	As at 31 December 2018
Based on CASBE	**914,244**	142,056	**6,763,872**	5,778,410
Adjusted items and amounts in accordance with IFRS:				
Special reserve	**72,629**	98,132		
Based on IFRS	**986,873**	240,188	**6,763,872**	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

24 March 2020

II. Prepared in accordance with International Financial Reporting Standards

Grant Thornton
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Independent Auditor's Report

To the Shareholders of Sinopec Oilfield Service Corporation
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 157 to 228, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follow:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to note 2.23 (Revenue recognition), note 4(7) (Critical accounting judgement and estimates), note 5 (revenue and segment information) and notes 24(a) & (b) (contract assets/contract liabilities) to the consolidated financial statements for related disclosures and accounting polices respectively. Revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to PRC and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services. The contract revenue would be recognised over time, and the revenue and profit recognition of related service depends on management's estimation of the total budgeted contract revenue and the progress towards satisfaction of a performance obligation. The management of the Group adopts either the expected value or most likely amount method according to the contract to estimate the total budgeted contract revenue, and evaluates the total budgeted contract costs according to historical information and construction plan, which are continuously evaluated and revised during the execution of the contract. These rely on management's critical accounting estimation. When the progress towards satisfaction of a performance obligation can be reasonably measured, the Group should recognised revenue in accordance with the progress of performance obligation being satisfied at the end of reporting period. The recognition of revenue mainly depends on the management's critical estimation and judgement, including total budgeted revenue, total budgeted costs, variable consideration, remaining contract costs, estimated progress and contract execution risk. If there is any change on the final contract billing amount or actual execution progress, actual results may differ from the management's estimates. Hence, we have identified the revenue recognition related to rendering of services and construction contracts as a key audit matter.	Our procedures in relation to the revenue and costs recognition related to provision of petroleum engineering and technical services included: – evaluating the appropriateness of the application of accounting policies for recognising revenue associated with the rendering of services and construction contracts in light of business nature, contract terms and IFRS15 "Revenue from contracts with customers"; – understanding, assessing and testing the design and implementation of internal controls about management's determination on the total budgeted contract revenue, the total budgeted contract costs, the actual contract costs incurred, remaining contract costs and progress of performance obligation being satisfied for contract to evaluate the operating effectiveness of such internal controls; – reviewing contracts and interviewing with the management to understand and assess the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted contract costs, and checking the consistency of the preparation and assumptions of various types of projects; – performing variance analysis by comparing the accumulated costs incurred as at 31 December 2019 with the budgeted contract costs, checking the significant costs incurred subsequent to the end of the reporting period and assessing the reasonableness of the management's estimation on workload forecast and remaining contract costs; – testing, on a sample basis, the application of progress of performance obligation being satisfied by cross-checking the principal terms set out in the relevant contracts to supporting documents such as progress billing reports or acceptance certificates and progress reports being issued by customers; – evaluating the reasonableness about budgeted revenue, budgeted costs and budgeted gross profit of sub-divisional contracts by analysis and calculation; and – testing, on a sample basis, the amount and period of the aforesaid revenue recognised having regard to respective progress of performance obligation being satisfied at the end of the reporting period, and comparing, on a sample basis, the accumulated costs incurred up to the end of the reporting period with the budgeted costs to verify the existence of cost overrun. We found that the management's judgment in determining the progress of performance obligation being satisfied and, the revenue recognition are supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECL") on trade receivables and contract assets	
Refer to note 2.10 (Financial instruments), note 4(2) (Critical accounting judgement and estimates), note 22 (Notes and trade receivables) and note 24(a) (Contract assets) to the consolidated financial statements for related disclosures and accounting polices respectively. During the year ended 31 December 2019, the Group's gross amount of trade receivables and contract assets are RMB14.51 billion and RMB9.746 billion respectively, representing 39% of total assets. As at 31 December 2019, the accumulated ECL allowance for trade receivables and contract assets amounted to RMB2.553 billion. We have identified ECL measurement of trade receivables and contract assets as a key audit matter because the ECL measurement of trade receivables and contract assets is inherent uncertain as it requires the management's subjective judgment and the aforesaid balance has a significant impact on the Group's consolidated financial statements.	Our procedures in relation to the ECL on trade receivables and contract assets included: – assessing and testing the related internal controls of the measurement of ECL established by the management, and testing the effectiveness of key control executions; – evaluating the management's relevant considerations and objective evidences for ECL measurement of trade receivables and contract assets (including historical records and circumstances of bad debts of trade receivables and contract assets with similar characteristics, customer credit and market environment, etc.), and assessing the appropriateness of the methods being applied in grouping of the trade receivables and contract assets and calculation for the ECL; – gathering public information about the customers whose balances of trade receivables and contract assets is material or exceeds the credit period, or their industry development status to identify any situations affecting the Group's ECL assessment results of trade receivables and contract assets; – assessing the accuracy and classification on trade receivables by obtaining ageing analysis of the trade receivables as at 31 December 2019 and reviewing, on a sample basis, key information such as aging, overdue days, and relationship by checking supporting documents such as accounting vouchers and invoices; – arranging audit confirmations to those customers with significant balance of trade receivables and comparing the results to the returned confirmations with the Group's record; – recalculating the ECL on trade receivables and contract assets and comparing the results with the amounts recorded by the Group; and – evaluating the reasonableness of management's ECL assessment by considering the customer's settlement subsequent to the reporting period. We found that that the management's judgment in determination and estimation in the measurement of ECL on trade receivables and contract assets is supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

24 March 2020

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	**69,870,147**	58,409,078
Cost of sales and taxes and surcharges		**(63,908,668)**	(53,508,883)
Gross profit		**5,961,479**	4,900,195
Selling expenses		**(63,787)**	(64,249)
General and administrative expenses		**(2,965,864)**	(3,239,084)
Research and development expenses		**(1,194,198)**	(928,586)
Finance expenses – net	6	**(945,344)**	(441,190)
Expected credit loss and impairment losses on assets	7	**(111,239)**	(37,068)
Investment income	8	**36,513**	600
Share of profit from joint ventures	20(a)	**10,214**	24,348
Share of profit from associates	20(b)	**3,685**	2,135
Operating profit		**731,459**	217,101
Other income	9	**755,274**	1,199,612
Other expenses	10	**(58,336)**	(802,944)
Profit before income tax	11	**1,428,397**	613,769
Income tax expense	12	**(441,524)**	(373,581)
Profit for the year		**986,873**	240,188
Other comprehensive (expense)/income for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Net movement in fair value of financial assets at fair value through other comprehensive income ("FVTOCI")		**(5,229)**	11,676
Total comprehensive income for the year		**981,644**	251,864
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	13	**RMB**	RMB
Basic and diluted		**0.052**	0.013

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December 2019	As at 31 December 2018
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	17	25,375,631	24,206,172
Other non-current assets		5,374,781	3,654,512
Prepaid land leases	18	–	118,335
Intangible assets	19	281,497	118,940
Interests in joint ventures	20(a)	23,791	218,813
Interests in associates	20(b)	15,927	14,010
Financial assets at FVTOCI	21	32,847	39,011
Deferred tax assets	36	417,004	492,438
Total non-current assets		31,521,478	28,862,231
Current assets			
Inventories	25	1,048,465	1,217,323
Financial assets at FVTOCI	21	1,446,389	–
Notes and trade receivables	22	11,996,855	16,111,200
Prepayments and other receivables	23	4,680,066	3,444,501
Contract assets	24(a)	9,707,288	9,066,019
Restricted cash	26	18,105	29,861
Cash and cash equivalents	27	1,650,732	2,173,580
Total current assets		30,547,900	32,042,484
Total assets		62,069,378	60,904,715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Equity			
Share capital	28	**18,984,340**	18,984,340
Reserves		**(12,220,468)**	(13,205,930)
Total equity		**6,763,872**	5,778,410
Liabilities			
Non-current liabilities			
Long-term borrowings	35	**2,307,828**	1,377,909
Deferred income	32	**92,211**	139,594
Deferred tax liabilities	36	**17,854**	22,658
Provisions	39	**449,256**	595,742
Total non-current liabilities		**2,867,149**	2,135,903
Current liabilities			
Notes and trade payables	33	**24,802,226**	27,059,504
Other payables	34	**2,797,837**	3,523,748
Contract liabilities	24(b)	**3,575,654**	4,390,293
Short-term borrowings	35	**20,938,450**	17,755,104
Current income tax payable		**324,190**	261,753
Total current liabilities		**52,438,357**	52,990,402
Total liabilities		**55,305,506**	55,126,305
Total equity and liabilities		**62,069,378**	60,904,715
Net current liabilities		**(21,890,457)**	(20,947,918)
Total assets less current liabilities		**9,631,021**	7,914,313

Chairman of the Board: CHEN Xikun

Executive director, 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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	Non-controlling interests	(Capital deficiencies)/ Total equity
	RMB'000 (Note 28)	RMB'000 (Note 30(i))	RMB'000 (Note 30(i))	RMB'000 (Note 30(ii))	RMB'000 (Note 30(iii))	RMB'000 (Note 30(iv))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	14,142,661	8,826,247	99,703	200,383	202,477	–	(25,571,417)	(2,099,946)	(1,372)	(2,101,318)
Profit for the year	–	–	–	–	–	–	240,188	240,188	–	240,188
Other comprehensive income for the year:										
Net movement in fair value of financial assets at FVTOCI	–	–	–	–	–	11,676	–	11,676	–	11,676
Total comprehensive income	–	–	–	–	–	11,676	240,188	251,864	–	251,864
Transactions with owners:										
Issue of share capital (Note 28)	4,841,679	2,796,036	–	–	–	–	–	7,637,715	–	7,637,715
Acquisition of Jiangsu Oilfield (Note 45)	–	–	(9,851)	–	–	–	–	(9,851)	–	(9,851)
Acquisition of additional interests of subsidiaries	–	–	(1,372)	–	–	–	–	(1,372)	1,372	–
Appropriation of specific reserve	–	–	–	–	970,710	–	(970,710)	–	–	–
Utilisation of specific reserve	–	–	–	–	(872,578)	–	872,578	–	–	–
Total transactions with owners	4,841,679	2,796,036	(11,223)	–	98,132	–	(98,132)	7,626,492	1,372	7,627,864
At 31 December 2018 and 1 January 2019	**18,984,340**	**11,622,283**	**88,480**	**200,383**	**300,609**	**11,676**	**(25,429,361)**	**5,778,410**	**–**	**5,778,410**
Profit for the year	–	–	–	–	–	–	**986,873**	**986,873**	–	–
Other comprehensive expense for the year:										
Net movement in fair value of financial assets at FVTOCI	–	–	–	–	–	**(5,229)**	–	**(5,229)**	–	–
Total comprehensive income	–	–	–	–	–	**(5,229)**	**986,873**	**981,644**	–	–
Transactions with owners:										
Appropriation of specific reserve	–	–	–	–	**1,437,814**	–	**(1,437,814)**	–	–	–
Utilisation of specific reserve	–	–	–	–	**(1,365,185)**	–	**1,365,185**	–	–	–
Equity-settled share-based transaction (Note 31)	–	–	**3,818**	–	–	–	–	**3,818**	–	–
Total transactions with owners	–	–	**3,818**	–	**72,629**	–	**(72,629)**	**3,818**	–	–
At 31 December 2019	**18,984,340**	**11,622,283**	**92,298**	**200,383**	**373,238**	**6,447**	**(24,515,117)**	**6,763,872**	–	–

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash flows from/(used in) operations	38 (a)	**1,581,097**	(2,687,646)
Interests received		**103,499**	87,886
Income tax paid		**(307,543)**	(340,029)
Net cash generated from/(used in) operating activities		**1,377,053**	(2,939,789)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(3,161,279)**	(1,266,945)
Proceeds from disposal of property, plant and equipment		**147,306**	86,027
Proceeds from disposal of other non-current assets		**20,032**	17,664
Proceeds from disposal of prepaid land leases		**–**	333
Payment of prepaid land leases		**–**	(1,762)
Purchases of intangible assets		**(47,718)**	(3,706)
Payment for acquisition of a subsidiary, net of cash acquired		**(139,466)**	(7,388)
Dividends received from associates		**1,768**	706
Investment income received from financial assets at FVTOCI		**600**	600
Net cash used in investing activities		**(3,178,757)**	(1,174,471)
Cash flows from financing activities			
Proceeds from borrowings		**38,367,042**	36,085,650
Repayments of borrowings		**(35,715,939)**	(35,343,989)
Payment of lease liabilities/Payment of finance lease liabilities		**(518,657)**	(382,454)
Interests paid		**(882,820)**	(659,235)
Proceeds from issuance of new shares		**–**	7,637,715
Payment for profit arising during major assets restructuring		**–**	(1,118,902)
Payment for Sinopec Group capital restructuring funds		**–**	(2,600,000)
Net cash generated from financing activities		**1,249,626**	3,618,785
Net decrease in cash and cash equivalents		**(552,078)**	(495,475)
Effect of foreign exchange rate changes on cash and cash equivalents		**29,230**	135,618
Cash and cash equivalents at beginning of year		**2,173,580**	2,533,437
Cash and cash equivalents at end of year	27	**1,650,732**	2,173,580

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION

1.1 General information and the Reorganisation

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

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the "Sinopec Group'') which is a state wholly-owned enterprise established in the PRC.

Originally, the Company and its subsidiaries (hereinafter referred to as the "Group'') were principally engaged in the production and sale of chemical fiber and chemical fiber raw materials in the PRC.

At the end of December 2014, the Company completed the material assets reorganisation by using of all its assets and liabilities at that time as consideration, to repurchase and then cancel the shares held by China Petroleum & Chemical Corporation. At the same time, the Company acquired 100% equity interest of 中石化石油工程技術服務有限公司 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.

These consolidation financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 24 March 2020.

1.2 Basis of presentation

As at 31 December 2019, the Group had net current liabilities of approximately RMB21,890,457,000 (2018: RMB20,947,918,000) and capital commitments of approximately RMB517,738,000; and it had a net profit of RMB986,873,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In December 2019, the Group obtained a line of credit of RMB17 billion and USD0.6 billion (Total: approximately RMB21.2 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 these consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidation financial statements are set out below.

2.1 Basis of preparation

The consolidation financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). These consolidation financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

The consolidation financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of consolidation financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements. Please refer to Note 4 for details.

2.2 Accounting for business combinations under common control and not under common control

(1) Business combination involving entities under common control

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

(2) Business combination involving entities not under common control

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

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and subsequently measured at costs less any accumulative impairment losses. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control through step acquisition

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

(3) Transaction fees attributed during the business combination

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements

(1) Scope of consolidation

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

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates (which includes any other unsecured receivables that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Joint Arrangements

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

(1) Joint operations

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

A joint operator shall recognise in relation to its interest in a joint operation, which is followed by relevant accounting policies:

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

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

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

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

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

(2) Joint ventures

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements (Continued)

(2) Method of preparation of consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidated 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 statement cash flow from the acquisition date.

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

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

Transactions that acquire the non-controlling interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and non-controlling interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of non-controlling interests and the fair value of consideration paid/received shall be adjusted to other capital reserve, if the other capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against accumulated losses.

(3) Treatment of loss of control of subsidiaries

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

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

2.4 Segment reporting

The Group has identified several reportable segments based on the internal structure, management requirements and internal reporting policy. The segment information is prepared based on the financial information of the Company's daily management requirements, which are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's executive management reviews reportable segments' financial information regularly for the purposes of resources allocation and performance assessment.

2.5 Foreign currency transactions and translation of foreign currency statements

(1) Foreign currency transactions

When foreign currency transactions occur, they are translated into the reporting currency at spot exchange rate at the dates of the transactions.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency transactions and translation of foreign currency statements (Continued)

(2) Translation of foreign currency statements

At the reporting date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the statement of financial position are translated using the spot exchange rate at the reporting date; all items except "accumulated losses" of the shareholders' equity are translated at the spot exchange rate.

The revenue and expenses in the consolidated statement of comprehensive income are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates.

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

Differences arising from the translation of consolidated financial statements are separately reflected in the "other comprehensive income" in the shareholders' equity of the consolidated statement of financial position.

When there is a loss of control in overseas operations, the exchange reserve related to overseas operations presented in the shareholders' equity in the consolidated statement of financial position shall be transferred to profit or loss in current period wholly or based on the percentage of overseas operations.

2.6 Property, plant and equipment

(1) Recognition and initial measurement of property, plant and equipment

The Group's property, plant and equipment are tangible assets that are held for use in production, render of services, rentals, or administrative purposes and have useful lives of more than one accounting year.

Property, plant and equipment shall be recognised only when it is probable that economic benefits associated with the asset will flow into the entity and the cost of the asset can be measured reliably.

Property, plant and equipment of the Group are initially stated at cost less accumulated depreciation and accumulated impairment loss.

(2) Depreciation methods of property, plant and equipment

The Group uses the straight-line method for depreciation. Depreciation of the property, plant and equipment (other than cost of right-of-use assets as described in Note 2.24) begins when they achieved the condition for their intended use, and stop being depreciated when derecognised or classified as held for sale under non-current assets. For those property, plant and equipment without considering impairment provision, the Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Buildings	12 – 50 years
Oil engineering equipment and others	4 – 30 years

Among these, property, plant and equipment which have been impaired should deduct the cumulative amount of impairment provision to determine the depreciation rate.

The method of impairment test and impairment provision of property, plant and equipment set out in Note 2.9.

(3) Recognition and measurement of assets under finance leases

Policy applicable before 1 January 2019

The leased property, plant and equipment of the Group shall be recognised as assets under finance lease if they meet the following one or more criteria:

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

– The Group has the option to buy the leased assets at a purchase price estimated to be far below the fair value of leased assets when exercising the option. Thus, at the beginning date of lease period, it is reasonably determined that the Group will exercise the option.

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

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

– Leased assets have special characteristics and they can be used by the Group only if they are not reconstructed.

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

Before the application of IFRS 16, 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. Upon the application of IFRS 16, accounting policy for depreciation of right-of-use assets is set out in Note 2.24.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

(4) Estimated useful lives, residual value and depreciation methods

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

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

(5) Overhaul costs

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

(6) Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditures incurred during the construction period, borrowing costs that shall be capitalised before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to property, plant and equipment when the assets are ready for their intended use.

For provision for impairment of construction in progress, refer to Note 2.9.

2.7 Prepaid land leases

Policy applicable from 1 January 2019

Prepaid land leases represent the prepayment of land use rights. Prepaid land leases are carried at historical cost less accumulated amortisation and impairment losses. Amortisation is calculated on straight-line basis over the respective periods of the rights.

The prepaid land leases has been reclassified to right-of-use asset upon initially application of IFRS 16 on 1 January 2019. Please refer to Note 2.24 for details.

2.8 Intangible assets

Intangible assets include software, etc.

The Group initially measures the intangible asset at cost, and analyses and judges its useful life when it is acquired. An intangible asset with a finite useful life is amortised using the method which can reflect the expected realisation of economic benefits related to the asset over its expected useful life since the asset is available for use; an intangible asset which expected realisation cannot be reliably measured is amortised using straight-line method; an intangible asset with an indefinite useful life is not amortised.

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

Software	5 years
Others	10 years

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each financial year, if it is different from the previous estimate, adjustment is made at previous estimates and accounted for according to changes in accounting estimates.

The carrying amount of an intangible asset should be transferred to profit or loss in current period when it is estimated that no further economic benefits can be brought to the Group as at the reporting date.

For the impairment method of intangible assets, refer to Note 2.9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment of non-financial assets such as subsidiaries, associates, joint arrangements, property, plant and equipment (including right-of-use assets), construction in progress, intangible assets are determined as follows:

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

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

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

2.10 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the financial instrument. Financial assets and financial liabilities are initially measured at fair value.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of comprehensive income. A trade receivable without a significant financing component is initially measured at the transaction price.

(1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVTOCI") – debt investment; FVTOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

(i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

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

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

(i) contingent events that would change the amount or timing of cash flows;

(ii) terms that may adjust the contractual coupon rate, including variable rate features;

(iii) prepayment and extension features; and

(iv) terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

Notes and trade receivables, other receivables, restricted cash and cash and cash equivalents are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

Financial assets at FVTOCI

They are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the other comprehensive income reserve (non-recycling); and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the other comprehensive income reserve (non-recycling).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income” line item in profit or loss.

(2) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(3) Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECL. For notes and trade receivables and contract assets, the Group applies the simplified approach to providing for ECL prescribed by IFRS 9. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit losses experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL

ECL are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

The Group has the following types of assets that are subject to IFRS 9's new ECL model:

- notes and trade receivables
- contract assets
- cash and cash equivalents
- restricted cash
- other receivables

While cash and cash equivalents, restricted cash are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For notes and trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the notes and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other financial assets at amortised cost are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group assesses on in particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indication of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(3) Impairment of financial assets (Continued)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward-looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(i) significant financial difficulty of the borrower or issuer;

(ii) a breach of contract such as a default or past due event;

(iii) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(v) the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of notes and trade receivables, other receivables, contract assets, restricted cash and cash and cash equivalents etc., where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(4) Classification and measurement of financial liabilities

The Group’s financial liabilities include notes and trade payables, other payables, long-term borrowings and short-term borrowings. Financial liabilities (other than lease liabilities) are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL (other than lease liabilities) are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss. Accounting policies for lease liability are set out in Note 2.24.

(5) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

(6) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

2.11 Fair value measurement

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

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The Group shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, in priority to use relevant observable inputs and only use unobservable inputs when observable inputs cannot be obtained.

The fair value measurement of the assets and liabilities measured at fair value is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

At each reporting date, the Group reassesses the assets and liabilities measured at fair value to ensure any transfer between the levels of the fair value hierarchy.

2.12 Inventories

(1) Classification

Inventories include raw materials, work in progress, consumables, finished goods and issuing goods, etc.

(2) Determination of cost

Inventories are recognised at its actual cost when acquired. Inventories are calculated by weighted average method when issued.

(3) Recognition of the net realisable value and provision for impairment of inventories

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

At the reporting date, if the cost of inventory of the Group exceeds its net realisable value, provision for impairment of inventories is recognised. The Group normally recognises provision for impairment of inventories individually, if the factors caused the inventory previously written-down have disappeared, provision for impairment of inventories in the amount originally provided is reversed.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortisation methods of consumables

Consumables include low-value consumables that are amortised in full when used.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Contract assets and contract liabilities

The contract asset is the Group's right to consideration in the exchange for services that the Group has transferred to customer. The contract assets transferred to trade receivables when receipt of the consideration is conditional only on the passage of time.

The Group expects that contract assets have the same risk characteristics as notes and trade receivables.

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to render to services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group recognised the related revenue.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary Shares are reclassified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.16 Borrowing costs

(1) Recognition principle of capitalisation of borrowing costs

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

1. Capital expenditures for the asset are being incurred, which includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalisation;
2. Borrowing costs are being incurred; and
3. Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Capitalisation period of borrowing costs

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

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

(3) Calculation of rate and amount of borrowing costs to be capitalised

Interest expenses for specific borrowings incurred in the period, less interest income of unused specific borrowings deposited with bank or investment income arising from temporary investment are capitalised. The capitalisation rate of the general borrowing is determined by reference to the weighted average effective interest rate of general borrowings. The amount of capitalisation of general borrowings is determined by reference to the weighted average of the excess of the amount of cumulative expenditures of the asset over the amount of specific borrowings and the capitalisation rate of general borrowings.

During the capitalisation period, any exchange differences arising from specific foreign currency borrowings are capitalised; exchange differences arising from general foreign currency borrowings are recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Deferred tax assets and deferred tax liabilities

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

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

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

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

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

The Group recognised deductible temporary differences, deductible tax losses as deferred tax assets to the extent that they are available for set-off future taxable income unless such timing difference was arised from the following transactions:

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

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

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

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

2.18 Employee Benefits

(1) Scope of employee benefits

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

(2) Short-term employee benefits

Wages, bonuses, contribution to the social welfares (including medical insurance, injury insurance, birth insurance, etc.) and house funding are recognised as liability and to the profit of loss or cost of related assets in the period of relevant costs being incurred. If related liabilities in which the employees render their services are not expected to be wholly payable within twelve months after the financial period of relevant expenses being incurred and the financial impact is significant, relevant liabilities will be measured at discounted values.

(3) Post employment benefits

Post-employment comprised of defined contribution plan. The Group's obligations under the defined contribution plan are limited to the fixed amount of contribution to the independent trustee.

Defined contribution plans

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity scheme.

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group has no other significant commitments of social security of employees.

The Group recognised the contribution payable under the defined contribution plan as liabilities with corresponding amount recognised in the profit or loss of the financial period of services rendered by employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee Benefits (Continued)

(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 internal retirement plan for employees, the economic compensation before the official retirement date is termination benefit. From the date when the employee stops providing the service to the normal retirement date, the amount for wages and social insurance expenses to be paid for the internal retired employee would be recognised in profit or loss when incurred.

(5) Other long-term employee benefits

Other long-term employee benefits provided by the Group to its employees who meet with the conditions of defined contribution plan were treated in accordance with the relevant provisions of defined contribution plans as set out above.

2.19 Share-based payment and equity instruments

(1) Category of share-based payment

The term "share-based payment" refers to equity-settled share-based payment and cash-settled share-based payment. The Group's share option incentive plans are equity-settled share-based payments.

(2) Fair value of equity instrument

For the existence of an active market for options and other equity instruments granted by the group, the fair value is determined at the active market quotations. For options and other equity instruments with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. Factors as follows shall be taken into account using option pricing models: (a) the exercise price of the option (b) the validity of the option (c) the current market price of the share (d) the expected volatility of the share price (e) predicted dividend of the share (f) risk-free rate of the option within the validity period.

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

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

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

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

Cash-settled share-based payment calculates the fair value of liabilities assumed in accordance with the Group's shares or other equity instruments. For those exercised immediately after the grant, the fair value of the liability included in the relevant costs or expenses cause a corresponding increase in liabilities. For each reporting date in the vesting period, the best estimate of the vesting conditions in accordance with the Group is committed to the fair value of the amount of debt service will recognise 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 recognised as a corresponding increase in service achieved. Increase in the fair value of equity instruments refer to the difference between the fair values of the modified date. If the modification reduces the total fair value of shares paid or not conductive to the use of other employees share-based payment plans to modify the terms and conditions of service, it will continue to be accounted for in the accounting treatment, as if the change had not occurred, unless the Group cancelled some or all of the equity instruments granted.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Provision

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

1. The obligation is a present obligation of the Group;
2. It is probable that an outflow of economic benefits will be required to settle the obligation;
3. The amount of the obligation can be measured reliably.

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

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

2.21 Research and development expenditure

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

Expenditure on the research phase is related to theories of oil-gas exploration and development, oil-gas exploration and development experiments, pilot tests for oil-gas exploration, researches of softwares, etc; Expenditure on the development phase is related to applications of oil-gas exploration and development technology, pilot tests of oil-gas development, adaptability of technologies in a development process, software developments, etc.

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

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

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

Capitalised expenditure on the development phase is presented as “development costs” in the statement of financial position and shall be transferred to intangible assets when the project is completed to its intended use state.

2.22 Government grants

Grants from the government are recognised only when there is a reasonable assurance that the grant will be received and the Group can comply with the attached conditions.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where there is undoubted evidence that the grants can meet the relevant conditions of financial support policy and is expected that the financial support fund is receivable, they can be measured in accordance with the receivable amount, otherwise, they shall be measured according to the amount actually received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value. When fair value is not reliably determinable, the item is measured at nominal amount.

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

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

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and then recognised in profit or loss over the periods in which the costs are recognised. Government grants measured at nominal amounts are directly recognised in through profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the construction contracts and sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and returns after eliminating sales within the Group.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

(1) Sales of products

Revenue from sales of products is recognised when i) control of the products has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products; and ii) collectability of the related receivables is reasonably assured.

(2) Revenue from construction contracts and service contracts

When the outcome of construction contracts and service contracts of drilling engineering, geophysics and engineering construction can be reasonably measured, revenue from construction contracts and service contracts are recognised progressively over time using the input and output method respectively, based on the measurement of the total value of contract work performed. Variations in contract work are recognised as contract revenue to the extent that the modification has been approved by the parties to the contracts and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The contract revenue from provision of services in special downhole operation and logging and mud logging is recognised when services are rendered.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(3) Dividend income

Dividend income is recognised when the right to receive payment is established.

(4) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases

(i) Definition of a lease and the Group as a lessee

Policies 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.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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 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.

The Group remeasures lease liabilities whenever:

– there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

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.

The Group presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (Continued)

(i) Definition of a lease and the Group as a lessee (Continued)

Policies 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.

(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.

(iii) Sales and leaseback transaction

The Group as a seller-lessee

For a transfer that does not satisfy requirements as a sale in accordance with IFRS 15, the Group as a seller-lessee accounts for the proceeds received as borrowings within the scope of IFRS 9.

Policies applicable before 1 January 2019

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Shares repurchase

Prior to the cancellation or transfer of repurchased shares, the repurchased shares were classified as treasury shares. Costs of treasury shares comprised of cost incurred for the repurchase of shares. Costs incurred for repurchase of shares were deducted from equity and no profit or loss will be recognise upon repurchase or cancellation of shares.

Upon transfer of treasury shares, the differences between the considerations received and the nominal value of treasury shares were deducted from other capital reserve and share premium, any differences will be deducted from surplus reserves and accumulated losses. Upon cancellation of treasury shares, share capital will be deducted by reference to number of shares and its nominal value, any difference between the nominal value of treasury shares will be deducted from the other capital reserve and share premium, any differences will be deducted from surplus reserves and accumulated losses.

2.26 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

  (viii) the entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the parent of the Group.

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.27 Other non-current assets

Cost of other non-current assets, such as specific drilling equipment, logging equipment and tools and cables etc., were amortised over their estimated useful life or unit of production. Non-current assets that cannot generate future benefits are recognised in the profit or loss in the period of relevant cost being incurred.

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

3 NEW AND AMENDED IFRSs

The IASB has issued a number of new and amended IFRSs. The Group has adopted all these new and amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the accounting period beginning on or after 1 January 2019:

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 how the results and financial position for the current and prior periods have been prepared and presented.

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.

3 NEW AND AMENDED IFRSs (Continued)

IFRS 16 "Leases" (Continued)

The following is a reconciliation of total operating lease commitments at 31 December 2018 (Note 37) to the lease liabilities recognised at 1 January 2019:

	At 1 January 2019
	RMB'000
Total operating lease commitments disclosed at 31 December 2018	382,990
Less: Recognition exemptions	
– Short-term leases and 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

The following table summarises the impact of transition to IFRS 16 on the Group's 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 consolidated statement of financial position impacted by the adoption of IFRS 16:				
Property, plant and equipment	24,206,172	944,479	118,335	25,268,986
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 35) amounting to RMB149,022,000 had been reclassified to lease liabilities under "Short-term borrowings" (Note 35).

(b) At 31 December 2018, finance leases liabilities under "Long-term borrowings" (Note 35) amounting to RMB841,618,000 had been reclassified to lease liabilities under "Long-term borrowings" (Note 35).

3 NEW AND AMENDED IFRSs (Continued)

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2019 which are relevant to the Group but the Group has not early adopted are set out below:

Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
IFRS 17	Insurance Contracts[3]
Amendments to IAS 1	Definition of current and non-current liabilities[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 3	Definition of a Business[5]

1 Accounting periods beginning on or after 1 January 2020
2 Accounting periods beginning on or after 1 January 2022
3 Accounting periods beginning on or after 1 January 2023
4 Effective date not yet been determined
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that the application of these new and amended IFRSs will have no material impact on the results and the financial position of the Group.

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Group continually evaluates the critical accounting estimates and key assumptions based on its historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that are likely to have significant risks of causing material adjustments to the carrying amounts of assets and liabilities in the next financial year are set out as below:

(1) Classification of financial assets

The Group's critical judgements on determining the classification of financial assets include business model and analysis of contractual cash flow characteristics.

The Group's assessment of the business model is performed on a financial assets portfolio basis, taking into consideration of the way for how the performance of the financial assets are evaluated and reported to the Group's key management personnel, the way for how the risks for being affected by the performance of the financial assets are evaluated and managed, and the way for how managers of are compensated and etc.

The Group's critical judgements on whether the cash flows are consistent with the loan arrangement include whether principal amount may change (including future cash flow and amount) over the life of the financial asset (for example, if there are early repayments of principal) and whether interest only consists of consideration for the time value of money, for the credit risk, and for other basic lending risks and costs, as well as a profit margin. For examples, whether the amount for early repayment solely reflects the outstanding principal and related interest and the reasonable compensation for the early termination of agreement.

(2) Provision for ECL of trade receivables and contract assets

The Group makes allowances on trade receivables (Note 22) and contract assets (Note 24(a)) based on assumptions about risk of default and expected loss rates. The Group applies judgment in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. During the year ended 31 December 2019, the ECL allowance on trade receivables and contract assets is reversal of RMB1,130,000 (2018: ECL allowance: RMB27,221,000) and loss of RMB12,657,000 (2018: ECL allowance: RMB26,525,000) respectively.

(3) Provision for decline in value of inventories

The Group regularly reviews the net realisable value of inventories and the provision for decline in value of inventories is recognised at the excess of the carrying amounts of inventories over their net realisable value. When making estimation of the net realisable value of inventories, the Group considers the purpose of the inventories held on hand and other information available to form the underlying assumptions, including the market prices of inventories and the Group's historical operating costs. The actual selling price, costs of completion, selling expenses and taxes may vary according to the changes in market conditions, manufacturing technology or the actual use of the inventories, resulting in the changes in provision for decline in value of inventories. The profit or loss for the period will be affected by the adjustment of the provision for decline in value of inventories. The carrying amount of inventories is set out in Note 25.

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(4) Impairment of non-financial assets

As at the reporting date, the Group assess the impairment of non-financial assets to ensure whether the asset's carrying amount exceeds its recoverable amount. In circumstances indicate that the carrying amount may not be recoverable, relevant assets will be impaired and relatively recognised to impairment loss.

The recoverable amount is the higher of an asset's (or a group of assets') fair value less costs to sell and estimated future cash flow. The Group cannot estimate the accurate fair value since no reliable open market value of the assets can be obtained. The Group determines critical judgements on the product quantity, selling price, gross profit, related operating cost and the discount rate in assessing the present value of estimated future cash flow. The Group assesses the recoverable value in reference to the relevant information including the estimates according to reasonable assumptions on the production quantity, selling price, gross profit and related operating cost. The Group will increase the provision of impairment on the non-financial assets if there is material adverse effect on the related assumptions and estimates. Carrying amount of non-financial assets is set out in Notes 17, 18, 19 and 20.

(5) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefit. Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.

(6) Depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets

The Group takes into account of residual value before calculating the depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets. The Group regularly review the estimated useful lives of the assets to determine the depreciation and amortisation charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes, the amortisation periods for other non-current assets are determined by the Group in accordance with the expected benefit period of each assets. Depreciation and amortisation charges is revised if there is material adverse effect on the previous estimation.

Carrying amount of property, plant and equipment and intangible assets is set out in Notes 17 and 19.

(7) Revenue recognition

The contract revenue of petroleum engineering and technical services provided by the Group is recognised over time. The contract revenue and profit recognition of related service depends on the total budgeted contract revenue and the estimation of progress towards satisfaction of a performance obligation by the Group. The management of the Group adopts either the expected value or most likely amount method according to the contract to estimate the total budgeted contract revenue, and evaluates the total budgeted contract costs according to historical information and construction plan. In view of the fact that the construction service contract cycle may span multiple accounting periods, the Group will continuously and periodically review and revise the budgeted contract revenue and contract costs during the progress towards satisfaction of a performance obligation. If the total contract revenue and contract costs are actually higher or lower the management's estimated value, the Group's amount of revenue and profit recognition will be affected in the future.

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(8) Provision for litigation claims

For the legal proceedings and claims, the Group derives the best estimate of committed losses to the related current obligations based on the legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change according to the progress of the legal proceedings. The related information is set out in Note 40.

(9) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses when the Group is likely to have sufficient taxable profits to offset losses. The management needs significant judgment to estimate the time in relation to the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. If the tax payable in future accounting period is lower than the expected amount or the actual tax rate is higher than the expected tax rate, the deferred tax assets recognised will be reversed and included in the statements of profit or loss. The related information is set out in Note 36.

(10) Taxation

There are various uncertainties on interpretation of the complicated tax jurisdictions (including related tax incentive regulations) and time and extent of the future taxable revenue. Regarding to various international business relationship and complexity of current contract, there may be adjustment to the recognised taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities in the countries where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretations may be resulted from various events. Relevant information is set out in Notes 12 and 40(c).

5 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	2019	2018
	RMB'000	RMB'000
Geophysics	**4,305,555**	5,132,418
Drilling engineering	**36,941,274**	30,086,180
Logging and mud logging	**2,535,982**	2,044,752
Special downhole operations	**7,675,950**	5,671,037
Engineering construction	**16,603,211**	13,242,985
Others	**1,808,175**	2,231,706
	69,870,147	58,409,078

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information

The Group identifies its operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group has identified five operating segments including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction. These operating segments are identified based on the regular internal financial information reported to the senior executive management. Senior executive management of the Company regularly reviews the segment information for their decision about the resources allocation and performance assessment.

Five reportable operating segments are as follows:

– Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;

– Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;

– Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;

– Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and

– Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects, oil and gas transporting process projects, storage and transportation projects, petrochemical supporting projects, building construction, water resources and hydropower, ports and waterways, electricity transmission and distribution projects, manufacturing of pressure vessels, LNG projects, coal chemical engineering, geothermal utilisation, energy saving and municipal roads and bridges.

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain prepaid land leases, certain intangible assets, certain other non-current assets, certain inventories, certain 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 current income tax payable.

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

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 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
During the year ended 31 December 2019								
Segment revenue and results								
Revenue from external customers	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	–	69,870,147
Inter-segment income	7,550	1,521,809	1,435,830	517,391	75,077	931,941	(4,489,598)	–
Segment revenue	4,313,105	38,463,083	3,971,812	8,193,341	16,678,288	2,740,116	(4,489,598)	69,870,147
Reportable segment (loss)/ profit	(148,431)	1,392,858	169,062	149,472	(137,298)	(694,204)	–	731,459
Other income	41,012	280,732	7,446	28,076	270,943	127,065	–	755,274
Other expenses	(4,426)	(19,053)	(2,731)	(4,260)	(22,331)	(5,535)	–	(58,336)
(Loss)/Profit before income tax	(111,845)	1,654,537	173,777	173,288	111,314	(572,674)	–	1,428,397
Income tax expense								(441,524)
Profit for the year								986,873
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	381,511	1,743,357	179,951	576,034	235,388	294,770	–	3,411,011
– Other non-current assets	72,907	1,511,365	38,751	207,394	15,066	2,067	–	1,847,550
– Intangible assets	26	64,265	1,641	11,792	7,423	4,487	–	89,634
Capital expenditure								
– Property, plant and equipment (Note)	719,255	1,393,448	108,445	611,283	239,285	531,804	–	3,603,520
– Intangible assets (Note)	–	187,094	–	55,929	7,017	2,151	–	252,191
– Other non-current assets (Note)	–	–	–	10,543	–	–	–	10,543
Provision/(Reversal of provision) for ECL on trade receivables, net	17,559	(11,992)	(6,894)	35,331	(34,704)	(430)	–	(1,130)
Provision/(Reversal of provision) for ECL on other receivables, net	1,673	(5,876)	188	(3,886)	108,503	(890)	–	99,712
(Reversal of provision)/Provision for ECL on contract assets	(1,020)	13,483	42	555	(468)	65	–	12,657
As at 31 December 2019								
Assets								
Segment assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	(38,075,970)	62,069,378
Liabilities								
Segment liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	(38,075,970)	55,305,506

Note: Capital expenditure includes additions resulting from an acquisition through business combination (Note 42).

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

For the year ended 31 December 2018 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
During the year ended 31 December 2018								
Segment revenue and results								
Revenue from external customers	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706	–	58,409,078
Inter-segment income	–	183,139	819,793	441,421	80,190	332,146	(1,856,689)	–
Segment revenue	5,132,418	30,269,319	2,864,545	6,112,458	13,323,175	2,563,852	(1,856,689)	58,409,078
Reportable segment profit/(loss)	36,015	632,486	(289,656)	232,278	(105,231)	(288,791)	–	217,101
Other income	38,644	343,983	21,246	47,141	607,719	140,879	–	1,199,612
Other expenses	(30,630)	(39,439)	(3,543)	(8,467)	(520,938)	(199,927)	–	(802,944)
Profit/(Loss) before income tax	44,029	937,030	(271,953)	270,952	(18,450)	(347,839)	–	613,769
Income tax expense								(373,581)
Profit for the year								240,188
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	411,210	1,633,206	168,281	393,311	197,061	271,399	–	3,074,468
– Other non-current assets	43,064	1,189,025	34,327	122,600	11,437	159,356	–	1,559,809
– Prepaid land leases	–	444	415	1,895	507	–	–	3,261
– Intangible assets	326	52,083	1,145	630	5,790	6,005	–	65,979
Capital expenditure								
– Property, plant and equipment	126,784	939,401	77,042	111,271	227,294	19,130	–	1,500,922
– Prepaid land leases	–	101	–	1,661	–	–	–	1,762
– Intangible assets	–	660	2,979	67	9,382	–	–	13,088
Provision/(Reversal of provision) for ECL on trade receivables, net	35,872	148,547	7,129	(5,520)	(155,526)	(3,281)	–	27,221
Provision/(Reversal of provision) for ECL on other receivables, net	(509)	(7,064)	13	1,863	1,290	(12,271)	–	(16,678)
Provisions – Loss on judicial reorganisation	–	–	–	–	475,276	–	–	475,276
ECL on contract assets	1,666	7,633	23	449	16,749	5	–	26,525
As at 31 December 2018								
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

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	2019	2018
	RMB'000	RMB'000
The PRC	**56,894,888**	45,268,611
Middle East	**7,894,085**	7,362,296
Other countries	**5,081,174**	5,778,171
	69,870,147	58,409,078

	Specified non-current assets	
	2019	2018
	RMB'000	RMB'000
The PRC	**26,705,971**	24,470,738
Other countries	**4,365,656**	3,860,044
	31,071,627	28,330,782

(c) Major customer

For the years ended 31 December 2019 and 2018, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2019	2018
	RMB'000	RMB'000
Customer A	**40,177,581**	36,885,294

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the years ended 31 December 2019 and 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, 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
During the year ended 31 December 2019							
Timing of revenue recognition:							
– At a point in time	**17,708**	**258,233**	**14,761**	**4,736**	**270,573**	**325,965**	**891,976**
– Over time	**4,287,847**	**36,683,041**	**2,521,221**	**7,671,214**	**16,332,638**	**1,482,210**	**68,978,171**
Total	**4,305,555**	**36,941,274**	**2,535,982**	**7,675,950**	**16,603,211**	**1,808,175**	**69,870,147**
During the year ended 31 December 2018							
Timing of revenue recognition:							
– At a point in time	–	25,886	594	26,755	81,577	274,882	409,694
– Over time	5,132,418	30,060,294	2,044,158	5,644,282	13,161,408	1,956,824	57,999,384
Total	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706	58,409,078

6 FINANCE EXPENSES - NET

	2019	2018
	RMB'000	RMB'000
Finance income		
Interest income		
– Sinopec Group's subsidiaries	**2,289**	1,878
– Third parties and other financial institutions	**101,210**	86,008
	103,499	87,886
Finance expenses		
Interest expenses on borrowings wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	**(768,972)**	(582,557)
– Third parties and other financial institutions	**(87,273)**	(49,732)
Interest expenses on lease liabilities (2018: Interest expenses on finance lease)		
– Sinopec Group and its subsidiaries	**(32,800)**	–
– Sinopec Group's associates and joint ventures	**(76,455)**	(30,154)
– Third parties	**(14,963)**	–
Exchange (loss)/gain, net	**(7,444)**	173,931
Bank and other charges	**(60,936)**	(40,564)
	(1,048,843)	(529,076)
	(945,344)	(441,190)

7 EXPECTED CREDIT LOSS ("ECL") AND IMPAIRMENT LOSSES ON ASSETS

	2019 RMB'000	2018 RMB'000
ECL on trade and other receivables, net	**98,582**	10,543
ECL on contract assets	**12,657**	26,525
	111,239	37,068

8 INVESTMENT INCOME

	2019 RMB'000	2018 RMB'000
Investment income from financial assets at FVTOCI	**600**	600
Gain on remeasurement of previously held equity interests of SinoFTS Petroleum Services Limited ("SinoFTS")	**27,474**	–
Gain on bargain purchase	**8,439**	–
	36,513	600

9 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Gain on disposal of property, plant and equipment, net	**61,442**	–
Gain on disposal of other non-current assets, net	**5,602**	7,447
Gain on debt restructuring	**154,539**	395,916
Government grants (Note)	**367,080**	730,048
Waived payables	**122,414**	29,969
Penalty income	**2,636**	3,566
Compensation received	**11,724**	581
Insurance claims	**15,221**	11,451
Asset surplus	**470**	5,534
Others	**14,146**	15,100
	755,274	1,199,612

Note:
For the years ended 31 December 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.

10 OTHER EXPENSES

	2019 RMB'000	2018 RMB'000
Loss on disposal of property, plant and equipment, net	**–**	7,446
Discount of trade receivables	**–**	655
Loss on scraps of assets	**1,976**	8,837
Penalty	**9,418**	13,593
Donation	**1,197**	610
Compensation	**8,354**	8,227
Expected loss on pending litigations	**286**	10,241
Expected loss on judicial reorganisation (Note 39)	**–**	475,276
Others	**37,105**	278,059
	58,336	802,944

11 PROFIT BEFORE INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Staff costs, including directors and supervisors emoluments (Note 16)	**15,742,653**	15,005,096
Retirement benefit plan contribution (included in the above mentioned staff costs)		
– Municipal retirement scheme costs	**1,259,833**	1,266,328
– Supplementary retirement scheme costs	**562,219**	338,736
Share options granted to directors and employees (included in the above mentioned staff costs)	**3,818**	–
Changes in inventories of finished goods and work in progress	**(70,540)**	49,769
Raw materials and consumables used	**20,802,619**	15,237,065
Depreciation and amortisation		
– Property, plant and equipment	**3,411,011**	3,074,468
– Other non-current assets	**1,847,550**	1,559,809
– Prepaid land leases	**–**	3,261
– Intangible assets	**89,634**	65,979
Operating lease expenses		
– Property, plant and equipment held under operating leases	**–**	1,982,429
– Short-term leases with lease term of 12 months or less	**927,772**	–
ECL, net		
– Trade and other receivables	**98,582**	10,543
– Contract assets	**12,657**	26,525
Rental income from property, plant and equipment less relevant expenses	**(27,684)**	(54,043)
(Gains)/Losses on disposal/write-off of property, plant and equipment, net	**(61,442)**	7,446
Gains on disposal/write-off of other non-current assets, net	**(5,602)**	(7,447)
Auditors' remuneration	**9,800**	6,988
Exchange losses/(gains), net	**7,444**	(173,931)

12 INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC enterprise income tax	**86,047**	28,480
Overseas enterprise income tax	**283,912**	369,522
	369,959	398,002
Deferred tax		
Origination and reversal of temporary difference (Note 36)	**71,565**	(24,421)
Income tax expense	**441,524**	373,581

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 period, for the years ended 31 December 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.

12 INCOME TAX EXPENSE (Continued)

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	**1,428,397**	613,769
Taxation calculated at the statutory tax rate	**357,099**	153,442
Income tax effects of：		
Difference in overseas profits tax rates	**111,699**	255,179
Non-deductible expenses	**58,494**	74,355
Effect of utilisation of unrecognised tax losses and deductible temporary differences	**(122,189)**	(220,689)
Effect of unrecognised tax losses and deductible temporary differences	**60,717**	210,514
Adjustments of current tax in previous years	**16,643**	3,719
Equity method accounting for the joint ventures and associates' profit or loss	**(3,442)**	(6,730)
Effect on opening deferred tax balances arising from change in tax rates during the year	**65,659**	(368)
Tax effect on research and development expenses	**(103,156)**	(95,841)
Income tax expense	**441,524**	373,581

13 EARNINGS PER SHARE

(a) Basic

For the years ended 31 December 2019 and 2018, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the Company (RMB'000)	**986,873**	240,188
Weighted average number of ordinary shares in issue (Shares)	**18,984,340,033**	18,670,882,354
Basic earnings per share (RMB)	**0.052**	0.013

(b) Diluted

For the years ended 31 December 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 in the both years.

14 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the years ended 31 December 2019 and 2018.

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

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

(a) Directors' and supervisors' emoluments

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

(i) For the year ended 31 December 2019

	Fee	Salary, allowance and bonus	Contributions to pension plans	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
CHEN Xikun	–	889	52	–	941
SUN Qingde (i)	–	370	24	–	394
YUAN Jianqiang (ii)	–	512	27	–	539
	–	1,771	103	–	1,874
Non-executive directors:					
LU Baoping	–	–	–	–	–
FAN Zhonghai	–	–	–	–	–
LIU Zhongyun (iii)	–	–	–	–	–
WEI Ran	–	–	–	–	–
XIAO Yi (iv)	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors:					
JIAO Bo	200	–	–	–	200
CHEN Weidong	200	–	–	–	200
DONG Xiucheng	200	–	–	–	200
PAN Ying	200	–	–	–	200
	800	–	–	–	800
Supervisors:					
ZOU Huiping (v)	–	–	–	–	–
ZHANG Qin	–	–	–	–	–
DU Jiangbo	–	–	–	–	–
LI Wei (vi)	–	703	46	–	749
ZHANG Hongshan	–	852	35	–	887
ZHANG Jianbo	–	–	–	–	–
CHEN Weiguo (vii)	–	453	15	–	468
ZHAI Yalin (viii)	–	–	–	–	–
MA Xiang (ix)	–	67	4	–	71
	–	2,075	100	–	2,175
	800	3,846	203	–	4,849

Notes:
(i) Resigned on 10 May 2019.
(ii) Appointed on 26 June 2019.
(iii) Resigned on 9 December 2019.
(iv) Appointed on 26 June 2019 and resigned on 19 December 2019.
(v) Resigned on 30 May 2019.
(vi) Resigned on 19 December 2019.
(vii) Appointed on 30 May 2019.
(viii) Appointed on 26 June 2019.
(ix) Appointed on 19 December 2019.

For the year ended 31 December 2019, Mr. YUAN Jianqiang is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows: (Continued)

(ii) For the year ended 31 December 2018

	Fee	Salary, allowance and bonus	Contributions to pension plans	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
ZHOU Shiliang (i)	–	55	4	–	59
CHEN Xikun (ii)	–	641	55	–	696
SUN Qingde	–	679	55	–	734
	–	1,375	114	–	1,489
Non-executive directors:					
JIAO Fangzheng (iii)	–	–	–	–	–
LI Lianwu (i)	–	–	–	–	–
YE Guohua (iv)	–	–	–	–	–
LU Baoping (ii)	–	–	–	–	–
FAN Zhonghai (ii)	–	–	–	–	–
LIU Zhongyun (v)	–	–	–	–	–
WEI Ran (vi)	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors:					
JIAO Bo	200	–	–	–	200
ZHANG Huaqiao (vii)	100	–	–	–	100
CHEN Weidong (viii)	100	–	–	–	100
DONG Xiucheng (vi)	100	–	–	–	100
PAN Ying	200	–	–	–	200
	700	–	–	–	700
Supervisors:					
ZOU Huiping	–	–	–	–	–
ZHANG Qin	–	–	–	–	–
DU Jiangbo	–	–	–	–	–
HUANG Songwei (viii)	–	551	53	–	604
LI Wei	–	541	55	–	596
Zhang Hongshan	–	734	38	–	772
Zhang Jianbo (ii)	–	–	–	–	–
	–	1,826	146	–	1,972
	700	3,201	260	–	4,161

Notes：
(i) Resigned on 8 February 2018.
(ii) Appointed on 8 February 2018.
(iii) Resigned on 7 June 2018.
(iv) Appointed on 8 February 2018 and resigned on 23 August 2018.
(v) Appointed on 24 December 2018.
(vi) Appointed on 20 June 2018.
(vii) Resigned on 20 June 2018.
(viii) Resigned on 11 December 2018.

For the year ended 31 December 2018, Mr. SUN Qingde is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
Director or supervisor	2	3
Non-director or supervisor	3	2
	5	5

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

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and bonus	2,513	1,308
Contributions to pensions plans	155	111
Share-based payments	121	–
	2,789	1,419

The emoluments of the three (2018: two) highest paid individuals who are non-director or supervisor are within the following bands:

	2019	2018
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	2	–

16 EMPLOYMENT BENEFITS

	2019	2018
	RMB'000	RMB'000
Salaries, wages and other benefits	13,916,783	13,400,032
Contribution to pension plans (Note)		
—Municipal retirement scheme costs	1,259,833	1,266,328
—Supplementary retirement scheme costs	562,219	338,736
Share options granted to directors and employees (Note 31)	3,818	–
	15,742,653	15,005,096

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 31 December 2019, the Group and its employees pay 20% and 8% (2018: 20% and 8%) of salaries respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 5% of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

Those employees who involved supplementary retirement scheme are entitled to receive the pension in accordance with a certain percentage of the pre-retirement salary after retirement. The Group has no other material obligation for the payment of retirement benefits associated with these plans beyond Municipal retirement scheme and Supplementary retirement scheme.

17 PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2019

	Buildings	Oil engineering equipment and others	Land	Prepaid land leases	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2019	1,545,881	59,218,964	–	–	437,148	61,201,993
Adjustment under IFRS 16 (Note 3)	439,690	388,024	116,765	144,531	–	1,089,010
Additions	299,708	2,164,243	2,733	956	790,371	3,258,011
Remeasurement of leases	39,753	–	83,210	–	–	122,963
Acquisition through business combination (Note 42)	–	301,232	–	–	–	301,232
Disposals/Write-off	(9,490)	(1,072,080)	–	–	–	(1,081,570)
Reclassification	–	–	8,827	(8,827)	–	–
Transferred from construction in progress	94,759	847,207	–	–	(941,966)	–
At 31 December 2019	2,410,301	61,847,590	211,535	136,660	285,553	64,891,639
Accumulated depreciation						
At 1 January 2019	500,517	35,042,629	–	–	–	35,543,146
Adjustment under IFRS 16 (Note 3)	–	–	–	26,196	–	26,196
Depreciation	232,193	3,133,357	42,169	3,292	–	3,411,011
Acquisition through business combination (Note 42)	–	78,686	–	–	–	78,686
Reclassification	–	–	4,278	(4,278)	–	–
Disposals/write-off	(8,713)	(967,808)	–	–	–	(976,521)
At 31 December 2019	723,997	37,286,864	46,447	25,210	–	38,082,518
Accumulated impairment loss						
At 1 January 2019	8,436	1,372,505	–	–	71,734	1,452,675
Disposals/write-off	–	(19,185)	–	–	–	(19,185)
At 31 December 2019	8,436	1,353,320	–	–	71,734	1,433,490
Carrying amounts						
At 31 December 2019	1,677,868	23,207,406	165,088	111,450	213,819	25,375,631

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the year ended 31 December 2018

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2018	1,416,882	58,813,415	309,372	60,539,669
Additions	3,230	852,878	575,302	1,431,410
Acquisition (Note iv)	74,872	54,064	–	128,936
Disposals/Write-off	(25,456)	(863,729)	–	(889,185)
Reclassification	–	–	(8,837)	(8,837)
Transferred from construction in progress	76,353	362,336	(438,689)	–
At 31 December 2018	1,545,881	59,218,964	437,148	61,201,993
Accumulated depreciation				
At 1 January 2018	447,942	32,725,026	–	33,172,968
Depreciation	48,598	3,025,870	–	3,074,468
Disposals/write-off	(11,240)	(749,571)	–	(760,811)
Acquisition (Note iv)	15,217	41,304	–	56,521
At 31 December 2018	500,517	35,042,629	–	35,543,146
Accumulated impairment loss				
At 1 January 2018	8,436	1,388,281	71,734	1,468,451
Disposals/write-off	–	(18,679)	–	(18,679)
Acquisition (Note iv)	–	2,903	–	2,903
At 31 December 2018	8,436	1,372,505	71,734	1,452,675
Carrying amounts				
At 31 December 2018	1,036,928	22,803,830	365,414	24,206,172

Notes:

(i) Recognised depreciation is analysed as follows：

	2019	2018
	RMB'000	RMB'000
Cost of sales	**3,309,151**	3,034,259
Selling expenses	**272**	366
General and administrative expenses	**78,767**	16,544
Research and development expenses	**22,821**	23,299
	3,411,011	3,074,468

(ii) As at 31 December 2019, right-of-use assets with carrying amounts of RMB2,539,624,000 are included in property, plant and equipment (2018: assets under finance leases with carrying amounts RMB71,599,000).

	Carrying amounts		**Depreciation**
	As at 31 December 2019	**As at 1 January 2019**	**During the year 31 December 2019**
	RMB'000	**RMB'000**	**RMB'000**
Buildings	**594,191**	**439,690**	**178,350**
Oil engineering equipment and others	**1,668,894**	**1,385,348**	**228,632**
Land	**165,089**	**116,765**	**42,169**
Prepaid land leases	**111,450**	**118,336**	**3,292**
	2,539,624	**2,060,139**	**452,443**

(iii) For the year ended 31 December 2019, the total increase in the right-of-use assets included in property, plant and equipment was RMB949,189,000.

(iv) During the year ended 31 December 2018, the Group has acquired certain property, plant and equipment from a related party.

18 PREPAID LAND LEASES

	2019 RMB'000	2018 RMB'000
At 1 January	**118,335**	120,167
Additions	**–**	1,762
Reclassification to property, plant and equipment (Note 17)	**(118,335)**	(333)
Amortisation	**–**	(3,261)
At 31 December	**–**	118,335

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

The Group has initially applied IFRS 16, using the modified retrospective approach with an adjustment to the opening balance on 1 January 2019. Upon application of IFRS 16, prepaid land leases was reclassified to property, plant and equipment. See note 17.

Recognised amortisation is analysed as follows:

	2019 RMB'000	2018 RMB'000
Cost of sales	**–**	2,078
General and administrative expenses	**–**	1,168
Research and development expenses	**–**	15
	–	3,261

19 INTANGIBLE ASSETS

For the year ended 31 December 2019

	Computer softwares RMB'000	Others RMB'000	Total RMB'000
Cost			
At 1 January 2019	**159,914**	**242,725**	**402,639**
Additions	**10,706**	**233,274**	**243,980**
Acquisition through business combination (Note 42)	**24**	**9,298**	**9,322**
Disposals/Write-off	**(47)**	**(9,298)**	**(9,345)**
At 31 December 2019	**170,597**	**475,999**	**646,596**
Accumulated amortisation			
At 1 January 2019	**118,552**	**165,147**	**283,699**
Acquisition through business combination (Note 42)	**20**	**1,091**	**1,111**
Amortisation	**12,912**	**76,722**	**89,634**
Disposals/Write-off	**(47)**	**(9,298)**	**(9,345)**
At 31 December 2019	**131,437**	**233,662**	**365,099**
Carrying amounts			
At 31 December 2019	**39,160**	**242,337**	**281,497**

19 INTANGIBLE ASSETS (Continued)

For the year ended 31 December 2018

	Computer softwares	Others	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2018	146,826	233,888	380,714
Additions	13,088	–	13,088
Reclassification	–	8,837	8,837
At 31 December 2018	159,914	242,725	402,639
Accumulated amortisation			
At 1 January 2018	106,029	111,691	217,720
Amortisation	12,523	53,456	65,979
At 31 December 2018	118,552	165,147	283,699
Carrying amounts			
At 31 December 2018	41,362	77,578	118,940

Recognised amortisation is analysed as follows:

	2019	2018
	RMB'000	RMB'000
Cost of sales	**78,013**	57,654
General and administrative expenses	**8,517**	7,227
Research and development expenses	**3,104**	1,098
	89,634	65,979

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures

	2019	2018
	RMB'000	RMB'000
At 1 January	**218,813**	194,465
Share of total comprehensive income	**10,214**	24,348
Transferred to a subsidiary (Note 42)	**(205,236)**	–
At 31 December	**23,791**	218,813

The interests in each joint venture are as follows:

	2019	2018
	RMB'000	RMB'000
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun")	**2,105**	1,547
Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering")	**13,383**	13,383
Zhong Wei Energy Service Co. Limited ("Zhong Wei")	**8,303**	8,962
SinoFTS	**–**	194,921
	23,791	218,813

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(a) Interests in joint ventures (Continued)

The details of joint ventures, unlisted and established as limited companies, of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Qianjiang HengYun	The PRC	2,100 (2018: 2,100)	–	49.10% (2018: 49.10%)	Transportation services/ The PRC
Gulf Petroleum Engineering	Kuwait	27,312 (2018: 27,312)	–	49.00% (2018: 49.00%)	Oilfield service/Kuwait
Zhong Wei	The PRC	305,000 (2018: 305,000)	–	50.00% (2018: 50.00%)	Oilfield technical service/ The PRC
SinoFTS (Note 42)	The PRC	–	N/A (2018: 55,000)	N/A (2018: 55.00%)	Petroleum technical service/ The PRC

The above joint ventures are accounted for using equity method.

Notes:

(i) The decision of financial and operating strategies requires unanimous consent from the Group and other ventures as stated in the contracts signed by the both parties. The equities of joint ventures are measured by the joint ventures.

(ii) Commitments and contingent liabilities of the joint ventures
As at 31 December 2019 and 2018, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

The detailed financial information of the major joint venture (SinoFTS) of the Group as at 31 December 2018 and up to 13 August 2019 (Note 42) is as follows:

	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	**N/A**	75,772
Current assets	**N/A**	239,569
Non-current assets	**N/A**	208,933
Total assets	**N/A**	448,502
Current liabilities	**N/A**	(91,617)
Total liabilities	**N/A**	(91,617)
Net assets	**N/A**	356,885
Share of equity by the Group (N/A) (2018: 55.00%)	**N/A**	196,287

	From 1 January to 13 August 2019	2018
	RMB'000	RMB'000
Revenue	**112,551**	246,104
Depreciation and amortisation	**16,167**	21,260
Interest income	**82**	68
Interest expense	**47**	312
Income tax expense	**6,330**	2,555
Profit for the period/year and total comprehensive income for the year	**18,756**	48,727
Share of total comprehensive income (55.00%) (2018: 55.00%)	**10,316**	26,800

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

	2019	2018
	RMB'000	RMB'000
Loss for the year and total comprehensive expense for the year	**(182)**	(4,889)

20 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(b) Interests in associates

	2019	2018
	RMB'000	RMB'000
At 1 January	**14,010**	12,581
Share of total comprehensive income	**3,685**	2,135
Dividend paid	**(1,768)**	(706)
At 31 December	**15,927**	14,010

The details of associate, unlisted and established as limited companies, of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	The PRC	10,000 (2018: 10,000)	–	35.00% (2018: 35.00%)	Oil and natural gas exploration/The PRC
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	The PRC	10,000 (2018: 10,000)	–	20.00% (2018: 20.00%)	Oil and natural gas exploration/The PRC
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	The PRC	5,000 (2018: 5,000)	–	37.00% (2018: 37.00%)	Oil and natural gas exploration/The PRC
Henan Zhongyuan Petroleum Technology Service Company Limited ("Henan Zhongyuan")	The PRC	10,000 (2018: 10,000)	–	20.00% (2018: 20.00%)	Oil and natural gas exploration/The PRC
Henan Zhongyou Petroleum Technology Service Company Limited ("Henan Zhongyou")	The PRC	10,000 (2018: 10,000)	–	20.00% (2018: 20.00%)	Oil and natural gas exploration/The PRC

The above associates are accounted for using equity method.

Note:
Commitments and contingent liabilities of the associates
As at 31 December 2019 and 2018, there is no material contingent liability and commitment between the Group with its associates or associates themselves.

21 FINANCIAL ASSETS AT FVTOCI

	2019	2018
	RMB'000	RMB'000
Financial assets at FVTOCI (non-recycling)		
Non-current asset:		
Equity securities – the PRC	**32,847**	39,011
Current assets:		
Notes receivables	**1,446,389**	–

Note:
(i) Unlisted investments represent the Groups' equity interests in the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The Group designated its investment in unlisted investment as financial assets at FVTOCI (non-recycling), as the investment is held for strategic purpose.

(ii) As at 31 December 2019, certain note receivables were classified as financial assets at FVTOCI, as the Group's business model is achieved both by collecting contractual cash flows and by selling of these assets.

(iii) Financial assets at FVTOCI are measured at fair value based on their asset values. Refer to Note 43.4 for details. All financial assets at FVTOCI are denominated in RMB.

22 NOTES AND TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables		
– Sinopec Group and its subsidiaries	**4,760,085**	7,539,486
– Joint ventures	**13,848**	14,854
– Sinopec Group's joint ventures and associates	**111,715**	128,187
– Third parties	**9,624,697**	10,472,668
	14,510,345	18,155,195
Less: ECL allowance	**(2,513,990)**	(2,525,191)
Trade receivables – net	**11,996,355**	15,630,004
Notes receivables	**500**	481,196
Notes and trade receivables – net	**11,996,855**	16,111,200

As at 31 December 2019 and 2018, the Group's notes and trade receivables were approximately their fair value.

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

As at 31 December 2019 and 2018, none of the Group's notes receivables were pledged as collateral or overdue.

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

Ageing analysis of notes and trade receivables net of ECL allowance based on invoice date is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**10,515,700**	14,438,847
1 to 2 years	**1,002,971**	1,098,807
2 to 3 years	**322,870**	377,106
Over 3 years	**155,314**	196,440
	11,996,855	16,111,200

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

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	**2,525,191**	2,331,815
Acquisition (Note)	**–**	167,766
ECL allowance	**407,122**	517,168
Reversal	**(408,252)**	(489,947)
Receivables write-off as uncollectible	**(10,071)**	(1,611)
At 31 December	**2,513,990**	2,525,191

Note:
During the year ended 31 December 2018, the Group has acquired certain bills receivables and trade receivables from a related party.

23 PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments (Note (i))	**553,726**	460,949
Other receivables (Note (ii))		
Petty cash funds	**12,249**	22,440
Guarantee deposits	**1,412,018**	668,383
Disbursement of funds	**732,671**	676,630
Temporary payment	**623,580**	622,173
Escrow payments	**39,529**	9,738
Deposits	**46,742**	40,709
Export tax refund receivables	**8,663**	28,671
Excess value-added tax paid	**1,135,967**	827,769
Value-added tax to be certified	**10,285**	29,772
Prepaid value-added tax	**571,886**	353,291
Prepaid income tax	**24,200**	7,203
Others	**219,235**	311,489
	5,390,751	4,059,217
Less: ECL allowance	**(710,685)**	(614,716)
Prepayments and other receivables – net	**4,680,066**	3,444,501

Notes:

(i) As at 31 December 2019, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB85,051,000 (2018: RMB28,064,000).

(ii) As at 31 December 2019, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB270,291,000 (2018: RMB162,000,000), the joint ventures of the Group amounting to RMB356,000 (2018: RMB11,015,000) and, the associates and joint ventures of Sinopec Group amounting to RMB82,678,000 (2018: RMB15,510,000).

(iii) The amounts due from related parties are unsecured, interest free and repayable on demand.

(iv) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2019 and 2018 approximate their fair value.

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

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	**614,716**	630,225
Acquisition (Note)	**–**	7,057
ECL allowance	**283,271**	203,867
Reversal	**(183,559)**	(220,545)
Written off	**(3,743)**	(5,888)
At 31 December	**710,685**	614,716

Note:

During the year ended 31 December 2018, the Group has acquired certain prepayments and other receivables from a related party.

24 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Contract assets arising from construction and service contracts	**9,746,470**	9,092,544
Less: ECL allowance	**(39,182)**	(26,525)
	9,707,288	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 RMB179,571,000 (31 December 2018: RMB218,966,000).

(b) Contract liabilities

	2019 RMB'000	2018 RMB'000
Contract liabilities arising from construction and service contracts	**3,575,654**	4,390,293

Note：
The balance of contract liabilities as at 1 January 2019 is RMB4,390,293,000 (2018: RMB8,561,811,000) in which RMB2,694,951,000 (2018: RMB7,640,727,000) was recognised as revenue during the year.

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 31 December 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 RMB19.85 billion (2018: RMB16.95 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.

25 INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**1,030,568**	1,136,487
Finished goods	**53,875**	124,201
Work in progress	**8,781**	11,986
Turnover materials	**10,016**	8,734
	1,103,240	1,281,408
Less: Provision for impairment/write off	**(54,775)**	(64,085)
	1,048,465	1,217,323

For the years ended 31 December 2019 and 2018, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB20,732,079,000 and RMB15,286,834,000 respectively. For the year ended 31 December 2019, no provision for inventories (2018: nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB9,310,000 (2018: RMB8,371,000).

26 RESTRICTED CASH

	2019	2018
	RMB'000	RMB'000
Letter of credit guarantee deposits	**2,187**	2,162
Guarantee deposits	**15,918**	27,699
	18,105	29,861

As at 31 December 2019 and 2018, restricted cash represents the deposits in banks with initial maturity due for six months which are letter of credit guarantee deposits and guarantee deposits.

As at 31 December 2019 and 2018, the annual interest rates on restricted cash range from one to six months and are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash.

27 CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	RMB'000
Cash on hand	**6,792**	8,114
An initial term less than three months:		
– Sinopec Finance Company Limited	**52,438**	53,605
– Sinopec Century Bright Capital Investment Company Limited	**753,019**	1,005,234
– China CITIC Bank	**1**	1
– Third party banks and other financial institutions	**838,482**	1,106,626
	1,650,732	2,173,580

As at 31 December 2019 and 2018, the annual interest rates on cash at bank are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates the carrying amounts of the Group's cash and cash equivalents.

28 SHARE CAPITAL

	2019		2018	
	Number of shares	Share capital	Number of shares	Share capital
	Share	RMB'000	Share	RMB'000
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1.00 each	**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

	Number of shares	Share capital
	Share	RMB'000
As at 1 January 2018	14,142,660,995	14,142,661
Issue of shares (Note)	4,841,679,038	4,841,679
As at 31 December 2018, 1 January 2019, and 31 December 2019	**18,984,340,033**	**18,984,340**

Note:

According to the China Securities Regulatory Commission's license [2018] No. 142 "Approving the non-public issuance of shares by Sinopec Oilfield Service Corporation", the Company had issued 1,526,717,556 A shares at non-public issuance at RMB2.62 per share, to the China Petrochemical Corporation and Changjiang Pension Insurance Co., Ltd. – Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund; According to the China Securities Regulatory Commission's license [2018] No. 130 "Approving the issuance of additional overseas listed foreign shares by Sinopec Oilfield Service Corporation", the Company had issued 3,314,961,482 H shares at non-public issuance at HKD1.35 per share to the two designated investors – Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund Corporation Limited. After deduction of share issuance expenses of RMB20,783,000, the net proceeds from issuance of share is RMB7,637,715,000.

29 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

(i) The statement of financial position of the Company

	2019 RMB'000	2018 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries	**27,891,662**	27,891,662
Total non-current assets	**27,891,662**	27,891,662
Current assets		
Other receivables	**4,399,759**	4,357,230
Other current assets	**83**	–
Cash and cash equivalents	**170**	58,679
Total current assets	**4,400,012**	4,415,909
Total assets	**32,291,674**	32,307,571
Equity		
Share capital	**18,984,340**	18,984,340
Reserves	**13,268,995**	13,295,325
Total equity	**32,253,335**	32,279,665
Liabilities		
Current liabilities		
Tax payables	**26,531**	26,371
Trade payables	**11,800**	1,535
Other payables	**8**	–
Total current liabilities	**38,339**	27,906
Total liabilities	**38,339**	27,906
Total equity and liabilities	**32,291,674**	32,307,571
Net current assets	**4,361,673**	4,388,003
Total assets less current liabilities	**32,253,335**	32,279,665

Approved and authorised for issue by the board of directors on 24 March 2020.

Chairman of the Board: CHEN Xikun

Executive director, General Manager: YUAN Jianqiang

29 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

(ii) The statement of changes in equity of the Company

	Share capital	Share premium	Other capital reserve	Surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 30(i))		(Note 30(ii))		
At 1 January 2018	14,142,661	11,123,358	41,991	200,383	(896,529)	24,611,864
Total comprehensive income	–	–	–	–	30,086	30,086
Total transactions with owners:						
– Issuance of shares (Note 28)	4,841,679	2,796,036	–	–	–	7,637,715
At 31 December 2018 and 1 January 2019	**18,984,340**	**13,919,394**	**41,991**	**200,383**	**(866,443)**	**32,279,665**
Total comprehensive income	**–**	**–**	**–**	**–**	**(30,148)**	**(30,148)**
Total transactions with owners:						
Equity-settled share-based transaction (Note 31)	**–**	**–**	**3,818**	**–**	**–**	**3,818**
At 31 December 2019	**18,984,340**	**13,919,394**	**45,809**	**200,383**	**(896,591)**	**32,253,335**

The distributable profits of the Company are as follows:

	2019	2018
	RMB'000	RMB'000
Distributable profits	–	–

30 RESERVES

(i) Share premium and other capital reserve

In accordance with the relevant laws and regulations of the PRC, on this restructuring, the surplus of related asset revaluation, transaction with Sinopec Group, issue of share capital and share repurchases are reflected in this reserves. Other capital reserve includes the fair value of recongised share options (refer to Note 2.19 to the consolidated financial statements for the accounting policies).

(ii) Surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The statutory surplus reserve can be used to offset losses, if any, and may be converted into share capital by issuing new shares.

(iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its oil construction business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

(iv) Other comprehensive income reserve (non-recycling)

Other comprehensive income reserve (non-recycling) includes net accumulated movement in fair value of equity investment at FVTOCI (refer to Note 2.10 to the consolidated financial statements for the accounting policies).

31 SHARE-BASED PAYMENTS

Pursuant to the resolution of the fourteen meeting of the eighth session of the Board of Directors of the Company on 1 November 2016, the proposal regarding "the Adjustment of the List of Participants and the Number of the Share Options under the Proposed Grant of the Share Option Incentive Scheme" and the proposal regarding "the Proposed Grant under Share Option Incentive Scheme" was approved.

According to the Company's share option incentive scheme, the grant date of share options was 1 November 2016, and there were a total of 49,050,000 share options granted to 477 participants (0.3469% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB5.63 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

(i) achieving Compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;

(ii) ratio of earnings before interest, tax, depreciation and amorisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;

(iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and

(iv) the performance of the indicator for economic value added has reached the target set by the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 31 December 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
1 November 2020	**5.63**	17,084,000

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 31 December 2019, 17,084,000 share options with the total fair value RMB22,067,000 at the grant date of has not been exercised.

The movement of share options are as follows:

	No.of share options
Outstanding shares at 31 December 2018 and 1 January 2019	18,384,000
Lapsed during the year	(1,300,000)
Outstanding shares at 31 December 2019	17,084,000

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB3.96
Exercise price	RMB5.63
Expected volatility	46.17%
Maturity (years)	3-5 years
Risk-free interest rate	2.34% – 2.45%
Expected dividend yield	0%

Share option expenses of RMB3,818,000 (2018: nil) have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2019. As at 31 December 2019, no share option had been exercised yet.

At 31 December 2019, under the current capital structure, fully exercise of the outstanding shares will lead to issue of 17,084,000 (2018: 18,384,000) extra ordinary A share and increase in share capital of RMB17,084,000 (2018: RMB18,384,000), before issue expenses.

32 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At 1 January	**139,594**	136,312
Government grants received during the year	**319,697**	733,330
Recognised in the statement of comprehensive income for the year	**(367,080)**	(730,048)
At 31 December	**92,211**	139,594

Deferred income mainly related to income from the national special research government grants.

33 NOTES AND TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables		
– Sinopec Group and its subsidiaries	**1,148,614**	1,208,415
– Joint ventures	**19,723**	14,950
– Sinopec Group's joint ventures and associates	**1,311**	75,055
– Third parties	**18,898,646**	21,963,342
	20,068,294	23,261,762
Notes payables	**4,733,932**	3,797,742
	24,802,226	27,059,504

As at 31 December 2019 and 2018, the carrying amounts of the Group's notes and trade payables were approximately their fair value.

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

	2019 RMB'000	2018 RMB'000
Within 1 year	**24,029,249**	22,716,227
1 to 2 years	**377,839**	2,564,414
2 to 3 years	**61,377**	752,327
Over 3 years	**333,761**	1,026,536
	24,802,226	27,059,504

34 OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Salaries payables	**421,938**	510,507
Other tax payables	**519,525**	791,724
Output value-added tax to be certified	**–**	917
Interest payables (note (i))	**19,158**	12,893
Other payables (note (ii))		
Guarantee deposits	**385,596**	724,468
Deposits	**112,746**	64,712
Disbursement of funds	**688,996**	601,140
Temporary receipts	**237,657**	458,704
Escrow payments	**51,789**	66,355
Withheld payments	**65,867**	48,657
Others	**294,565**	243,671
	2,797,837	3,523,748

Notes:

(i) As at 31 December 2019 and 2018, interest payables above are related party balance with Sinopec Group and its subsidiaries.

(ii) As at 31 December 2019, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB42,026,000 (2018: RMB41,249,000), associates of the Group amounting to RMB466,000 (2018: Nil).

(iii) Amounts due to related parties are unsecured, interest free and repayable on demand.

35 BORROWINGS

	2019 RMB'000	2018 RMB'000
Current liabilities		
Loans from Sinopec Finance Company Limited (Note (i))	**12,080,000**	9,600,000
Loans from Sinopec Century Bright Capital Investment Company Limited (Note (i))	**2,323,075**	3,006,082
Loans from Sinopec Group (Note (i))	**6,000,000**	5,000,000
Lease liabilities/Finance lease liabilities (Note (ii))	**535,375**	149,022
	20,938,450	17,755,104
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Company Limited (Note (i))	**474,382**	536,291
Lease liabilities/Finance lease liabilities (Note (ii))	**1,833,446**	841,618
	2,307,828	1,377,909
	23,246,278	19,133,013

Notes:

(i) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**20,403,075**	17,606,082
1 to 2 years	**–**	536,291
2 years to 5 years	**474,382**	–
	20,877,457	18,142,373

As at 31 December 2019, loans from related parties are unsecured and their annual interest rates are in the range of 3.09% to 8.80% (2018: 3.30% to 8.80%).

35 BORROWINGS (Continued)

(ii) Lease liabilities/Finance lease liabilities

	2019 RMB'000	2018 RMB'000
Total minimum lease payments		
– Within 1 year	**574,873**	187,009
– 1 to 2 years	**578,535**	167,636
– 2 to 5 years	**1,224,369**	455,543
– over 5 years	**291,008**	330,199
	2,668,785	1,140,387
Future finance charges on lease liabilities (2018: Finance lease liabilities)	**(299,964)**	(149,747)
Present value of lease liabilities (2018: Finance lease liabilities)	**2,368,821**	990,640

	2019 RMB'000	2018 RMB'000
Present value of minimum lease payments:		
– Within 1 year	**535,375**	149,022
– 1 to 2 years	**517,746**	135,899
– 2 to 5 years	**1,057,059**	393,219
– over 5 years	**258,641**	312,500
	2,368,821	990,640
Less: Portion due within one year included under current liabilities	**(535,375)**	(149,022)
Portion due after one year included under non-current liabilities	**1,833,446**	841,618

Note:

(a) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance lease. Details for transitions to IFRS 16 are set out in Note 3.

(b) For the year ended 31 December 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 30 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.

For the year ended 31 December 2019, total cash outflow for the lease payment is RMB1,524,713,000.

(c) As at 31 December 2018, the Group leased certain oil engineering equipment for its business operations in finance lease arrangement. The remaining lease terms are from 1 to 7 years.

At 31 December 2018, finance lease liabilities included related party balances: the joint ventures and associates of Sinopec Group amounted to RMB959,900,000.

36 DEFERRED TAX

Deferred tax assets and liabilities recognised：

The analysis of deferred tax assets and liabilities is as follows：

	2019 RMB'000	2018 RMB'000
Deferred tax assets	**417,004**	492,438
Deferred tax liabilities	**(17,854)**	(22,658)
Deferred tax assets, net	**399,150**	469,780

The movement of the deferred tax account is as follows：

	2019 RMB'000	2018 RMB'000
At 1 January	**469,780**	448,305
(Credited)/Debited to profit or loss (Note 12)	**(71,565)**	24,421
Debited/(Credited) to other comprehensive income	**935**	(2,946)
At 31 December	**399,150**	469,780

The movement of deferred tax assets/(liabilities) during the years ended 31 December 2019 and 2018, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Deferred income RMB'000	Provision for impairment on assets RMB'000	Total RMB'000
At 1 January 2018	15,308	456,876	472,184
(Credited)/Debited to:			
Profit or loss	(35)	20,289	20,254
At 31 December 2018 and 1 January 2019	**15,273**	**477,165**	**492,438**
(Credited)/Debited to:			
Profit or loss	**(5,911)**	**(69,523)**	**(75,434)**
At 31 December 2019	**9,362**	**407,642**	**417,004**

Deferred tax liabilities

	Accelerated depreciation allowance RMB'000	Revaluation on assets RMB'000	Net movement in fair value of financial assets at FVTOCI RMB'000	Total RMB'000
At 1 January 2018	841	23,038	–	23,879
Debited/(Credited) to:				
Profit or loss	(331)	(3,836)	–	(4,167)
Other comprehensive income	–	–	2,946	2,946
At 31 December 2018 and 1 January 2019	**510**	**19,202**	**2,946**	**22,658**
Debited/(Credited) to:				
Profit or loss	**(26)**	**(3,843)**	**–**	**(3,869)**
Other comprehensive income	**–**	**–**	**(935)**	**(935)**
At 31 December 2019	**484**	**15,359**	**2,011**	**17,854**

36 DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Deferred tax assets represent the recognised tax losses carried forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax losses not recognised as deferred in tax assets in the Group is as follow:

	2019 RMB'000	2018 RMB'000
Tax losses not recognised as deferred tax assets	17,746,849	19,576,148

The Group did not recognise the above tax losses as deferred tax assets as the management believes that it is less likely such tax losses would be realised before its expiry date. The said tax losses not recognised as deferred tax assets would be expired within five years.

37 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2019 and 2018 not provided for in the financial statements are as follows:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for	517,738	136,467

(b) Lease commitments

The lease commitments for short-term leases (2018: total future minimum lease payments under non-cancellable operating leases) are as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	150,486	322,639
1 to 2 years	–	16,633
2 to 3 years	–	14,187
Over 3 years	–	29,531
Total	150,486	382,990

As at 31 December 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 31 December 2019, the Group has outstanding commitments of RMB129,625,000 in respect of its investment in joint ventures (2018: RMB129,625,000).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2019.

38(a) CASH GENERATED FORM OPERATIONS

	2019	2018
	RMB'000	RMB'000
Profit before income tax	**1,428,397**	613,769
Adjustments for:		
—Depreciation of property, plant and equipment	**3,411,011**	3,074,468
— (Gains)/Loss on write-off/disposal of property, plant and equipment	**(61,442)**	7,446
—Amortisation of other non-current assets	**1,847,550**	1,559,809
—Gains on disposal of/write-off other non-current assets	**(5,602)**	(7,447)
—Amortisation of prepaid land leases	**–**	3,261
—Amortisation of intangible assets	**89,634**	65,979
—Interest income	**(103,499)**	(87,886)
—Interest expense	**980,463**	662,443
—Share of profit from joint ventures	**(10,214)**	(24,348)
—Share of profit from associates	**(3,685)**	(2,135)
—(Reversal of provision)/Provision for ECL on trade receivables	**(1,130)**	27,221
—Provision/(Reversal of provision) for ECL on other receivables	**99,712**	(16,678)
—ECL allowance on contract assets	**12,657**	26,525
—Investment income from financial assets at FVTOCI	**(600)**	(600)
—Equity-settled share-based payment	**3,818**	–
—Gain on remeasurement of previously held equity interests of SinoFTS	**(27,474)**	–
—Gain on bargain purchase	**(8,439)**	–
Cash flows generated from operating activities before changes in working capital	**7,651,157**	5,901,827
Changes in working capital:		
—Other non-current assets	**(3,571,705)**	(2,158,735)
—Long-term receivables	**–**	233,061
—Inventories	**192,919**	(6,136)
—Notes and trade receivables	**2,802,389**	2,138,276
—Prepayments and other receivables	**(1,294,503)**	(106,011)
—Restricted cash	**11,756**	(15,323)
—Provisions	**(146,486)**	595,742
—Contract assets	**(653,926)**	(2,468,242)
—Contract liabilities	**(822,173)**	(2,397,934)
—Deferred income	**(47,383)**	3,282
—Notes and trade payables	**(1,763,122)**	(2,706,262)
—Other payables	**(777,826)**	(1,701,191)
Cash generated from/(used in) operations	**1,581,097**	(2,687,646)

38(b) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

As at 31 December 2019, the details changes in the Group's liabilities arising from financing activities are as below:

	Borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2019	18,142,373	990,640	19,133,013
Adjustment under IFRS 16 (Note 3)	–	944,479	944,479
At 1 January 2019 (Adjusted)	18,142,373	1,935,119	20,077,492
Changes from financing cash flows:			
Proceeds from borrowings	38,367,042	–	38,367,042
Repayments of borrowings	(35,715,939)	–	(35,715,939)
Capital element of lease rentals paid	–	(518,657)	(518,657)
Interest element of lease rentals paid	–	(78,284)	(78,284)
Total changes from financing cash flows	2,651,103	(596,941)	2,054,162
Other changes:			
Addition of lease liabilities	–	826,226	826,226
Remeasurement of leases	–	122,963	122,963
Interest expenses on lease liabilities	–	124,218	124,218
Exchange difference	83,981	(42,764)	41,217
Total other changes	83,981	1,030,643	1,114,624
At 31 December 2019	20,877,457	2,368,821	23,246,278

As at 31 December 2018, the details changes in the Group's liabilities arising from financing activities are as below:

	Borrowings	Finance lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018	17,966,656	81,881	18,048,537
Changes from financing cash flows:			
Proceeds from borrowings	35,585,650	500,000	36,085,650
Repayments of borrowings	(35,608,897)	(117,546)	(35,726,443)
Total changes from financing cash flows	(23,247)	382,454	359,207
Other changes:			
Transferred from deposits received and other payables	–	526,305	526,305
Exchange difference	198,964	–	198,964
Total other changes	198,964	526,305	725,269
At 31 December 2018	18,142,373	990,640	19,133,013

39 PROVISIONS

	Provision for the pending litigations	Provision for onerous contracts	Provision for loss on judicial reorganisation	Total
	RMB'000 (Note (i))	RMB'000 (Note (ii))	RMB'000 (Note (iii))	RMB'000
At January 2018	–	–	–	–
Provision during the year	–	120,466	475,276	595,742
At 31 December 2018 and 1 January 2019	**–**	**120,466**	**475,276**	**595,742**
Provision during the year	1,915	–	–	1,915
Realisation during the year	–	(37,730)	(110,671)	(148,401)
At 31 December 2019	**1,915**	**82,736**	**364,605**	**449,256**

Notes:

(i) The Group recognised provision amounting to RMB1,915,000 based on the estimated claim amount.

(ii) As at 31 December 2019, the Group had a provision of approximately RMB82,736,000 (2018: RMB120,466,000) for onerous contracts, of which the expected unavoidable costs of meeting the performance obligation as stated in construction contracts have exceeded the economic benefits expected to be received. The provision was recognised for the contract based on the estimated minimum net cost of completing the contract.

(iii) On 16 August 2018, Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned subsidiary of the Company (the "Brazil Subsidiary") applied for judicial reorganisation 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, which approved Brazil subsidiary's entered into judicial reorganisation and Nascimento & Rezende Advogados, the law firm, was appointed as the judicial reorganisation manager by Court of Rio.

According to relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganisation plan upon the court of Rio has approved that the Brazil Subsidiary is allowed to implement the legal reorganisation procedure. Such legal reorganisation is conditional upon the approval of the reorganisation plan from the creditors' meeting and the court of Rio.

For the purpose of obtaining approval from creditors' meeting and the court of Rio in Brazil, the Brazil Subsidiary's reorganisation plan shall include fully settlement of the amount due to employees in respect of the project, repayment of a proportion of debts due to suppliers, service providers and subcontractors, and payment of legal fees, fees on judicial authorities and other service fees in relation to the implementation of the legal reorganisation procedure. The management assessed that provision for loss on judicial reorganisation amounting to approximately RMB475,276,000 was made. As at 31 December 2019, the balance for the provision was approximately RMB364,605,000.

40 CONTINGENCIES

(a) Contingent liabilities and financial impacts due to pending litigation

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group. Therefore, the management does not make provision for the foresaid matters.

China National Chemical Engineering No. 11 Construction Co., Ltd. (the "Applicant") and Sinopec International Petroleum Services Corporation ("International services Corporation" or the "Respondent"), a wholly-owned subsidiary of the Group, has entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay approximately RMB456,810,000 for the project fee and the accrued interest, approximately RMB145,968,000 for the loss due to stoppage of work and the accrued interest, approximately RMB38,018,000 for the advance payment under the letter of guarantee and the accrued interest, and approximately RMB500,000 for attorney fee and the arbitration fee for the case (the "Arbitration").

As the case is still under trial, the Group does not make provision for the pending litigation since the management considered that the outcome of the litigation cannot be reasonably estimated and cannot determine its impact on the Group's financial position and operation result.

(b) Contingent liabilities and financial impacts from guarantee provided for other entities

As at 31 December 2019, there is no material contingency from guarantee provided for other entities (2018: none).

40 CONTINGENCIES (Continued)

(c) Foreign tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, on 10 March 2014, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted. 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. On 30 December 2019, the Brazilian subsidiary received a notice of administrative second level review and approved some expenditures, and the tax penalty has been revised to BRL73,195,000 (approximately US$18,130,700). The Brazilian subsidiary has filed a new administrative review on 13 January 2020. Since the tax penalties are not predictable, the Group did not provide the provision of such incident.

(d) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular [2007] No.664) issued by the State Administrative of Taxation in June 2007, the Group has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33%. Up to date, the Group has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter as at 31 December 2019. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, which might exist.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2019 and 2018.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	2019	2018
	RMB'000	RMB'000
Purchases of materials		
– Sinopec Group and its subsidiaries	**10,836,069**	8,097,321
Sales of products		
– Sinopec Group and its subsidiaries	**280,583**	111,870
Rendering of engineering services		
– Sinopec Group and its subsidiaries	**39,565,759**	36,501,508
Receiving of engineering services		
– Sinopec Group and its subsidiaries	**–**	394,110
Receiving of community services		
– Sinopec Group and its subsidiaries	**392,571**	1,002,930
Rendering of integrated services		
– Sinopec Group and its subsidiaries	**139,086**	–

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

	2019 RMB'000	2018 RMB'000
Receiving of integrated services		
– Sinopec Group and its subsidiaries	**149,848**	325,003
Rendering of technology development services		
– Sinopec Group and its subsidiaries	**191,215**	271,345
Rental income – buildings		
– Sinopec Group and its subsidiaries	**938**	571
Lease payment (2018: Rental expenses) – land and buildings		
– Sinopec Group and its subsidiaries	**205,628**	150,425
Lease payment (2018: Rental expenses) – equipment and vehicles		
– Sinopec Group's subsidiaries	**50,679**	57,526
Deposits interest income		
– Sinopec Group's subsidiaries	**2,289**	1,877
Loans interest expenses		
– Sinopec Group and its subsidiaries	**768,972**	582,557
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	**32,800**	–
Borrowings obtained		
– Sinopec Group and its subsidiaries	**38,367,042**	35,585,650
Borrowings repaid		
– Sinopec Group and its subsidiaries	**35,715,939**	35,608,897
Safety and insurance fund expenses		
– Sinopec Group	**80,643**	81,630
Safety and insurance fund refund		
– Sinopec Group	**113,180**	171,495
Receiving of transferred assets		
– Sinopec Group's subsidiaries	**–**	75,024

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	2019 RMB'000	2018 RMB'000
Rendering of engineering services		
– Associates and joint ventures of the Group	**6,722**	22,580
Receiving of engineering services		
– Associates and joint ventures of the Group	**2,133,557**	2,065,450
Lease payment		
– Associates and joint ventures of the Group	**1,123**	–

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Significant related party transactions arising with Sinopec Group's associates and joint ventures:

	2019 RMB'000	2018 RMB'000
Purchases of materials		
– Sinopec Group's associates and joint ventures	137,157	–
Rendering of engineering services		
– Sinopec Group's associates and joint ventures	308,687	312,970
Lease payment (2018: Rental expenses) – equipment		
– Sinopec Group's associates and joint ventures	147,445	62,524
Interest expenses on lease liabilities (2018: Interest expenses on finance lease)		
– Sinopec Group's associates and joint ventures	76,455	30,154

(d) Remuneration of key management personnel

Key management includes directors, 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:

	2019 RMB'000	2018 RMB'000
Fee	800	700
Salaries, allowances and bonus	7,711	6,082
Contributions to pension plans	462	538
Share-based payments	152	–
	9,125	7,320

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2019 Number of individuals	2018 Number of individuals
RMB0 to RMB500,000	4	4
RMB500,001 to RMB1,000,000	4	1
RMB1,000,001 to RMB2,000,000	1	–
	9	5

(e) Provision for counter guarantee

As 31 December 2019, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB500,000,000 (2018: Nil). The counter guarantee will be ended in November 2021.

42 BUSINESS COMBINATION

On 13 August 2019 ("Acquisition Date"), the Company's wholly-owned subsidiary, Sinopec Oilfield Service Co., Ltd. ("SOSC"), completed an acquisition of 45% equity interest in SinoFTS from FTS Netherlands International Company Limited for purchase consideration of RMB181,959,000. Before the transaction, SOSC held 55% equity interest in SinoFTS. After the transaction, SOSC hold 100% equity interest in SinoFTS. Therewith, SinoFTS became a wholly-owned subsidiary of SOSC.

SinoFTS is principally engaged in the provision of petroleum service and is allocated to special downhole operations segment.

Based on the purchase price allocation performed, details of the purchase consideration, the net assets and gain on bargain purchase acquired are as follows:

	RMB'000
Purchase consideration：	
Acquisition Date	
– Cash consideration for the purchase of 45% equity interest acquired	181,959
– Acquisition-date fair value of the 55% equity interest held before the acquisition	232,710
Total purchase consideration	**414,669**

	Fair value
	RMB'000
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash and cash equivalents	50,486
Trade receivables	113,324
Prepayments and other receivables	40,774
Inventories	24,061
Total current assets	**228,645**
Property, plant and equipment	222,546
Intangible assets	8,211
Other non-current assets	10,543
Total non-current assets	**241,300**
Total assets	**469,945**
Trade payables	39,076
Contract liabilities	7,534
Other payables	227
Total current liabilities	**46,837**
Net assets acquired	**423,108**
Gain on bargain purchase	**(8,439)**

SinoFTS contributed revenue of RMB110,763,000 and net profit of RMB23,365,000 to the Group for the period from the Acquisition Date to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and profit for the year ended 31 December 2019 would have been RMB69,982,698,000 and RMB995,312,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group established certain risk management policies to recognise and analyse the potential risk of the Group. The Group designed an internal control procedure according to proper acceptable risk level in order to monitor the risk position of the Group. Both risk management policies and related internal control system will be reviewed regularly to adapt the market condition or changes in operating activities of the Group. The implementation of internal control system will be reviewed regularly or randomly by the internal audit department in accordance to the risk management policies.

43.1 Category of financial assets and liabilities

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at FVTOCI (non-recycling)		
– Unlisted equity investments	**32,847**	39,011
– Notes receivables	**1,446,389**	–
	1,479,236	39,011
Financial assets measured at amortised cost		
– Restricted cash and cash and cash equivalents	**1,668,837**	2,203,441
– Notes and trade receivables	**11,996,855**	16,111,200
– Other receivables	**4,107,756**	2,971,087
	17,773,448	21,285,728
	19,252,684	21,324,739
Financial liabilities		
Financial liabilities measured at amortised cost		
– Notes and trade payables	**24,802,226**	27,059,504
– Other payables	**2,797,837**	3,523,748
– Borrowings	**23,246,278**	19,133,013
	50,846,341	49,716,265

43.2 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

(i) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalents, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Group's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2019 and 2018, the Group did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not significant because the fixed term deposits are short-term deposits.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

Interest-bearing financial instruments held by the Group are as below：

	2019		2018	
	%	RMB'000	%	RMB'000
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	**2.00%-4.00%**	**35,270**	1.30%-2.00%	161,363
Other receivables	**–**	**–**	2.00%	40,477
Borrowings (Note 35)	**3.30%-8.58%**	**20,448,821**	3.30%-7.00%	15,590,640
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 26 and 27)	**0.3%-0.35%**	**1,633,567**	0.3%-0.35%	2,042,078
Borrowings (Note 35)	**3.09%-8.80%**	**2,797,457**	3.51%-8.80%	3,542,373

As at 31 December 2019, it is estimated that a general increase of 50 basis points in the borrowings with variable interest rates, with all other variables held constant, would decrease the Group's net profit and decrease the shareholder's equity for the year by approximately RMB10,490,000 (2018: decrease the shareholder's equity for the year by approximately RMB13,284,000).

As at 31 December 2019, a general decrease of 50 basis points in variable interest rates would have had the same magnitude but of opposite effect on the above borrowings, on the basis that all other variables remain constant.

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at the reporting date and arised from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for last year.

(ii) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's major operational activities are carried out in the PRC and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily denominated in US Dollars, Saudi Riyals and Kuwait Dinars.

The foreign currency assets and liabilities include restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings which are denominated in foreign currencies.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

The following table details the financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

As at 31 December 2019	USD	SAR	KWD	Others
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	723,199	83,446	266,330	316,418
Trade and other receivables	4,705,118	804,220	623,224	753,848
Trade and other payables	(1,079,366)	(577,237)	(128,467)	(294,560)
Borrowings	(2,797,456)	–	–	–
Net exposure in RMB	1,551,495	310,429	761,087	775,706

As at 31 December 2018	USD	SAR	KWD	Others
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	1,183,657	195,042	139,061	348,557
Trade and other receivables	5,247,132	662,220	581,071	630,773
Trade and other payables	(1,230,026)	(490,601)	(94,834)	(347,711)
Borrowings	(3,542,372)	–	–	–
Net exposure in RMB	1,658,391	366,661	625,298	631,619

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies in order to minimise foreign exchange risk. The Group may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2019 and 2018, the Group did not enter into any forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the effect on the Group's net profit in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2019 and 2018:

	2019	2018
	RMB'000	RMB'000
Decrease in net profit		
– USD	(58,181)	(62,190)
– SAR	(11,641)	(13,750)
– KWD	(28,541)	(23,449)

As at 31 December 2019 and 2018, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect, on the basis that all other variables remain constant.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from restricted cash, cash and cash equivalent, notes and trade receivables, contract assets and other receivables.

In order to minimise credit risk, the Group has developed and maintains the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is based on the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.2 Financial risk factors (Continued)

(b) Credit risk (Continued)

For receivables, the Group has policies to limit the credit risk exposure. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, shorten or cancel credit periods, to ensure the overall credit risk is limited to a controllable extent.

The Group has certain concentration of credit risk in respect of trade receivables as 51.33% (2018: 58.64%) of the total trade receivables was due from the Group's five largest customers. The Group has certain concentration of credit risk in respect of other receivables as 45.48% (2018: 46.92%) of the total other receivables was due from the Group's five largest customers.

For financial assets at amortised cost and contract assets, the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. The Group does not hold any collateral from its debtors.

Impairment assessment under ECL model

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Trade receivables and contract assets

As set out in Note 2.10, the Group assesses ECL under IFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Based on the Group's assessment of historical credit loss experience of the existing debtors and all available forward looking information, for trade receivables and contract assets, the Group used estimated loss rates based on aging for classes with different credit risk characteristics and exposures.

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.2 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment assessment under ECL model (Continued)

Other receivables

The Group measures the loss allowance equal to 12-month ECL of other receivables. There is no significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on aging for classes with different credit risk characteristics and exposures.

Restricted cash and cash and cash equivalents

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks, and the Group considers the credit risk to be insignificant that the losses due to the breach of contract is minimal.

The Group's maximum exposure to credit risk is the carrying amount of each financial asset in the statement of financial position as stated in Note 43.1. The Group did not provide any other guarantees that may pose credit risk to the Group.

(c) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Regarding to the management of liquidity risk, the Group's management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The Group's management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient commitment on reserve fund from major financial institute to meet needs of short-term and long-term liquidity. Besides, to improve the cash flow position, the Group also considers to negotiate with suppliers with a view to lower the amount due.

The Group raised working capital through its operations, bank and other borrowings. As at 31 December 2019, the Group's unused line of credit was RMB6,308,264,000 (2018: RMB5,773,675,000).

The financial assets and liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows:

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019						
Restricted cash and cash and cash equivalents	**1,668,837**	**–**	**–**	**–**	**1,668,837**	**1,668,837**
Notes and trade receivables	**11,996,855**	**–**	**–**	**–**	**11,996,855**	**11,996,855**
Other receivables	**4,107,756**	**–**	**–**	**–**	**4,107,756**	**4,107,756**
Notes and trade payables	**(24,802,226)**	**–**	**–**	**–**	**(24,802,226)**	**(24,802,226)**
Other payables	**(2,797,837)**	**–**	**–**	**–**	**(2,797,837)**	**(2,797,837)**
Borrowings	**(21,535,652)**	**(616,467)**	**(1,736,684)**	**(291,009)**	**(24,179,812)**	**(23,246,278)**
	(31,362,267)	**(616,467)**	**(1,736,684)**	**(291,009)**	**(34,006,427)**	**(33,072,893)**
As at 31 December 2018						
Restricted cash and cash and cash equivalents	2,203,441	–	–	–	2,203,441	2,203,441
Notes and trade receivables	16,111,200	–	–	–	16,111,200	16,111,200
Other receivables	2,971,087	–	–	–	2,971,087	2,971,087
Notes and trade payables	(27,059,504)				(27,059,504)	(27,059,504)
Other payables	(3,523,748)	–	–	–	(3,523,748)	(3,523,748)
Borrowings	(17,793,514)	(703,957)	(455,543)	(330,199)	(19,283,213)	(19,133,013)
	(27,091,038)	(703,957)	(455,543)	(330,199)	(28,580,737)	(28,430,537)

43 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

43.3 Capital risk management

The objectives of the Group's capital risk management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital. Net liabilities are calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the sum of total equity and net liabilities as shown in the consolidated statement of financial position. Total equity includes the equity attributable to shareholders of the parent and non-controlling interests.

At the reporting date, the gearing ratio is set out as below:

	2019	2018
	RMB'000	RMB'000
Total borrowings (Note 35)	**23,246,278**	19,133,013
Less: Cash and cash equivalents (Note 27)	**(1,650,732)**	(2,173,580)
Net debts	**21,595,546**	16,959,433
Total equity	**6,763,872**	5,778,410
Total capital	**28,359,418**	22,737,843
Gearing ratio	**76%**	75%

43.4 Fair value estimation

Fair value measurements

Other than noted as below, the carrying value of the Group's financial assets and liabilities stated at the consolidated statement of financial position are not materially different from their fair values.

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The Group discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

(a) Recurring fair value measurement of the Group's financial assets measured at fair value)

The financial assets measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	Level 3	
	2019	2018
	RMB'000	RMB'000
Financial assets at FVTOCI (non-recycling)		
– Unlisted equity investments	**32,847**	39,011
– Notes receivables	**1,446,389**	–
	1,479,236	39,011

The reconciliation of the carrying amounts of assets classified within Level 3 of the fair value hierarchy is as follows:

	2019	2018
	RMB'000	RMB'000
At 1 January	**39,011**	24,389
Addition	**1,446,389**	–
Movement in fair value recognised in other comprehensive income	**(6,164)**	14,622
At 31 December	**1,479,236**	39,011

The fair value of the unlisted equity securities is measured using valuation techniques with reference to the net asset value. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

There have been no transfers into or out of Level 3 during the year ended 31 December 2019 (2018: Nil).

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying value of the Group's financial instruments carried at cost or amortised cost are not materially different from fair value as at 31 December 2019 and 31 December 2018.

44 POST BALANCE SHEET EVENTS

Since the outbreak of novel coronavirus (hereinafter referred to as "COVID-19") occurs nationwide in January 2020, the prevention and control measures are carried out continuously.

The COVID-19 has affected the Group's operations in certain regions, including its subsidiary Jianghan Petroleum Engineering Company in Hubei, and the extent of the impact will depend on the situation of the prevention and control measures, its duration, and the implementation of various regulatory policies.

In order to combat the COVID-19, all members of the Group's subsidiaries actively implement the decision-making and deployment of the Central Committee of the Communist Party of China, the State Council and the region's epidemic prevention and control, improve the prevention and control mechanism and arrangement of measures, combined with the actual situation of each enterprise, take multiple measures to maintain operation smoothly.

The Group will continue to pay close attention to the development of the COVID-19 and assess and actively respond to its impact on the financial status and operating results of the Group. As at report date, the assessment is still under processing.

45 BUSINESS COMBINATION UNDER SAME CONTROL

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.

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2019 and 2018, the Group has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/Place of incorporation and type of legal entity	Registered capital	Actual interest held		Principal activities and place of operation
			Direct held	Indirect held	
Sinopec Oilfield Service Co., Ltd.	The PRC/Limited Company	RMB4,000,000	100% (2018: 100%)	–	Petroleum engineering and technical services/The PRC
Sinopec Shengli Oil Engineering Company Limited *	The PRC/Limited Company	RMB700,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Zhongyuan Oil Engineering Company Limited *	The PRC/Limited Company	RMB450,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Jianghan Oil Engineering Company Limited *	The PRC/Limited Company	RMB250,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec East China Oil Engineering Company Limited *	The PRC/Limited Company	RMB864,297	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec North China Oil Engineering Company Limited *	The PRC/Limited Company	RMB886,300	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Southwest Oil Engineering Company Limited *	The PRC/Limited Company	RMB300,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering Geophysical Company Limited *	The PRC/Limited Company	RMB300,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering and Construction Corporation *	The PRC/Limited Company	RMB500,000	–	100% (2018: 100%)	Engineering and Construction/ The PRC
SinoFTS Petroleum Services Limited *	The PRC/Limited Company	US$55,000	–	100% (2018: N/A)	Provision of petroleum service/ The PRC
Sinopec Shanghai Offshore Oil Engineering Company Limited *	The PRC/Limited Company	RMB2,000,000	–	100% (2018: 100%)	Offshore Oil engineering and technical services/The PRC
Sinopec International Oil Engineering Company Limited *	The PRC/Limited Company	RMB700,000	–	100% (2018: 100%)	Petroleum engineering and technical services/The PRC

* The Company holds shares through Sinopec Oilfield Service Co., Ltd..

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Section XII Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 25 March 2020 (Wednesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman of the Company;
2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;
3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of Grant Thornton (Special General Partnership); The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by Grant Thornton Hong Kong Limited;
4. Documents and Announcements disclosed in the reporting period;
5. The Article of Associations of the Company;
6. Copies of the Annual Reports and Interim Reports from 1993 to 2019 and the First Quarter Report and the Third Quarter Report from 2002 to 2019 of the Company.

This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, except the financial statements prepared in accordance with IFRSs and its related reports of the auditors, the Chinese version is considered to be more accurate.