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)

2020
Interim Report

IMPORTANT NOTES

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

2. The 2020 Interim Report has been approved at the twenty-first meeting of the ninth session of the Board. Seven directors of the Company attended the meeting. Mr. Wei Ran, Director, was absent from the meeting due to official affairs, but had authorized Mr. Chen Xikun, Chairman, to attend the meeting and exercise his rights.

3. The interim financial statements of the Company for 2020, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("**PRC ASBE**") and International Financial Report Standards ("**IFRS**"), are unaudited. But the interim financial statements of the Company for 2020 which have been prepared in accordance with IFRS have been reviewed by Grant Thornton Hong Kong Limited.

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

5. According to the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2020, and no issue of bonus shares by way of capitalization of common reserves.

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

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

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

Contents

Section I Definitions

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

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

Section II Company Profile and Principal Financial Indicators

1. Company Information

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

2. Contact Persons and Contact Information

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

3. The Changes for the Company Profile

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

4. The Changes for the Information Disclosure and Inspection Place

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

5. Stock Briefs

Share Type	Place of listing	Stock name	Stock Code	Stock name before altering
A share	SSE	SINOPEC SSC	600871	–
H share	HKSE	SINOPEC SSC	1033	–

6. Other Related Information

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

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

(1) Key financial data

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Increase/(Decrease)
	RMB'000	RMB'000	(%)
Operating income	**31,432,437**	30,256,030	3.9
Operating profit	**454,574**	736,554	-38.3
Profit before income tax	**452,870**	742,777	-39.0
Net profit attributable to equity shareholders of the Company	**298,277**	509,428	-41.4
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**227,701**	430,060	-47.1
Net cash inflow from operating activities ("-" for outflow)	**281,258**	-709,159	Not applicable

	As at 30 June 2020	As at 31 December 2019	Increase/(Decrease)
	RMB'000	RMB'000	(%)
Total equity attributable to equity shareholders of the Company	**7,374,726**	6,763,872	9.0
Total assets	**65,539,809**	62,069,378	5.6

(2) Key financial indicators

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Increase/(Decrease) (%)
Basic earnings per share (RMB/share)	0.016	0.027	-40.7
Diluted earnings per share (RMB/share)	0.016	0.027	-40.7
Basic earnings per share deducted extraordinary gain and loss (RMB/share)	0.012	0.023	-47.8
Weighted average return on net assets	4.31%	8.44%	decreased by 4.13 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	3.29%	7.13%	decreased by 3.84 percentage points

Explanations for key financial data and key financial indicators

☐ Applicable √ Not Applicable

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

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2020	For the six months ended 30 June 2019	As at 30 June 2020	As at 1 January 2020
	RMB'000	RMB'000	RMB'000	RMB'000
PRC ASBE	298,277	509,428	7,374,726	6,763,872
Adjustment of items and amount in accordance with the IFRS:				
Specific reserve (a)	310,278	294,485	–	–
IFRS	608,555	803,913	7,374,726	6,763,872

Explanations for the related differences

(a) Specific reserve

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

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

Extraordinary gain and loss items	Amount (RMB'000)
Disposal of non-current assets	3,839
Government grants recognized in profit or loss during the current period	49,257
Gain and loss on debt restructuring	37,298
Other non-operating income and expenses excluding the aforesaid items	-1,703
Effect of income tax	-18,115
Total	70,576

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

	As at 30 June 2020	As at 31 December 2019	Increase/(Decrease) from last year
	RMB'000	RMB'000	(%)
Total assets	**65,539,809**	62,069,378	5.6
Total liabilities	**58,165,083**	55,305,506	5.2
Total equity attributable to equity shareholders of the Company	**7,374,726**	6,763,872	9.0
Net assets per share attributable to equity shareholders of the Company (RMB)	**0.388**	0.356	9.0

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Increase/(Decrease) from corresponding period of last year
	RMB'000	RMB'000	(%)
Profit attributable to equity shareholders of the Company	**608,555**	803,913	(24.3)
Basic and diluted earnings per share	**RMB0.032**	RMB0.042	(23.8)
Net cash generated from/(used in) operating activities	**281,258**	(709,159)	Not applicable
Return on net assets	**8.25%**	12.21%	Decreased by 3.96 percentage points
Net cash generated from/(used in) operating activities per share	**RMB0.015**	RMB (0.037)	Not applicable

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. As at 30 June 2020, the Company provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with execution 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. the Company is able to provide integrated services in high-acid oil & gas, tight oil & gas, shale gas and heavy oil reservoirs which was awarded National Special Prize for Progress in Science and Technology and the Golden Prize of National High-Quality Project for the Sichuan-Eastern China Natural Gas Transportation Pipeline project. The 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 & 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, there are no significant changes of the main business of the Company.

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

On 30 June 2020, according to the PRC Accounting Standards for Business Enterprises, the Company's total assets were RMB65,539,809,000, an increase of 5.6% from the end of the previous year, mainly due to delayed project settlement caused by the Epidemic and increase in occupation of contract assets, of which foreign assets were RMB18,491,934,000, accounting for 28.2% of the total assets; The net assets attributable to equity shareholders of the Company were RMB7,374,726,000, increased by 9.0% from the end of the previous year, mainly due to the increase in special reserves of RMB310,278,000 and the accumulation of operations in the first half of the year; the ratio of total liability to assets was 88.7%, a decrease of 0.4 percentage points from the end of the previous year.

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

3. Analysis on core competitiveness in the reporting period

The Company has service capabilities covering the entire oilfield service industry chain. As at 30 June 2020, the Company has 690 onshore drilling rigs (Among them, 301 units above 7,000 meters), 14 offshore drilling platforms, 69 sets of seismic acquisition equipment and 142 sets of imaging logging tools, 445 sets of comprehensive logging instruments, 133 sets of Model 2500 and Model 3000 fracturing trucks and 43 sets of 750 HP and above workover rigs and 1,797 professional teams, which are able to provide oil and gas fields with services throughout the life cycle from exploration to development and production can bring value to oil companies. The Company has been the largest onshore drilling contractor for Saudi Aramco, Kuwait Petroleum Company and Ecuadorian National Oil Company, and the largest international geophysical contractor in Algeria for many years.

The Company is the biggest provider of petroleum engineering services and integrated oilfield technical services in China, with over 50 years of experiences for oilfield service and strong execution capabilities. Its representative projects include Puguang gas field, Fuling shale gas, Yuanba gas field, Tahe oilfield, 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, high-acidic oil & gas reservoirs, ultra-deep drilling and completion etc, which can bring sustainable high value-added 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 CPC in China, and the growing number of clients overseas.

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

Section IV Discussion and Analysis of Operation

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

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

Interim results

In the face of the outbreak of the epidemic and the plunge of international oil prices in the first half of 2020, the Company focused on the prevention and control of the epidemic, actively promoted work and production resumption, vigorously explored markets and optimized resources allocation, achieving better operating results than expected. The Company's consolidated revenue was RMB31,432,437,000, representing an increase of 3.9% compared to RMB30,256,030,000 for the same period of last year. Net profit attributable to shareholders of the Company was RMB298,277,000, decreased by 41.4% compared to RMB509,428,000 for the same period of last year; basic earnings per share was RMB0.016, decreased by RMB0.011 compared with the same period of last year; and net cash inflow from operating activities was RMB281,258,000.

In the first half of 2020, the Company's operating results declined firstly and recovered later, with results increasing from negative to positive and significant improvement in major operating indicators in the second quarter. In the first quarter, due to the impacts of the epidemic, net profit attributable to shareholders of the Company was RMB-182,308,000, representing a year-on-year decrease of 196.9%. In the second quarter, the Company seized the favorable opportunity of the continuous improvement in the domestic prevention and control of the epidemic and solidly advanced production and operation, reform and development as well as other work with the campaign on achieving breakthroughs and improving efficiency in 100 days as the driver, achieving net profit attributable to shareholders of the Company of RMB480,585,000, representing a year-on-year increase of 49.6%.

Market review

In the first half of 2020, the global spread of the epidemic brought greater downward pressures on the global economy, resulting in significant increases in instabilities and uncertainties. The economic operation in China was also affected. The gross domestic product (GDP) decreased by 1.6% over the same period of last year. The international crude markets witnessed oversupply due to the macro economic downturn and other factors and international oil prices plunged significantly with the average price below the same period of last year. The average Europe Brent Spot Price was USD40.2 per barrel, representing a decrease of 39.1% as compared to the same period of last year. As a result, oil companies reduced upstream exploration and development capital expenditure, bringing significant shock to the oilfield service industry. However, the three major domestic oil companies continued to promote oil and gas exploration and development, providing support to the workload of the Company.

In the first half of 2020, the Company made more efforts in improving the engineering technical service capability and strengthened win-win cooperation with oil companies, achieving increases in market expansion against the market trend. The total newly signed contracts amounted to RMB42.97 billion, representing a year-on-year increase of 0.3%. In particular, the newly signed contracts in the Sinopec Group market amounted to RMB21.84 billion, representing a year-on-year decrease of 5.0%. The newly signed contracts in domestic external markets amounted to RMB8.98 billion, representing a year-on-year increase of 13.1%. The newly signed contracts in overseas markets amounted to RMB12.15 billion, representing a year-on-year increase of 1.9%.

Operation review

In the face of the complicated and severe market situation in the first half of 2020, the Company coordinated the prevention and control of the epidemic and work and production resumption, played its role as the main force for oil and gas exploration and development, coordinated and optimized the market layout, reinforced the production organization of projects under construction, explored the market and tapped into the potential to reduce costs, reducing the adverse effects of the epidemic and the plunge in oil prices to the maximum extent and maintaining stable production and operation on the whole.

A. Geophysical service

In the first half of 2020, the Company's geophysical services business recorded a revenue from principal business of RMB1,808,761,000, representing a decrease of 3.3% from RMB1,869,906,000 for the corresponding period of last year. The completed 2D seismic exploration accumulated for 6,479 kilometers, representing a year-on-year decrease of 50.8%; while the completed 3D seismic exploration accumulated for 11,368 square kilometers, representing a year-on-year increase of 120.7%; the qualified rates of data records for both 2D and 3D seismic exploration are 100%. In the first half of the year, the Company vigorously promoted advanced technologies such as high-density seismic exploration, high-precision seismic exploration in complex mountainous areas and nodal seismic acquisition system to comprehensively enhance its oil and gas exploration capabilities. It actively served oil and gas exploration of Sinopec in Shunbei, southeast Sichuan and other regions. In the first half of the year, the newly signed contracts in the Sinopec Group market amounted to RMB1.24 billion, representing a year-on-year increase of 12.7%. The Company vigorously expanded external markets. It signed the contract on the 3D seismic information collection program of CNOOC Shenzhen Branch and renewed the ship service program of Zhanjiang Branch with a total contracted amount of RMB240 million.

B. Drilling service

In the first half of 2020, the Company's drilling services business recorded a revenue from principal business of RMB16,917,552,000, representing an increase of 0.8% from RMB16,779,456,000 for the corresponding period of last year. The completed drilling footage reached 4,880 kilometers, representing a year-on-year decrease of 2.6%. The average utilization rate of domestic drilling teams reached 80%. The Company continued to optimize the team and market layout, enhanced the production operation and organization, strengthened technical breakthroughs, optimized construction techniques, improved construction quality and operation efficiency of drilling rigs and achieved remarkable results in on-site improvement of the quality, service speed and efficiency. The average drilling cycle at key construction area in "Northwest China, North China, Northeast China and Sichuan" and the time on complicated failures reduced by 20.3% and 44.1% compared with the same period of last year, respectively, fully guaranteeing the construction of key production capacity in the second phase of Weirong shale gas field, Shunbei oil and gas field, West Sichuan marine natural gas field, Erdos tight gas field and old oilfields in the east and effectively serving high-quality exploration and efficiency development of Sinopec. It firmly seized the favorable opportunity of rigs insufficiency in the domestic external markets and continuously consolidated and expanded the markets of scale such as PetroChina and CNOOC.

C. Logging and mud logging service

In the first half of 2020, the Company's logging and mud logging services business recorded a revenue from principal business of RMB1,138,241,000, representing an increase of 8.6% from RMB1,048,528,000 for the corresponding period of last year. The completed logging projects accumulated for 135,940,000 standard meters, representing a year-on-year increase of 10.9%. The completed mud logging projects accumulated for 4,830,000 meters, representing a year-on-year increase of 5.7%. The various quality and technical indicators of logging and mud logging services were maintained well and the pass rate of logging and mud logging data was 100%. The workload of the logging and mud logging business generally remained stable in the first half of the year. The development of Weirong shale gas, Shunbei and West Sichuan marine gas and other oil and gas fields of Sinopec provided guarantees to the workload and the Sichuan basin shale gas of PetroChina and other domestic external markets also supported the logging and mud logging services business of the Group. Ancillary technologies continued to improve, and new records were created for various indicators such as logging construction and perforating, providing technical support for exploration and development and key market guarantees.

D. Downhole operation service

In the first half of 2020, the Company's downhole operation services business recorded a revenue from principal business of RMB3,782,642,000, representing an increase of 18.3% as compared with RMB3,197,268,000 for the corresponding period of last year. The Company has completed downhole operation for 3,106 wells/times, with a year-on-year decrease of 7.6%. The qualified rate of one-time downhole special operation was 99.7%. The shale gas fracturing timeliness was improved by 24.5% year on year. The Company consistently strived to increase its support for the exploration and development of Sinopec in "Northwest China, North China, Northeast China and Sichuan". On the basis of accelerating production and operation, deepening cost reduction and potential tapping and strengthening technology research and development, the Company focused on achieving breakthroughs and gave full play to the advantages of professionalism and integration in horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing, horizontal well repairment, high-pressure operations and coiled tubing, providing strong technical support to Fuling shale gas field, Weirong deep shale gas field, tight gas field in North China, Shunbei ultra-deep oil and gas field and other internal markets of Sinopec and the Sichuan basin shale gas of PetroChina and other domestic external markets.

E. Engineering and construction service

In the first half of 2020, the Company's engineering and construction services business recorded a revenue from principal business of RMB6,792,317,000, representing an increase of 4.8% as compared with RMB6,481,250,000 for the corresponding period of last year. In the first half of 2020, the Company has completed contracts valued of RMB7.17 billion, representing a year-on-year increase of 3.6%; the newly signed contracts were valued at RMB8.91 billion, representing a year-on-year decrease of 13.9%. The Company fully promoted the construction of key projects such as new gas pipeline, Rizhao-Puyang-Luoyang Crude Pipeline, Qingdao-Nanjing Gas Pipeline and the construction of MIP16 and 17 pipelines in Saudi Arabia. The Company vigorously expanded in the Sinopec refining and crude oil (gas) commercial reserve and other markets and won the bids for various projects, such as the construction of production capacity of Shunbei oil and gas field, Hainan Refining and crude oil commercial reserve in Kuche, and the newly signed contracts were valued at RMB4.72 billion. The Company vigorously expanded domestic external markets such as gas, roads and bridges and the newly signed contracts were valued at RMB3.15 billion. It won the bids for the expansion of Huaian-Jiangdu section of Beijing-Shanghai Expressway, the expansion of Three Gorges Renewables and other high-quality projects.

International business

In the first half of 2020, the Company's international business achieved a revenue from principal business of RMB6,195,560,000, representing an increase of 3.1% as compared with RMB6,009,307,000 for the corresponding period of last year, accounting for 19.9% of the revenue from principal business of the first half of the year. In the first half of the year, the Company vigorously focused on the prevention and control of the epidemic, production and operation in overseas countries, expanded markets, stabilized projects and maintained high efficiency. Through strict control of risks of the epidemic and timely work and production resumption, the international business remained stable on the whole. The Company fully expanded overseas key markets and made positive progress in key large-scale markets. It signed contracts on 12 wellbore projects with Saudi Arabian Oil Company, including the 5-year project of 4 oil well repairment and 6 drilling rigs for irregular gas wells, with a contract value of USD1.22 billion. It obtained the qualification for providing screwing services to Saudi Arabian Oil Company. In the Kuwaiti market, the Company signed contracts for 10 drilling and repairing rigs project and renewed 6 drilling rigs project with total contract value of USD180 million, obtained the qualification for providing services to directional wells of Kuwait Petroleum Company (KOC). In the Algerian market, the Company signed contracts for three 3D seismic information collection and two information handling projects with SONATRACH with a contract value of USD80 million. The Company signed contracts for a 3D seismic information collection project in the Nigerian market and contracts for the road upgrading and transformation project in the Kenyan market.

Technology research & development

In the first half of 2020, the Company improved the scientific mechanism, optimized R&D resources and established the Sinopec Oilfield Acid Gas Technology Center. It promoted the integrated development of the R&D and application of testing, logging and locating businesses and consolidated and established Shengli Measurement Technology Institute. It made more efforts in promoting the application of transformation of scientific and technological achievements and achieved industrial application of 175℃ high temperature MWD instrument and SINOLOG900 network imaging logging instrument. Shunbei 55X well constructed by the Company achieved a drilling depth of 8,725 meters, setting a record in the depth of onshore directional wells in Asia and making a new step in the ultra-deep drilling technology of the Company. The comprehensive evaluation technology on shale oil mud logging provided strong supports to the segmented and clustering fracturing of horizontal wells. The Company actively advanced the integration of research, production, sales and services covering measurement while drilling, core chemical additives, logging and mud logging instruments and coiled tubing instruments and sped up in the development of emerging businesses. In the first half of the year, a total of 364 domestic and overseas patents were newly applied by the Company, of which 234 patents were granted.

Internal reform and management

In the first half of 2020, the Company fully sped up in market layouts and resources optimization and formulated the guideline on coordinating market layouts and optimizing resources allocation and the plan on the industrial zones in Northeast China and North China as well as the implementation plan on international business. The Company continued to deepen the reform of ancillary business and further promoted the professional development of ancillary business. The number of ancillary business units decreased from 114 at the beginning of the year to 88, representing a decrease of 22.8%. The Company actively and appropriately advanced the reform of three systems, strictly controlled total labors, revitalized the stock and constantly optimized the team structure. The Company fully implemented the assessment of single-well/project by strengthening performance assessment and intensifying the linkage between compensation and efficiency. It continued to improve the construction of six major systems and advanced refined and scientific project management. The Company amended and improved the management systems and measures on the internal control system and consistently enhanced the risk prevention and corporate governance capabilities according to laws and regulations. The Company continuously strengthened project quality management by strictly controlling procurement quality, and effectively improved the quality management. Both the wellbore quality qualification rate and the cementing quality qualification rate reached 100%. The Company also strengthened the costs and target management of all employees, created its low-cost advantages focusing on reducing operation costs, procurement fees and institutional operation expenses, and achieve a cost reduction of RMB190 million.

Capital expenditure

In the first half of 2020, capital expenditure of the Company reached RMB610 million. In the first half of the year, the Company adhered to the "proactive and prudent" investment principle, optimized investment structure, strengthened resource coordination, and continued to play the leading and supporting role of investment, mainly for the procurement of 6 drilling rigs for oil fields won the bids in Saudi Arabia, 4 electric fracturing pumps for shale gas oilfields in Southwest China, 9 supporting drilling rigs for deep wells in Shunbei and 1 set of 50,000 seismic acquisition and construction equipment.

(1) Main business analysis of the Company

A. Changes in the relevant items of financial statements

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change
	RMB'000	RMB'000	(%)
Operating income	**31,432,437**	30,256,030	3.9
Operating costs	**28,654,955**	27,487,631	4.2
Selling and distribution expenses	**28,878**	25,300	14.1
General and administrative expenses	**1,150,692**	1,060,520	8.5
Net financial expense	**487,147**	455,088	7.0
Net cash inflow from operating activities ("-" for outflow)	**281,258**	-709,159	Not applicable
Net cash inflow from investing activities ("-" for outflow)	**-439,267**	-697,409	Not applicable
Net cash inflow from financing activities	**523,554**	1,116,539	-53.1
Research and development expenditure	**619,803**	479,782	29.2
Credit impairment loss	**-78,454**	4,188	-1,973.3
Other income	**102,783**	26,527	287.5
Investment income	**40,318**	84,919	-52.5
Non-operating income	**18,226**	24,355	-25.2
Income tax expense	**154,593**	233,349	-33.8

Reasons for the changes:

(a) The change in net cash inflow from operating activities was mainly due to the increase in clearance of inventories and account receivable and settlement in bill payable.

(b) The change in net cash inflow from investing activities was mainly due to the optimization of investment of company reduction of equipment purchase expenses under low oil prices.

(c) The change in net cash inflow from financing activities was mainly due to the increase in cash payment for debt repayment in the first half of 2020.

(d) The change in credit impairment loss was mainly due to the account receivables reversal of provision for bad debts in the first half of 2019 and cash receipt for 2020 which is lower than the provision for bad debts made in the previous year.

(e) The change in other income was mainly due to the consumption tax refund in the first half of 2020 and the increase in value-added tax deductions on year-to-year basis, etc.

(f) The change in investment income was mainly due to the decrease in gains on debt restructuring in the first half of 2020.

(g) The change in income tax expanse was mainly due to the decrease in profit of the Company in the first half of 2020.

B. Others

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

☐ Applicable √ Not Applicable

(b) Other

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

(3) Statement of assets and liabilities analysis

A. Assets and liabilities

Item	Amount at 30 June 2020 RMB'000	Percentage of amount at 30 June 2020 in total assets (%)	Amount at 31 December 2019 RMB'000	Percentage of amount at 31 December 2019 in total assets (%)	Changes from the end of the preceding year to the end of the reporting period (%)
Cash at bank and on hand	2,039,924	3.1	1,668,837	2.7	22.2
Notes receivables	0	0.0	500	0.0	-100.0
Accounts receivable	11,162,893	17.0	11,996,355	19.3	-6.9
Account receivable financing	1,753,783	2.7	1,446,389	2.3	21.3
Prepayment	793,408	1.2	553,726	0.9	43.3
Inventories	1,389,044	2.1	1,185,504	1.9	17.2
Contract assets	13,849,140	21.1	9,570,249	15.4	44.7
Other current assets	1,805,477	2.8	1,742,338	2.8	3.6
Long-term equity investments	41,100	0.1	39,718	0.1	3.5
Fixed assets	22,210,373	33.9	23,516,427	37.9	-5.6
Construction in progress	506,523	0.8	213,819	0.3	136.9
Right-of-use assets	1,422,614	2.2	1,547,822	2.5	-8.1
Intangible assets	340,129	0.5	392,947	0.6	-13.4
Short-term borrowings	21,565,624	32.9	20,403,075	32.9	5.7
Notes payable	7,028,358	10.7	4,733,932	7.6	48.5
Accounts payable	20,246,217	30.9	20,068,294	32.3	0.9
Contract liabilities	2,523,545	3.9	3,575,654	5.8	-29.4
Other payables	1,949,557	3.0	1,770,597	2.9	10.1
Non-current liabilities due within one year	519,018	0.8	535,475	0.9	-3.1
Long-term borrowings	530,963	0.8	474,382	0.8	11.9
Long-term payable	764,525	1.2	784,377	1.3	-2.5
Lease liabilities	1,049,718	1.6	1,134,746	1.8	-7.5
Deferred income	74,341	0.1	92,211	0.1	-19.4
Specific reserve	683,516	1.0	373,238	0.6	83.1

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

√ Applicable ☐ Not Applicable

On 30 June 2020, the Company's funds with restricted use such as margin deposit, etc. was RMB41,754,000 (On 31 December 2019: RMB18,105,000).

C. Notes:

(1) Notes receivable decreased by RMB500,000 compared with the beginning of the fiscal year, mainly because the company strengthened bill management, improved the efficiency of capital use, increased the endorsement of bills receivable, and reclassified notes receivable to accounts receivables financing.

(2) Prepaid payments increased by RMB239,682,000 compared with the beginning of the fiscal year, mainly due to the increase in prepayments for material procurement in the first half of 2020.

(3) Contract assets increased by RMB4,278,891,000 compared with the beginning of the fiscal year, mainly due to the increase in completed and not yet billed projects in the first half of 2020.

(4) Construction in progress increased by RMB292,704,000 compared with the beginning of the fiscal year, mainly due to the purchase of construction equipment for Saudi gas wells in the first half of 2020.

(5) The notes payable increased by RMB2,294,426,000 compared with the beginning of the fiscal year, mainly due to the increase in the settlement volume of supplier bills.

(6) The special reserve increased by RMB310,278,000 compared with the beginning of the fiscal year, mainly due to the decrease in safety production expenses in the first half of 2020.

(4) Analysis of investments

A. Significant equity investment

☐ Applicable √ Not Applicable

B. Significant non-equity investment

☐ Applicable √ Not Applicable

C. Information of financial assets measured at fair value

☐ Applicable √ Not Applicable

(5) Sales of major assets and equity

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

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

Unit: RMB'000

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
Sinopec Oilfield Service Company Limited	RMB4,000,000,000	100	65,539,570	62,513,763	3,025,807	313,331	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited*	RMB700,000,000	100	12,332,117	12,095,870	236,247	109,835	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited*	RMB450,000,000	100	12,897,328	12,548,012	349,316	163,805	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited*	RMB250,000,000	100	4,634,940	3,363,102	1,271,838	36,738	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited*	RMB860,000,000	100	4,844,428	4,262,594	581,834	29,870	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited*	RMB890,000,000	100	4,779,598	2,553,956	2,225,642	98,225	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited*	RMB300,000,000	100	5,703,627	2,007,791	3,695,836	106,714	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited*	RMB300,000,000	100	3,386,307	3,112,472	273,835	9,647	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation*	RMB500,000,000	100	21,225,805	21,039,078	186,727	2,362	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited*	RMB2,000,000,000	100	5,126,766	1,426,228	3,700,538	15,639	Offshore Oil Engineering Technology Service
Sinopec International Oil Engineering Company Limited*	RMB700,000,000	100	3,660,505	2,615,593	1,044,912	7,514	Petroleum engineering technical service

Name of company	Revenue RMB'000	Operating profit RMB'000
Sinopec Oilfield Service Company Limited	31,432,437	469,628
Sinopec Shengli Oil Engineering Company Limited*	6,683,733	136,861
Sinopec Zhongyuan Oil Engineering Company Limited*	5,998,556	204,082
Sinopec Jianghan Oil Engineering Company Limited*	2,651,830	43,745
Sinopec East China Oil Engineering Company Limited*	1,757,949	36,269
Sinopec North China Oil Engineering Company Limited*	2,203,195	107,242
Sinopec Southwest Oil Engineering Company Limited*	2,658,383	107,889
Sinopec Oil Engineering Geophysical Company Limited*	1,716,404	16,511
Sinopec Oil Engineering and Construction Corporation*	6,894,434	40,826
Sinopec Shanghai Offshore Oil Engineering Company Limited*	737,740	14,589
Sinopec International Oil Engineering Company Limited*	405,569	28,629

*Note: The Company holds shares though SOSC.

(7) The structured entity controlled by the Company

☐ Applicable √ Not Applicable

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

A. Statement of operation by industry and products

Industry	Operating Income for the first half of 2020 RMB'000	Operating cost for the first half of 2020 RMB'000	Gross Profit Margin (%)	Increase/ (decrease) in operating income as compared with last year (%)	Increase/ (decrease) in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	1,808,761	1,686,201	6.8	-3.3	-5.1	Increased by 1.8 percentage points
Drilling	16,917,552	15,380,280	9.1	0.8	1.8	Decreased by 0.9 percentage points
Logging and Mud logging	1,138,241	898,987	21.0	8.6	8.2	Increased by 0.3 percentage points
Downhole operation	3,782,642	3,501,686	7.4	18.3	18.8	Decreased by 0.4 percentage points
Engineering and Construction	6,792,317	6,330,907	6.8	4.8	6.4	Decreased by 1.4 percentage points
Other	627,847	656,365	-4.5	-0.9	3.3	Decreased by 4.2 percentage points
Total	31,067,360	28,454,426	8.4	3.5	4.4	Decreased by 0.8 percentage points

B. Statement of operation by regions

Region	Operating income for the first half of 2020 RMB'000	Increase/(decrease) as compared with the corresponding period of last year (%)
Mainland China	24,871,800	3.6
Hong Kong, Macau, Taiwan and overseas	6,195,560	3.1

2. Market prospects and operation arrangements in the second half of 2020

(1) Market Forecast for the Second Half of 2020

Looking forward to the second half of 2020, the oil service industry will face challenges as well as opportunities and the operation situation will be severe and complicated on the whole. Currently, the global epidemic is still spreading. With increasing external risks and challenges, the domestic economic recovery will still face pressures. The international oil prices are expected to maintain fluctuation at low levels due to the declining demands. Due to the impacts of the epidemic and the oil prices, oil companies adjusted strategies and tightened investments to reduce the cost. At the same time, requirements of the oil service industry for improving the quality and speed of oil service business and increasing production and reducing costs are more intense and urgent. However, we also saw that the stable and positive fundamentals of China's economic development remain unchanged and China's economy has firstly recovered in the second quarter. It is expected that the trend of China's economic recovery and improvement is likely to continue in the second half of the year. The three major oil companies in China will continue to implement the seven-year action plan for oil and gas exploration and development, which will provide opportunities for the development of the domestic oil service industry.

(2) Operation Plans for the Second Half of 2020

In the second half of 2020, the Company will continue to leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and continue to optimize the market layout and fully expand the market. The Company planned to achieve a newly signed contract value of RMB25.1 billion in the second half of the year, in which RMB16.1 billion will be from Sinopec's internal market, RMB4.5 billion from domestic external market, and RMB4.5 billion from overseas market. In addition, focusing on efficiency improvement, the Company will optimize and integrate internal resources, strengthen technological innovation and application, further strengthen cost control, strive to expand operating results and improve the corporate development quality.

A. Geophysical service

In the second half of 2020, the Company will effectively serve the exploration and development of domestic and overseas oil companies, continue to strengthen the efficiency exploration with project management as the core, and improve the operation efficiency of projects. It will explore the establishment of a new cooperation model of sharing risks and interests with oil companies and promote the standardized, mechanized, informationalized and intelligent geophysical construction and jointly solve the difficulties in exploration and development. The Company will strengthen market tracking and development for China Geological Survey, the Chinese Academy of Geological Sciences and Beijing Energy Group. It will make more efforts in the expansion of overseas land and offshore markets such as Middle East, Ecuador and Algeria and strive for more quality seismic information collection projects. In new business markets such as non-seismic, surveying and mapping, measurement, etc., it will actively expand and cultivate business growth points. In the second half of the year, the Company plans to complete the 2D seismic information collection of 2,721 kilometers and the 3D seismic information collection of 8,547 square kilometers.

B. Drilling service

In the second half of 2020, the Company will continue to enhance the engineering technology service capability, strengthen the integration of geology and engineering and optimize key factors restricting the improvement of drilling quality, speed and efficiency to effectively control construction risks, raise the drilling efficiency and shorten the drilling cycle. It will consistently strengthen the service of high-quality exploration and efficiency development in the upstream of Sinopec, give play to its advantages in complete industrial chains and technologies, reinforce the scientific operation of the team, strengthen the support of production enhancement technology to ultra-deep wells, shale gas, tight oil and gas and the mature oil fields in Eastern China, and make good efforts in the development of key projects such as the second phase of Weirong shale gas, West Sichuan marine gas field, Shunbei oil and gas field and North China tight gas field to consolidate its market share. The Company will continue to expand the coverage of both domestic and overseas markets such as PetroChina and CNOOC and expand the market share of domestic shale gas, conventional oil and gas, coalbed methane, etc. In the second half of the year, a drilling footage of 4,300,000 meters is planned to be completed.

C. Logging and mud logging service

In the second half of 2020, the Company will continue to improve the professional technology system for logging and mud logging service, expand the application of various new technologies for logging and mud logging, and continue to improve the support capacity of exploration and development services. While maintaining the stable Sinopec Group market, the Company will actively expand domestic external markets and the overseas service business and accelerate the expansion of scale and effective market. The Company will also continue to strengthen the promotion and application of integrated geological orientation of testing, logging and locating and build technical reserves. In the second half of the year, the Company plans to complete a logging of 142,060,000 standard meters, and a mud logging footage of 4,010,000 meters.

D. Downhole operation service

In the second half of 2020, the Company will constantly raise its technical service and support capability and continue to develop high-end business such as coiled tubing and high-pressure operations. It will improve the reservoir reform and testing capabilities, develop the market of pressure cracking for shale gas in Sichuan and Chongqing, tight gas in North China and ultra-deep oil and gas in Northwest China. The Company will continue to expand and strengthen the overseas well repairment market such as Kuwait to expand the share of the high-end markets such as coiled tubing business in Saudi Arabia. In the second half of the year, the Company plans to complete the 4,009 downhole operations.

E. Engineering and construction service

In the second half of 2020, the Company will effectively promote the construction of key projects under construction, including Sinopec Shunbei No. 5 Joint Station and Dongjiakou-Dongying crude oil pipeline, vigorously expand utility projects and businesses in refining and sales sectors and strive to seize the long-distance oil and gas pipeline market. It will focus on the development of key projects such as crude oil commercial reserve bases and gas fields in western Sichuan to consolidate and expand the share in the Sinopec market. In domestic external markets, the Company will continue to expand market expansion in the National Oil and Gas Pipeline Company, local gas pipeline, oil and gas commercial reserve and local roads and bridges and vigorously promote its featured technologies in professional maritime engineering, wind power projects and full automatic welding for pipeline in particular topographies. In overseas markets, the Company will focus on Saudi Arabia, Thailand, Kenya and other mature markets. It will pay close attention to market changes in crude and natural gas pipeline and ground projects construction in oilfields in African countries and conduct preliminary examination on projects to gradually expand overseas markets. In the second half of the year, the Company plans to sign new contract valued at RMB6.8 billion and complete contracts valued at RMB8.1 billion.

F. International business

In the second half of 2020, the Company will, as always, vigorously implement the "internationalization" business strategy. Based on the overall requirements of "strict control of risks, supporting excellent and strong players and improving quality and efficiency", the Company will advance the coordination of market layouts and the optimization of resources allocation for the international business in an orderly manner, support excellent and strong players in eight key markets such as Saudi Arabia and Kuwait, expand and enhance 14 potential markets such as Kazakhstan and Iraq and withdraw from inefficient markets in an orderly manner. The Company will vigorously expand wellbore technical services, oilfield comprehensive services, geophysical services, ground engineering construction and other professional sectors to lay a solid foundation for "making half contributions" to the international business. In the Saudi Arabian market, the Company will focus on expanding the gas well drilling market, speed up in qualification review on directional wells and fracturing and promote the lump-sum contract of shale gas projects. In the Kuwaiti market, the Company will continue to expand deep wells drilling and repairing, mud logging, drilling rig and well site construction businesses. It will continuously strengthen supervision on project implementation, overseas prevention and control of the epidemic, public security and HSE supervision to consistently enhance the efficiency improvement capabilities of projects.

G. Technology research and development

In the second half of 2020, the Company will strengthen the leading role of technology and promote power shift and upgrading. Firstly, it will continue to improve and optimize the R&D system and complete the establishment of the Tight Oil and Gas Technical Center for Oil Projects of Sinopec for operation. Secondly, it will speed up in achieving breakthroughs in technical bottlenecks, focus on key technologies such as drilling rotation guidance with high build-rate, high-pressure and high-temperature MWD above 185℃, generators for measuring and control instruments while drilling and oilfield chemicals resistant to high temperatures, and promote the pilot application of drilling rotation instruments with regular build-rate. Thirdly, it will vigorously conduct technology research and efficiency improvement, reinforce the support of engineering technology and promote the application of engineering technologies on speed and efficiency improvement such as long open-hole wellbore strengthening, integrated completion of ultra-deep well and one-trip drilling techniques in ultra-deep oil and gas reservoirs and deep shale gas in Shunbei industrial zone and other key sectors.

H. Internal reform and management

In the second half of 2020, the Company will continue to improve the overall plan on corporate reform and development, promote the management of "small institutions and large departments", implement "release management services" reforms and focus on the improvement of the effectiveness of corporate governance. The Company will continue to coordinate regional market layout, optimize resources allocation and improve the overall efficiency and effectiveness of the Company. It will complete market layout and resources coordination and optimization in industrial zones in northeast and southwest China by the end of the year and promote the coordination of market layout and the optimization of resources allocation in industrial zones in northwest and southwest China. The Company will formulate plans on equipment development in a scientific manner and fully leverage on the Asset Swap and Leasing Center to coordinate and optimize equipment resources to improve the equipment efficiency. The Company will give full play to the role of the Human Resources Allocation Center, advance the structural optimization of teams, reasonably reduce the size of teams and improve the labor productivity of the entire staff. It will fully promote corporate governance according to laws and regulations and establish an integrated management mechanism with the connection and coordination of compliance operation with internal control, risk control, audit and supervision. The Company will also strengthen the cost control of all employees, all elements and the whole process by seizing the key process and key areas and strictly controlling non-production expenses, so as to ensure the smooth realization of the cost reduction target formulated at the beginning of the year.

I. Capital expenditure

In the second half of 2020, our planned capital expenditure is RMB2.35 billion. The Company will focus on economic benefits, continue to enhance its service exploration and development capabilities, strengthen resource integration and coordination, focusing on ensuring urgent production needs, enhancing technical service capabilities, upgrading and transformation of equipment with potential safety and environmental protection risks, and the construction of integrated cloud platforms for oil projects. By further promoting the transformation of development mode and adjustment of market structure through investment, the Company will cultivate its core competitiveness.

3. Other matters of disclosure

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

☐ Applicable √ Not applicable

(2) Potential risks

The Company actively took various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

A. Increase of the uncertainties of international oil price trend

The international crude oil price significantly decreased in the first half of 2020 and the average spot price of North Sea Brent crude oil is US$40.2/barrel and 39.1% lower than the same period last year. With the conclusion of the new production reduction agreement, international crude oil prices have slightly improved. The current epidemic is still raging around the world, and the impact of the epidemic on the world economy will continue to intensify. The resulting weakness on the demand side will increase the possibility of international crude oil prices oscillating at low levels. The rise and fall of international oil prices is directly related to the operating income of oil companies, which in turn affects their upstream exploration and development capital expenditures. Moreover, the upstream exploration and development capital expenditure directly affects the number of oil service companies' orders, which in turn affects the oil service company's earnings.

B. Market competition risk

At present, the competitive landscape of the oilfield service market has not undergone major changes, and there is still an oversupply situation. Coupled with the influence of political, economic and other factors, there are still uncertainties in the trend of international oil prices and there may be some countries or regions protecting the local oilfield service industry market. The market competition is still fierce. At the same time, the impact of the epidemic is superimposed. The oilfield service industry is facing greater operating pressure.

C. Environmental damage, hidden hazards and force majeure risk

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

D. Overseas operation risk

The company has business in many foreign countries who will have political, legal, supervision and management influences on the business. The conditions there are unstable and quite different with those in developed countries. There may also be risks of political volatility, unstable fiscal and tax policies, import and export restrictions, breach of contract, tax dispute and regulatory dispute, etc. At the same time, the current epidemic situation in countries where the company's key overseas markets is located continues to spread, and some newly signed projects have been delayed and construction efficiency has decreased, which has also increased the company's overseas operating risks.

E. Exchange rate risk

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

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

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

A. Assets, liabilities and shareholders' equity analysis

	As to 30 June 2020	As to 31 December 2019	The change
	RMB'000	RMB'000	RMB'000
Total assets	**65,539,809**	62,069,378	3,470,431
Current assets	**35,641,488**	30,547,900	5,093,588
Non-current assets	**29,898,321**	31,521,478	-1,623,157
Total liabilities	**58,165,083**	55,305,506	2,859,577
Current liabilities	**55,432,817**	52,438,357	2,994,460
Non-current liabilities	**2,732,266**	2,867,149	-134,883
Total equity attributable to equity shareholders of the Company	**7,374,726**	6,763,872	610,854

As at 30 June 2020, the Group's total assets were RMB65,539,809,000 and total liabilities were RMB58,165,083,000. The total equity attributable to shareholders of the Company was RMB7,374,726,000. Compared with the consolidated statement of financial position as at 31 December 2019 ("Compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB65,539,809,000, increased by RMB3,470,431,000 compared with that of the end of last year, including that (i) current assets were RMB35,641,488,000, increased by RMB5,093,588,000 compared with that of the end of last year, mainly due to the increase in completed and not yet billed projects in the first half of the year, resulting in an increase in contract assets of RMB4,572,052,000. (ii) non-current assets were RMB29,898,321,000, decreased by RMB1,623,157,000 compared with that of the end of last year, mainly due to normal depreciation and amortization of the Group's fixed assets and other non-current assets were normally provided in the first half year.

The total liabilities were RMB58,165,083,000, increased by RMB2,859,577,000 compared with that of the end of last year, including that (i) current liabilities were RMB55,432,817,000, increased by RMB2,994,460,000 compared with that of the end of last year, mainly due to an increase of RMB2,472,349,000 of notes and trade receivables, an increase of RMB1,146,092,000 of short-term loans in the first half of the year. (ii) non-current liabilities were RMB2,732,266,000, decreased by RMB134,883,000 compared with that of the end of last year, which is mainly due to decrease of RMB150,328,000 in lease liabilities in the first half of the year.

Total equity attributable to shareholders of the Company was RMB7,374,726,000, increased by RMB610,854,000 compared with that of the end of last year. It mainly due to profit attributable to shareholders of the Company for the first half of 2020 was RMB608,555,000.

As at 30 June 2020, the ratio of total liabilities to assets was 88.7%, comparing with 89.1% as at 31 December 2019.

B. Cash flow analysis

The main items of cash flow of the Company in the first half of 2020 and the first half of 2019 showed in the following table.

	For the six months ended 30 June	
	2020	2019
Main items of cash flow	**RMB'000**	RMB'000
Net cash inflow generated from/(used in) operating activities	**281,258**	(709,159)
Net cash inflow used in investing activities	**(439,267)**	(697,409)
Net cash inflow from financing activities	**523,554**	1,116,539
Increase/(decrease) in cash and cash equivalents	**365,545**	(290,029)
Cash and cash equivalents at the beginning of the period	**1,650,732**	2,173,580
Exchange gains/(loss) in Cash and cash equivalents	**(18,107)**	2,323
Cash and cash equivalents at the end of the interim period	**1,998,170**	1,885,874

In the first half of 2020, the Group's net cash inflow from operating activities was RMB281,258,000, representing an increase of cash inflow by RMB990,417,000 as compared with the corresponding period of last year mainly due to the cash collection of notes receivable and inventories and settlement of notes payable by the Group in the first half of 2020.

In first half of 2020, the Group's net cash outflow from investing activities was RMB439,267,000, an decrease of cash outflow by RMB258,142,000 as compared with the corresponding period of last year. It was mainly due to the optimization of investment by the Group in the first half of 2020 to reduce equipment purchase expenses.

In the first half of 2020, the Group's net cash inflow from financing activities was RMB523,554,000, a decrease of cash inflow by RMB592,985,000 compared with the corresponding period of last year. It was mainly due to the increase in cash to repay borrowings in the first half year.

C. Borrowings

As at 30 June 2020, the Group's borrowings from bank and related companies were RMB22,096,587,000 (as at 31 December 2019: RMB20,877,457,000). These borrowings include the short-term borrowings of RMB21,565,624,000 and the long-term borrowings due more than one year of RMB530,963,000. As at 30 June 2020, approximately 88.9% of the borrowings were denominated in Renminbi (as at 31 December 2019: 86.6%) and approximately 11.1% were denominated in US Dollars (as at 31 December 2019: 13.4%).

D. Gearing ratio

As at 30 June 2020, the gearing ratio of the Group was 75.1 % (as at 31 December 2019: 76.1%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity).

E. Assets pledge

For the year ended 30 June 2020, there was no pledge on the Group's assets.

F. Foreign Exchange Risk Management

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

Section V Significant Events

1. Summary of Shareholders' Meetings

During the reporting period, the Company held the annual general meeting for the year 2019, the first A shareholders class meeting for 2020 and the first H shareholders class meeting for 2020 on 16 June 2020 in Beijing. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Disclosure date of resolutions
The annual general meeting for the year 2019	16 June 2020	www.sse.com.cn www.hkexnews.hk	17 June 2020
The first A shareholders class meeting for 2020	16 June 2020	www.sse.com.cn www.hkexnews.hk	17 June 2020
The first H shareholders class meeting for 2020	16 June 2020	www.sse.com.cn www.hkexnews.hk	17 June 2020

2. Interim cash dividends plan for 2020 and plan to convert capital reserves into share capital

In accordance with the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2020, and no issue of bonus shares by way of capitalization of common reserves.

3. Performance of undertakings

The special undertakings made by the Company and its shareholders holdings more than 5% of the shares of the Company and their performance of the undertakings as of 30 June 2020:

Undertaking background	Undertaking type	Undertaking party	Undertaking	Date and duration of the Undertaking	Whether there is a performance period	Whether the undertaking has been strictly and timely fulfilled
Undertaking regarding the material assets reorganization	To solve horizontal competition	CPC	The Non-Competition Undertaking 1. China Petrochemical Corporation undertook that it would not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through exercise of its shareholder rights. 2. After the material assets reorganization, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. 3. After the material assets reorganization, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

Undertaking background	Undertaking type	Undertaking party	Undertaking	Date and duration of the Undertaking	Whether there is a performance period	Whether the undertaking has been strictly and timely fulfilled
Undertaking regarding the Material Assets Reorganization	To solve connected transactions	CPC	The Undertaking of Regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Undertaking regarding the Material Assets Reorganization	Others	CPC	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

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

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

As proposed by the nineteenth meeting of the ninth session of the Board of Directors of the Company and approved by the shareholders at the annual general meeting for 2019, the Company has appointed Grant Thornton (special general partnership) and Grant Thornton Hong Kong Limited as the Company's domestic and international auditors for 2020, and further appointed Grant Thornton (special general partnership) as the Company's auditor regarding internal control for 2020.

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

☐ Applicable √ Not applicable

Explanation of the Company on non-standard opinion of financial report for 2019 given by the auditors

☐ Applicable √ Not applicable

5. Insolvency and restructuring

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

6. Material litigation and arbitration

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

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

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

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

8. Credibility for the Company, controlling shareholders and de facto controller

☐ Applicable √ Not applicable

9. The Company's share option incentive scheme and its effect

(1) Date and number of the Grant

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

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

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

According to the determining principle of exercise price, the exercise price of the Grant is RMB5.63 per share (If, during the Validity Period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares, rights issue or any other events takes place, an adjustment to the number of Share Options shall be made accordingly).

(5) Validity Period and Exercise Arrangement under the Grant

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

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

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

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

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

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

As the performance of the Company has not fulfilled the condition for exercise of the options during the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme, the Participants can not exercise the Options. 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, the Board decided to 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, during 29 October 2018 to 28 October 2019, 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 proposed 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 disclosed on www.hkexnews.hk on 28 October 2019.

10. Information on connected transactions

The Company's material connected transactions for the six months ended 30 June 2020 are as follows:

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

The nature of the transaction classification	Connected parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipment	China Petrochemical Corporation and its associates	4,739,705	27.8
Rendering engineering services	China Petrochemical Corporation and its associates	18,393,440	59.1
Comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	218,937	100
Other comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	86,542	100
Technology R&D Income	China Petrochemical Corporation and its subsidiaries	43,936	97.1
Land and property rental expenses	China Petrochemical Corporation and its subsidiaries	90,292	45.3
Loan interest expense	China Petrochemical Corporation and its associates	420,527	88.2
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	26,309,046	98.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	25,660,652	100
Safety and insurance fund expenses	China Petrochemical Corporation	38,080	100
Safety and insurance fund return	China Petrochemical Corporation	61,178	100

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

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

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

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

Unit: RMB'000

Connected parties	Connected relation	Funds provided to connected party			Funds provided to the Company by connected party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	9,798,884	2,395,144	12,194,028	10,168,257	2,764,320	12,932,577
Sinopec Finance Company Limited	Subsidiary companies of the controlling shareholders	–	–	–	12,080,000	-1,440,000	10,640,000
Sinopec Century Bright Capital Investment Limited	Subsidiary companies of the controlling shareholders	–	–	–	2,797,457	-871,833	1,925,624
Total		9,798,884	2,395,144	12,194,028	25,045,714	452,487	25,498,201
Causes of related claims and debts							Normal production and operation
Influence of connected claims and debts on the Company's performance and financial situation							No material adverse effects

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

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

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

11. Material contracts and performance

(1) Trusteeship, sub-contracting and leasing

A. Trusteeship, sub-contracting matters

☐ Applicable √ Not applicable

B. Leasing Matters

√ Applicable ☐ Not applicable

Unit: RMB

Lessor	Lessee	Leased assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income	The impact of leasing proceeds on the company	Is it a connected transaction	Connected relation
TSFL	Shengli Petroleum Engineering Company	machines and equipment used for drilling and downhole operations	RMB1 billion	8 February 2018	8 February 2026	RMB-174 million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the Company.
Shanghai Offshore Petroleum Bureau	Sinopec Shanghai Offshore Oil Engineering Company Limited*	Semi submersible rig (Exploration IV)	RMB38.47 million	6 November 2019	5 November 2022	RMB-5.65 million (before renovation)	Calculated based on a fixed 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

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	-235,180
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	13,217,206
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total Guarantees(A+B)	13,217,206
Total Amount of Guarantees as a Percentage of the Company's Net Asset (%)	179.2
Among them:	
Amount of Guarantees provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	13,217,206
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	9,529,843
Sum of the three Guarantees above (C+D+E)	22,747,049
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the Company are all provided 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 for 2019 of the Company.

(3) Other material contracts

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

12. Information on corporate governance

During the reporting period, the Company was able to regulate its operations in accordance with domestic and overseas regulatory requirements. During the reporting period, there was a clear division of rights and responsibilities among the general meeting, the Board and the management of the Company, with specific duties and responsibilities and standard operation. The special committees of the Board carried out their work in accordance with their duties and responsibilities, and the independent directors played an active role in connected transactions and financial auditing, etc. The Company continued to improve the quality of information disclosure and investor relations management, and the information has been disclosed in a true, accurate, complete and timely manner. The Company also meticulously organized performance training for directors, supervisors and senior management and continues to improve the awareness of law-abiding and compliance of directors, supervisors and senior management.

During the reporting period, the Company convened three general meetings of shareholders (including two class meetings), two meetings of the board of directors, and two meetings of the supervisory committee. A total of 8 resolutions of the shareholders meeting, 16 resolutions of the meetings of the board of directors and 8 resolutions of the meetings of the supervisory committee were formed. The preparation and convening of various meetings comply with laws and regulations, and the resolutions formed are legal and effective.

During the reporting period, there was no difference between the actual situation of corporate governance and the requirements of the regulatory documents on the governance of listed companies issued by the China Securities Regulatory Commission, and no insider information was found to illegally buy or sell the Company's stocks. During the reporting period, the board of directors of the company re-adjusted the members of the special committees of the board of directors based on the professional knowledge and experience of directors.

13. Poverty alleviation program launched by the Company

☐ Applicable √ Not applicable

14. Convertible Bonds

☐ Applicable √ Not applicable

15. Environmental Protection

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

☐ Applicable √ Not applicable

(2) Description of the environmental protection situation of companies other than heavily polluting Industries

√ Applicable ☐ Not applicable

The Company adheres to the development philosophy of safety, environmental protection and green and low-carbon, and has formulated relevant systems such as the Environmental Protection Management Regulations, the Pollution Prevention Management Regulations, the Clean Production Management Regulations and the Energy Saving Management Regulations. The Company strictly complies with environmental protection regulations and requirements of the emission standards and international conventions in the countries where it operates. For hazardous waste, the Company conducts recycling and treatment by delivering the waste to the entities with treatment qualifications.

Currently, the pollutants discharged by the Company mainly include exhaust gas, domestic sewage, solid waste and oil-based rock chip, etc. Exhaust gas includes diesel engine exhaust and gas fuel exhaust, the emission indicators have met the local standards and requirements; domestic sewage includes the domestic sewage from fixed places and the domestic sewage from mobile construction sites, the domestic sewage from fixed production sites is transferred to municipal pipeline network for centralized treatment, the domestic sewage from mobile construction sites is recycled after on-site pre-treatment; solid wastes are mainly drilling waste mud and rock chip, and are organized and treated by the owners or through landfill after harmless treatment and comprehensive utilization after harmless treatment in accordance with the requirements of the owners, domestic wastes are treated by professional institutions; oil-based rock chip, which, according to the requirements of the owner, is delivered to the owner for organization and disposal, or is comprehensively utilized after harmless treatment by pyrolysis. In the first half of 2020, the Company disposed of 782,000 tons of general solid waste (including drilling water-based waste mud), 63,200 tons of hazardous waste (including oil-based rock chip and oil bearing waste), 195,000 cubic meters of domestic sewage and 272,000 cubic meters of drilling operation waste water according to laws and regulations.

The Company strengthened on-site energy efficiency management, implemented energy conservation and clean production technical measures, and vigorously implemented energy efficiency improvement projects. In the first half of the year, the comprehensive energy consumption for RMB10,000 industrial output value was 0.232 tons of standard coal, representing a year-on-year decrease of 4.9%. At the same time, the Company actively organized the establishment of green project companies and the creating activities of green grassroots, formulated and implemented the “Notice on Key Work in Action of Green Enterprises in 2020” and the “Guidance on Field Construction Sites Equipping with Environmental Toilets” and amended four professional indicators for creating green grassroots such as drilling, downhole operation, geophysical and oil project construction sites. 778 teams initiated the creating activities of green grassroots, 61 teams passed the acceptance on green grassroots and 313 environmental toilets were equipped on construction sites with the creating of construction teams for green enterprises and green grassroots under orderly progress.

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

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

☐ Applicable √ Not applicable

16. Compliance with the Corporate Governance Code

For the six months ended 30 June 2020, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that:

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

17. Compliance with the Mode Code

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

18. Other significant events

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

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

Section VI Changes in Ordinary Shares and Information on Shareholders

1. Changes in share capital

(1) Changes in share capital

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

(2) Changes in Shares with Selling Restrictions

☐ Applicable √ Not Applicable

2. Information of Shareholders

(1) Number of shareholders

As at 30 June 2020, the number of shareholders of the Company was 129,023, including 128,676 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 on the HKSE.

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

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Changes of shareholdings[1] (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation[2]	State-owned legal person	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	90,950	5,402,034,694	28.46	2,595,786,987	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	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
China Minsheng Banking Corporation Limited, Hohhot Branch	Domestic non-state legal person	-87,301,501	40,145,899	0.21	0	0
Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No. 2 Community Pension Management Fund[4]	Others	0	23,148,854	0.12	23,148,854	0
Huaan Fund-Industrial Bank-China Foreign Economy & Trade Co. Ltd	Others	0	13,333,300	0.07	0	0
Hong Kong Securities Clearing Company Limited[5]	Others	-7,047,853	12,759,299	0.07	0	0
China Merchants Bank Co., Ltd.-Bosera China Securities Central Enterprise Innovation-Driven Exchange Open Index Securities Investment Fund	Others	-4,155,500	10,499,400	0.06	0	0

Shareholdings of top ten shareholders of shares without selling restrictions Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
China Petrochemical Corporation	9,224,327,662	A Share
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")	2,806,247,707	H Share
CITIC Limited	1,035,000,000	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
China Minsheng Banking Corporation Limited, Hohhot Branch	40,145,899	A Share
Huaan Fund-Industrial Bank-China Foreign Economy & Trade Co. Ltd	13,333,300	A Share
Hong Kong Securities Clearing Company Limited	12,759,299	A Share
China Merchants Bank Co., Ltd.-Bosera China Securities Central Enterprise Innovation-Driven Exchange Open Index Securities Investment Fund	10,499,400	A Share
Linghang Investment Australia Limited-Linghang Emerging Market Stock Index Fund (Exchange)	9,301,900	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No. 49 Trust Plan and Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No. 47 Trust Plan belong to Donghai Fund Management Limited Company, the Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders.	

Notes:
1. As compared with the number of shares held as of 31 December 2019.
2. Apart from directly holding 10,727,896,364 A-shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H-shares through its wholly-owned subsidiary, Sinopec Century Bright Capital Investment Limited. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares of the Company.
3. HKSCC (Nominees) Limited is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the company on behalf of other companies or individual shareholders.
4. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.
5. Hong Kong Securities Clearing Company Limited is a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited, acts as a 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 holders of shares with selling restrictions and conditions for sale

Unit: shares

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

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

As far as known to the directors, as at 30 June 2020, the following persons, not being a director, supervisor or senior management of the Company, had an interest or short positions in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

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

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

Save as disclosed above, as at 30 June 2020, as far as known to the directors, no other person (other than director, supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which would as recorded in the register kept by the Company under Section 336 of the SFO.

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

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

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

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

Section VII Directors, Supervisors and Senior Management

1. The Change of equity interests in the Company

(1) Shareholdings of the current directors, supervisors and senior Management and those resigned during the reporting period

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

Name	Title	Number of shares held at the beginning of the reporting period	Number of shares held at the end of the reporting period	Changes during the reporting period	Reason for change
Chen Xikun	Chairman, Secretary of Party Committee	0	0	0	No Change
Yuan Jianqiang	Director, General Manager	0	0	0	No Change
Lu Baoping	Director	0	0	0	No Change
Fan Zhonghai	Director	0	0	0	No Change
Wei Ran	Director	0	0	0	No Change
Jiang Bo	Independent Non-Executive Director	0	0	0	No Change
Chen Weidong	Independent Non-Executive Director	0	0	0	No Change
Dong Xiucheng	Independent Non-Executive Director	0	0	0	No Change
Ma Xiang	Chairman of Supervisory Committee	0	0	0	No Change
Du Jiangbo	Supervisor	0	0	0	No Change
Zhai Yalin	Supervisor	0	0	0	No Change
Zhang Qin	Supervisor	0	0	0	No Change
Zhang Jianbo	Supervisor	0	0	0	No Change
Zhang Hongshan	Supervisor	0	0	0	No Change
Zhang Yongjie	Deputy General Manager	0	0	0	No Change
Zuo Yaojiu	Deputy General Manager	0	0	0	No Change
Zhang Jinhong	Deputy General Manager	0	0	0	No Change
Xiao Yi	Chief Financial Manager	0	0	0	No Change
Li Honghai	Secretary to the Board	0	0	0	No Change
Pan Ying	Former Independent Non-Executive Director	0	0	0	No Change
Chen Weiguo	Former Supervisor	0	0	0	No Change

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

At 30 June, 2020, except the stock option incentive and Qi Xin Gong Ying Scheme disclosed below, none of the directors,supervisors or senior management of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the registry by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

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

Unit: Share

Name	Position	Number of share options held at the beginning of the reporting period	Number of share options newly granted during the reporting period	Exercisible share options during the reporting period	Share options exercised during the reporting period	Number of share options by the end of reporting period
Zhang Yongjie	Deputy General Manager	76,000	0	0	0	76,000
Liu Rushan	Deputy Secretary of Party Committee	76,000	0	0	0	76,000
Zuo Yaojiu	Deputy General Manager	72,000	0	0	0	72,000
Zhang Jinhong	Deputy General Manager	72,000	0	0	0	72,000
Li Honghai	Secretary to the Board	56,000	0	0	0	56,000
Total	/	352,000	0	0	0	352,000

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 share of restricted-sale A shares in private to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension, and its shares shall be subscribed by the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB60.65 million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

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

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

2. Changes in Directors, Supervisors and Senior Management

Name	Position held	Change	Reason for change
Pan Ying	Independent Non-Executive Director	Resigned	Personal health reasons
Chen Weiguo	Employee representative supervisor	Resigned	Personal reasons

Mr. Pan Ying, an independent non-executive director of the Company, was unable to perform his duties normally due to his physical health and ceased to serve as an independent non-executive director, chief officer of the Remuneration Committee, and member of the Audit Committee of the ninth session of the board of directors of the Company from 2 April 2020. The Company expresses heartfelt thanks to Mr. Pan Ying for his hard work and important contribution to the Company.

Due to personal reasons, Mr. Chen Weiguo ceased to serve as the employee representative supervisor of the Company from 6 August 2020.

3. Independent Non-executive Director and Audit Committee

As at 30 June 2020, the Company has three Independent Non-executive Directors, one of whom is professional in the accounting field and has experience in financial management.

The Audit Committee of the Board of the Company has been founded. The members of the Audit Committee include Ms. Jiang Bo, Mr. Chen Weidong and Mr. Dong Xiucheng. The main responsibilities of the Audit Committee are to review and supervise the Company's financial reporting procedures and internal control system, and to provide advice to the Board. The Audit Committee has reviewed and confirmed the interim results for the six-months ended 30 June 2020.

Prepared in accordance with PRC Accounting Standards for Business Enterprises

CONSOLIDATED AND COMPANY BALANCE SHEET

As at 30 June 2020

Prepared by：Sinopec Oilfield Service Corporation

Expressed in RMB thousand

		As at 30/6/2020		As at 31/12/2019	
Item	Note	Consolidated	Company	Consolidated	Company
Current assets:					
Cash at bank and on hand	V.1	2,039,924	164	1,668,837	170
Financial assets held for trading		–	–	–	–
Bills receivable	V.2	–	–	500	–
Accounts receivable	V.3	11,162,893	–	11,996,355	–
Accounts receivable financing	V.4	1,753,783	–	1,446,389	–
Prepayments	V.5	793,408	–	553,726	–
Other receivables	V.6, XV.1	2,829,147	4,399,050	2,365,418	4,399,759
Including: Interest receivables		–	–	–	–
Dividend receivables		–	–	–	–
Inventories	V.7	1,389,044	–	1,185,504	–
Contract assets	V.8	13,849,140	–	9,570,249	–
Assets classified as held for sale		–	–	–	–
Non-current assets due within one year		–	–	–	–
Other current assets	V.9	1,805,477	83	1,742,338	83
Total current assets		35,622,816	4,399,297	30,529,316	4,400,012
Non-current assets:					
Debt investments		–	–	–	–
Other debt investments		–	–	–	–
Long-term receivables		–	–	–	–
Long-term equity investments	V.10, XV.2	41,100	27,891,662	39,718	27,891,662
Other equity instrument investments	V.11	32,847	–	32,847	–
Other non-current financial assets		–	–	–	–
Investment property		–	–	–	–
Fixed assets	V.12	22,210,373	–	23,516,427	–
Construction in progress	V.13	506,523	–	213,819	–
Right-of-use assets	V.14	1,422,614	–	1,547,822	–
Intangible assets	V.15	340,129	–	392,947	–
Research and development expenditure		–	–	–	–
Long-term deferred expenses	V.16	4,945,530	–	5,379,478	–
Deferred income tax assets	V.17	417,877	–	417,004	–
Other non-current assets		–	–	–	–
Total non-current assets		29,916,993	27,891,662	31,540,062	27,891,662
Total assets		65,539,809	32,290,959	62,069,378	32,291,674

CONSOLIDATED AND COMPANY BALANCE SHEET (continued)

As at 30 June 2020

Prepared by：Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	As at 30/6/2020 Consolidated	As at 30/6/2020 Company	As at 31/12/2019 Consolidated	As at 31/12/2019 Company
Current liabilities:					
Short-term loans	V.18	21,565,624	–	20,403,075	–
Financial liabilities at fair value through profit or loss		–	–	–	–
Bills payable	V.19	7,028,358	–	4,733,932	–
Accounts payable	V.20	20,246,217	23,770	20,068,294	11,800
Advances from customers		–	–	–	–
Contract liabilities	V.21	2,523,545	–	3,575,654	–
Employee benefits payable	V.22	752,034	–	421,938	–
Taxes payable	V.23	717,339	26,601	843,715	26,531
Other payables	V.24	1,949,557	8	1,770,597	8
Including: Interest payable		–	–	–	–
Dividend payable		–	–	–	–
Non-current liabilities due within one year	V.25	519,018	–	535,475	–
Other current liabilities		–	–	–	–
Total current liabilities		55,301,692	50,379	52,352,680	38,339
Non-current liabilities:					
Long-term loans	V.26	530,963	–	474,382	–
Bonds payables		–	–	–	–
Lease liabilities	V.27	1,049,718	–	1,134,746	–
Long-term payables	V.28	764,525	–	784,377	–
Provisions	V.29	426,987	–	449,256	–
Deferred income	V.30	74,341	–	92,211	–
Deferred income tax liabilities	V.17	16,857	–	17,854	–
Other non-current liabilities		–	–	–	–
Total non-current liabilities		2,863,391	–	2,952,826	–
Total liabilities		58,165,083	50,379	55,305,506	38,339
Equity:					
Share capital	V.31	18,984,340	18,984,340	18,984,340	18,984,340
Capital reserve	V.32	11,716,880	14,567,123	11,714,581	14,564,824
Other comprehensive income	V.33	6,447	–	6,447	–
Special reserve	V.34	683,516	–	373,238	–
Surplus reserve	V.35	200,383	200,383	200,383	200,383
Retained earnings	V.36	-24,216,840	-1,511,266	-24,515,117	-1,496,212
Equity attributable to the parent company		7,374,726	32,240,580	6,763,872	32,253,335
Non-controlling interests		–	–	–	–
Total equity		7,374,726	32,240,580	6,763,872	32,253,335
Total liabilities and equity		65,539,809	32,290,959	62,069,378	32,291,674

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

CONSOLIDATED AND COMPANY INCOME STATEMENT

For the six months ended 30 June 2020

Prepared by：Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
		Consolidated	Company	Consolidated	Company
I. Revenue	V.37	31,432,437	–	30,256,030	–
Less: Cost of sales	V.37	28,654,955	–	27,487,631	–
Taxes and surcharges	V.38	104,874	–	125,352	–
Selling and distribution expenses	V.39	28,878	–	25,300	–
General and administrative expenses	V.40	1,150,692	15,053	1,060,520	17,371
Research and development expenses	V.41	619,803	–	479,782	–
Finance costs	V.42	487,147	1	455,088	-4,211
Including: Interest expenses		476,850	–	488,160	–
Interest income		19,405	–	79,224	4,211
Add: Other income	V.43	102,783	–	26,527	–
Investment income ("-" for losses)	V.44	40,318	–	84,919	–
Including: Income from investment in associates and joint ventures	V.44	3,020	–	9,410	–
Gains from changes in fair value ("-" for losses)		–	–	–	–
Credit impairment losses ("-" for losses)	V.45	-78,454	–	4,188	–
Impairment of assets ("-" for losses)		–	–	–	–
Gains from assets disposal ("-" for losses)	V.46	3,839	–	-1,437	–
II. Operating profit ("-" for losses)		454,574	-15,054	736,554	-13,160
Add: Non-operating income	V.47	18,226	–	24,355	–
Less: Non-operating expenses	V.48	19,930	–	18,132	–
III. Profit before income tax ("-" for losses)		452,870	-15,054	742,777	-13,160
Less: Income tax expenses	V.49	154,593	–	233,349	–
IV. Net profit for the year ("-" for losses)		298,277	-15,054	509,428	-13,160
(1) Classification according to operation continuity					
Including: Net profit from continuing operations ("-" for net loss)		298,277	-15,054	509,428	-13,160
Net profit from discontinued operations ("-" for net loss)		–	–	–	–
(2) Classification according to attribute					
Including: Shareholders of the company		298,277	-15,054	509,428	-13,160
Non-controlling interests		–	–	–	–
V. Other comprehensive income, net of tax		–	–	–	–
Other comprehensive income (net of tax) attributable to shareholders of the company		–	–	–	–
A. Items that will not be reclassified to profit or loss		–	–	–	–
a. Changes in fair value of other equity instruments		–	–	–	–
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		298,277	-15,054	509,428	-13,160
Attributable to: Shareholders of the company		298,277	-15,054	509,428	-13,160
Non-controlling interests		–	–	–	–
VII. Earnings per share:					
(1)Basic earnings per share	XVI.2	0.016	–	0.027	–
(2)Diluted earnings per share	XVI.2	0.016	–	0.027	–

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

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

For the six months ended 30 June 2020

Prepared by：Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
		Consolidated	Company	Consolidated	Company
I. Cash flows from operating activities:					
Cash received from the sales of goods and rendering of services		24,396,686	–	24,882,423	–
Refunds of tax		123,463	–	124,854	–
Cash received from other operating activities	V.50	1,188,900	301	1,274,279	1,005,906
Subtotal of cash inflow from operating activities		25,709,049	301	26,281,556	1,005,906
Cash paid for goods and services		16,720,151	–	17,744,728	–
Cash paid to employees and on behalf of employees		6,375,609	–	6,534,925	–
Taxes paid		581,865	–	811,637	–
Cash paid for other operating activities	V.50	1,750,166	307	1,899,425	1,064,415
Subtotal of cash outflow from operating activities		25,427,791	307	26,990,715	1,064,415
Net cash flow from operating activities		281,258	-6	-709,159	-58,509
II. Cash flows from investing activities:					
Cash received from disposal of investments		–	–	–	–
Cash received from the investment income		1,646	–	1,296	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		17,152	–	19,230	–
Cash received from other investing activities		–	–	–	–
Subtotal of cash inflow from investing activities		18,798	–	20,526	–
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		458,057	–	717,935	–
Cash paid for acquisition of investments		8	–	–	–
Net cash paid for acquisition of subsidiaries and other business units		–	–	–	–
Cash paid for other investing activities		–	–	–	–
Subtotal of cash outflow from investing activities		458,065	–	717,935	–
Net cash flow from investing activities		-439,267	–	-697,409	–

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT (Continued)

For the six months ended 30 June 2020

Prepared by：Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Item	Note	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
		Consolidated	Company	Consolidated	Company
III. Cash flows from financing activities:					
Cash received from the acquisition of investments		–	–	–	–
Cash received from borrowings		26,840,429	–	16,917,831	–
Cash received for other financing activities		–	–	–	–
Subtotal of cash inflow from financing activities		26,840,429	–	16,917,831	–
Cash paid for repayments of borrowings		25,660,652	–	15,224,918	–
Cash paid for distribution of dividend, profit or payments of interests		456,468	–	394,391	–
Cash paid for other financing activities	V.50	199,755	–	181,983	–
Subtotal of cash outflow from financing activities		26,316,875	–	15,801,292	–
Net cash flow from financing activities		523,554	–	1,116,539	–
IV. Effect of exchange rate changes on cash and cash equivalents		-18,107	–	2,323	–
V. Net decrease in cash and cash equivalents	V.51	347,438	-6	-287,706	-58,509
Add: Cash and cash equivalents at beginning of the year	V.51	1,650,732	170	2,173,580	58,679
VI. Cash and cash equivalents at the end of the year	V.51	1,998,170	164	1,885,874	170

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2020

Prepared by: Sinopec Oilfield Service Corporation

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 31/12/2019	18,984,340	11,714,581	–	6,447	373,238	200,383	-24,515,117	–	6,763,872
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–
Correction of prior period errors	–	–	–	–	–	–	–	–	–
Business combination under common control	–	–	–	–	–	–	–	–	–
II. Balance at 01/01/2020	18,984,340	11,714,581	–	6,447	373,238	200,383	-24,515,117	–	6,763,872
III. Changes in equity during the year ("-" for decrease)	–	2,299	–	–	310,278	–	298,277	–	610,854
(I) Total comprehensive income	–	–	–	–	–	–	298,277	–	298,277
(II) Shareholders' contributions and decrease of capital	–	2,299	–	–	–	–	–	–	2,299
1. Contribution by ordinary shareholders	–	–	–	–	–	–	–	–	–
2. Share payments recognised in equity	–	2,299	–	–	–	–	–	–	2,299
3. Others	–	–	–	–	–	–	–	–	–
(III) Appropriation of profits	–	–	–	–	–	–	–	–	–
1. Appropriation for surplus reserves	–	–	–	–	–	–	–	–	–
2. Distributions to shareholders	–	–	–	–	–	–	–	–	–
(IV) Transfer within equity	–	–	–	–	–	–	–	–	–
(V) Specific Reserve	–	–	–	–	310,278	–	–	–	310,278
1. Appropriation during the year	–	–	–	–	551,604	–	–	–	551,604
2. Utilisation during the year (expressed in "-")	–	–	–	–	-241,326	–	–	–	-241,326
(VI) Others	–	–	–	–	–	–	–	–	–
IV. Balance at 30/6/2020	18,984,340	11,716,880	–	6,447	683,516	200,383	-24,216,840	–	7,374,726

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)

For the six months ended 30 June 2020

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

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

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2020

Prepared by: Sinopec Oilfield Service Corporation

Expressed in RMB thousand

Items	Amount of this period							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
I. Balance at 31/12/2019	18,984,340	14,564,824	–	–	–	200,383	-1,496,212	32,253,335
Add: Changes in accounting policies	–	–	–	–	–	–	–	–
Correction of prior period errors	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
II. Balance at 01/01/2020	18,984,340	14,564,824	–	–	–	200,383	-1,496,212	32,253,335
III. Changes in equity during the year ("-" for decrease)	–	2,299	–	–	–	–	-15,054	-12,755
(I) Total comprehensive income	–	–	–	–	–	–	-15,054	-15,054
(II) Shareholders' contributions and decrease of capital	–	2,299	–	–	–	–	–	2,299
1. Contribution by ordinary shareholders	–	–	–	–	–	–	–	–
2. Share payments recognised in equity	–	2,299	–	–	–	–	–	2,299
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 30/6/2020	18,984,340	14,567,123	–	–	–	200,383	-1,511,266	32,240,580

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)

For the six months ended 30 June 2020

Prepared by: Sinopec Oilfield Service Corporation

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 31/12/2018	18,984,340	14,561,006	–	–	–	200,383	-1,466,064	32,279,665
Add: Changes in accounting policies	–	–	–	–	–	–	–	–
Correction of prior period errors	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
II. Balance at 01/01/2019	18,984,340	14,561,006	–	–	–	200,383	-1,466,064	32,279,665
III. Changes in equity during the year ("-" for decrease)	–	2,531	–	–	–	–	-13,160	-10,629
(I) Total comprehensive income	–	–	–	–	–	–	-13,160	-13,160
(II) Shareholders' contributions and decrease of capital	–	2,531	–	–	–	–	–	2,531
1. Contribution by ordinary shareholders	–	–	–	–	–	–	–	–
2. Share payments recognised in equity	–	2,531	–	–	–	–	–	2,531
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 30/6/2019	18,984,340	14,563,537	–	–	–	200,383	-1,479,224	32,269,036

Chairman:
Chen Xikun

General Manager:
Yuan Jianqiang

Chief Financial Officer:
Xiao Yi

Manager of accounting department:
Pei Defang

Section VIII Financial Reports

NOTES TO THE FINANCIAL INFORMATION

I. COMPANY GENERAL INFORMATION

1. Company Profile

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

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

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

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

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

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

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

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

Approved by China Securities Regulatory Commission's license [2018] No. 142, "The Approval of Sinopec Oilfield Service Corporation issuing non-public shares", the company had issues 1,526,717,556 shares to China Petrochemical Corporation and the Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshihuazhang No. 2 Community Pension Management Fund. The non-public issuance of ordinary shares (A shares) was issued at RMB2.62 per share. Approved by China Securities Regulatory Commission's license [2018] No. 130, "The Approval of Sinopec Oilfield Service Corporation issuing overseas-listed foreign shares", the company had issued 3,314,961,482 H shares to Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund.

I. COMPANY GENERAL INFORMATION (Continued)

1. Company Profile (Continued)

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

These financial statements and financial information notes have been approved for issue by the 21st meeting of the ninth term Board of Directors of the Company on 25 August 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 no change, the details refer to Note VI. Changes in scope of consolidation and Note VII. Interests in other entities.

II. BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

The Group's accumulated loss is RMB24,216,840 thousand, current liabilities exceed current assets of approximately RMB19,678,876 thousand as at 30 June 2020(Current liabilities exceed current assets of RMB21,823,364 thousand in 2019), committed capital expenditures are approximately RMB515,558 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 USD0.60 billion from subsidiaries of Sinopec Group, and line of credit promissory note of RMB7 billion. After the reorganization, the Company will further broaden the financing channel, develop good relations with the public and state-owned financial institutions in order to obtain a more adequate line of credit. The directors of the Company consider the measures sufficient to meet the Group's debt repayment and capital commitment required. Consequently, the Company prepared the financial statements on a going concern basis.

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group's accounting policies for depreciation of fixed assets, amortization of intangible assets and long-term deferred expense and revenue are recognized on the basis of its production and management characteristics, the specific accounting policies are set out in Note III, 15, Note III, 18, Notes III, 21, Notes III, 19 and Notes III, 25.

1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE, which gives a true view of the entire company's and consolidated financial position at 30 June 2020 and the Company's and the consolidated operating results during at 30 June 2020.

2. Accounting period

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

The reporting period is from January to June 2020.

3. Operating cycle

The operating cycle of the Group is 12 months.

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

4. Functional currency

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

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

5. Business combinations

(1) Business combination involving entities under common control

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

Business combinations involving enterprises under common control and achieved in stages

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

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

(2) Business combination involving entities not under common control

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

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

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

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

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

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

5. Business combinations (Continued)

(3) Transaction fees attribution during the combination

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

6. Method of preparing consolidated financial statements

(1) Scope of consolidation

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

(2) Method of preparing of consolidated financial statements

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

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

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

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

(3) Purchase of the minority stake in the subsidiary

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

(4) Treatment of loss of control of subsidiaries

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

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

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

6. Method of preparing consolidated financial statements (Continued)

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

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

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

These transactions can only achieve one complete business results;

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

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

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

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

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

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

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

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

(1) Joint operation

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

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

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

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

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

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

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

(2) Joint ventures

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

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

8. Standard of determining cash and cash equivalents

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

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

9. Foreign currency transactions and translation of foreign currency statement

(1) Foreign currency transactions

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

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

(2) Translation of foreign currency information

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

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

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

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

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

10. Financial instruments

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

(1) Recognition and Derecognition of financial instruments

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

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

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

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

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

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

(2) Classification and measurement of financial assets

Financial assets are classified into the following three categories depends on the Group's business mode of managing financial assets and cash flow characteristics of financial assets: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Financial assets measured at amortised cost

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

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

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

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

10. Financial instruments (Continued)

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

Financial assets at fair value through other comprehensive income

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

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

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

Financial assets at fair value through profit or loss

In addition to the above 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 above contract cash flow's characteristics.

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

In addition to accounts receivable without significant financing elements, financial assets are measured at fair value when initially recognized. For financial assets at fair value through profits and losses, the related transaction costs are directly recognized through profits and losses, and the related transaction costs of other types of financial assets are included in the initial recognition amounts. For accounts receivable without significant financing elements, the Group shall initially measure with the transaction price according to the accounting policies in Note III, 25.

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

10. Financial instruments (Continued)

(3) Classification and Measurement of financial liabilities

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

Financial liabilities at fair value through profits and losses

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

Financial liabilities measured at amortized cost

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

Financial guarantee contract

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

Distinction between financial liabilities and equity instruments

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

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.

(5) Fair value of financial instruments

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

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

10. Financial instruments (Continued)

(6) Impairment of financial assets

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

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

Measurement of expected credit losses

The expected credit losses refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages.

The Group 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

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

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

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Other receivables

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

- Other receivables group 1: Amount receivables of imprest
- Other receivables group 2: Amount receivables of guarantee and deposits
- Other receivables group 3: 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 group 1：Receivables for construction
- Long-term receivables group 2：Installation receivables for providing services
- Long-term receivables group 3：Amount receivables of other customers

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

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

Debt investments, Other debt investments

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

Assessment of Significant Increase in Credit Risk

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

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

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

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

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

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

The Group considers that financial assets default in the following circumstances

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

Financial assets that have occurred credit impairment

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

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

Presentation of expected credit losses reserve

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

Write off

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

(7) Transfer of financial assets

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

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

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

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

10. Financial instruments (Continued)

(8) Offsetting financial assets and financial liabilities

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

11. Fair value measurement

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

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

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

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

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

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

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

12. 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.

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

13. Assets Held for sale and discontinued operations

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

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

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

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

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

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.

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.

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

14. Long-term equity investment

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

(1) Recognition of initial investment cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Long-term equity investment (Continued)

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

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

(4) Held-for-sale equity investment

Refer to note III, 13 for the relevant accounting treatment of the equity investment to joint ventures or associates all or partially classified as assets held for sale.

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

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

(5) Impairment test and Impairment provision

Refer to note III.20 for investment and the impairment provision of assets.

15. Fixed asset

(1) Conditions for confirmation of fixed assets

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

Fixed assets are recognized when it is probable that the related economic benefits will flow to the Company and the 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	8.08-1.94
Oil engineering equipment and others	4-30	3	24.3-3.2

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

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

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

15. Fixed asset (Continued)

(4) 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.

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.

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

17. Borrowing costs (Continued)

(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, technology rights and contract revenue right 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	
Contract revenue right	/	units of production basis	

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

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

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

19. Research and development expenditure

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

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

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

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

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

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

20. Impairment of assets

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

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

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

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

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

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

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

21. Long-term deferred expenses

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

22. Employee benefits

(1) The scope of employee benefits

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

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

(2) Short-term employee benefits

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

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

22. Employee benefits (Continued)

(3) Post-employment benefits

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

The basic pension insurance

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

Pension plan

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

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

(4) Termination benefits

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

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

(5) Other long-term employee benefits

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

23. Provisions

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

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

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

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

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

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

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

24. Share-based payment and equity instruments

(1) Category of share-based payment

Share-based payment is classified into cash-settled share-based payment and equity-based share-based payment.

(2) Fair value of equity instrument

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

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

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

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

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

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

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

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

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

25. Revenue

(1) General principle

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

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

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

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

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

③ The commodities produced by the Group in the course of its performance are irreplaceable and the Group has the right to collect payments for the part of performance that has been completed so far during the entire contract period.

If the control of the relevant goods and services is transferred over time, the Group recognises revenue based on the progress of the performance obligations that have been fulfilled throughout the contract period.When the progress of the performance obligation cannot be reasonably measured, if the cost incurred is expected to be recovered, the revenue shall be recognized according to the amount of cost incurred, until the progress can be reasonably determined.

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

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

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

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

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

⑤ The customer has accepted the goods or services.

⑥ Other signs that customers have acquired the control of goods

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

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

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

25. Revenue (Continued)

(2) The specific methods

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

Provide drilling engineering, geophysical exploration services and construction services

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

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

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

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.

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

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.

(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.

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

29. Leases (Continued)

(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”.

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”.

(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.

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”.

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

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.

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

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.

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.

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

33. Significant accounting judgments and estimates (Continued)

(5) development costs

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

(6) Revenue recognition

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

(7) Pending claims

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

(8) Deferred income tax assets

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

(9) Taxation

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

34. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

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

(2) Changes in accounting estimates

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

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 or 13
Urban maintenance and construction tax	Turnover tax payable	1, 5, 7
Educational surtax	Turnover tax payable	5
Income tax	Tax payable	25

Corporate income tax:

Taxpayer	Tax rate%
Sinopec Shengli Petroleum Engineering Company Limited	15
Sinopec Zhongyuan Petroleum Engineering Company Limited	15
Sinopec Jianghan Petroleum Engineering Company Limited	15
Sinopec North China Petroleum Engineering Corporation	15
Sinopec South West Petroleum Engineering Company Limited	15
Sinopec Zhongyuan Oil Engineering Design Company Limited	15
Sinopec Jianghan Oil Engineering Design Company Limited	15
Sinopec 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 Zhongyuan Petroleum Engineering Company Limited, Sinopec Jianghan Petroleum Engineering Company Limited, Sinopec North China Petroleum Engineering Corporation, Sinopec Oil Engineering geophysical Company Limited, Sinopec Zhongyuan Oil Engineering Design Company Limited, Sinopec Oil Engineering Design Company Limited, Sinopec Jianghan Oil Engineering Design Company Limited and Sinopec Henan Oil Engineering Design Company Limited have obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Items	As at 30 June 2020			As at 31 December 2019		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
Cash on hand:	–	–	11,861	–	–	6,792
RMB	–	–	173	–	–	13
USD	484	7.0795	3,425	417	6.9762	2,908
EUR	12	7.9610	95	33	7.8155	257
BRL	28	1.2893	36	48	1.7280	83
DZD	22,669	0.0549	1,245	9,553	0.0585	559
SAR	157	1.8874	297	123	1.8597	228
KWD	85	22.9705	1,963	6	22.9820	139
KZT	35,130	0.0174	612	41,192	0.0183	754
XAF	–	–	–	19,558	0.0119	233
BOB	118	1.0245	121	538	1.0096	544
Others	–	–	3,894	–	–	1,074
Cash at banks:	–	–	2,024,268	–	–	1,659,092
RMB	–	–	303,485	–	–	279,378
USD	130,365	7.0795	922,921	103,250	6.9762	720,291
EUR	210	7.9610	1,670	210	7.8155	1,640
BRL	209	1.2893	269	100	1.7280	173
DZD	671,981	0.0549	36,892	1,010,253	0.0585	59,116
SAR	96,400	1.8874	181,942	44,748	1.8597	83,218
KWD	14,561	22.9705	334,470	11,583	22.9820	266,192
KZT	595,923	0.0174	10,387	1,641,129	0.0183	30,049
XAF	–	–	–	1,454,689	0.0119	17,353
BOB	30,729	1.0245	31,483	14,968	1.0096	15,112
KES	130,519	0.0665	8,680	108,152	0.0688	7,445
Others	–	–	192,069	–	–	179,125
Among cash at bank：Related party	–	–	901,733	–	–	805,461
Including: RMB	–	–	77,023	–	–	55,388
USD	73,207	7.0795	518,272	73,351	6.9762	511,713
SAR	24	1.8874	45	24	1.8597	44
KWD	13,209	22.9705	303,423	10,110	22.9820	232,341
EUR	178	7.9610	1,414	178	7.8155	1,388
Others	–	–	1,556	–	–	4,587
Other monetary funds:	–	–	3,795	–	–	2,953
RMB	–	–	892	–	–	50
AED	131	1.9275	253	131	1.9003	250
DZD	8,444	0.0549	463	8,444	0.0585	494
Others	–	–	2,187	–	–	2,159
Total:	–	–	2,039,924	–	–	1,668,837
Amount deposited abroad:	–	–	1,746,680	–	–	1,379,650

At 30 June 2020, the Group's restricted cash such as margin deposit is RMB41,754 thousand (At 31 December 2019: RMB18,105 thousand), including frozen deposit is RMB8,244 thousand (At 31 December 2019: RMB15,267 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Bills receivable

Type	As at 30 June 2020			As at 31 December 2019		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Bank acceptance bills	–	–	–	500	–	500
Trade acceptance bills	–	–	–	–	–	–
Total	–	–	–	500	–	500

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 30 June 2020	As at 31 December 2019
Within 1 year	9,905,170	10,645,810
Including: No overdue	7,271,259	9,386,890
Overdue within 1 year	2,633,911	1,258,920
Subtotal of within 1 year	9,905,170	10,645,810
1 – 2 years	1,291,197	1,416,599
2 – 3 years	550,143	563,666
3 – 4 years	316,480	736,767
4 – 5 years	1,117,882	716,238
Over 5 years	385,630	431,265
Subtotal:	13,566,502	14,510,345
Less: provision for bad debts	2,403,609	2,513,990
Total:	11,162,893	11,996,355

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by bad debt provision:

Type	As at 30 June 2020					As at 31 December 2019				
	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	991,577	7.31	991,577	100.00	–	1,082,918	7.46	1,082,918	100.00	–
Provision for bad and doubtful debts collectively:	12,574,925	92.69	1,412,032	11.23	11,162,893	13,427,427	92.54	1,431,072	10.66	11,996,355
Including:										
Related party grouping	4,110,069	30.30	71,575	1.74	4,038,494	4,885,648	33.67	99,509	2.04	4,786,140
Third party grouping	8,464,856	62.39	1,340,457	15.84	7,124,399	8,541,779	58.87	1,331,563	15.59	7,210,215
Total	13,566,502	100.00	2,403,609	17.72	11,162,893	14,510,345	100.00	2,513,990	17.33	11,996,355

Provision made on an individual basis

Name	As at 30 June 2020			Provision reason
	Amount	Bad debt provision	Expected credit loss(%)	
Entity A	970,310	970,310	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity B	16,879	16,879	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity C	403	403	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity D	3,985	3,985	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Total	991,577	991,577	100.00	/

Provision for bad and doubtful debts collectively:

Provision for bad debt as at 30 June 2020

As at 30 June 2020	Related party grouping			Third party grouping		
	Amount	Bad debt provision	Expected credit loss(%)	Amount	Bad debt provision	Expected credit loss(%)
Within 1 year	3,501,726	15,263	0.44	6,371,866	109,488	1.72
Including:						
No overdue	2,822,053	8,466	0.30	4,449,030	13,346	0.30
Overdue within 1 year	679,673	6,797	1.00	1,922,836	96,142	5.00
1 – 2 years	447,363	16,965	3.79	743,039	188,425	25.36
2 – 3 years	89,322	7,216	8.08	411,438	204,802	49.78
3 – 4 years	27,793	5,705	20.53	252,765	201,224	79.61
4 – 5 years	23,017	9,748	42.35	320,966	271,736	84.66
Over 5 years	20,848	16,678	80.00	364,782	364,782	100.00
Total	4,110,069	71,575	1.74	8,464,856	1,340,457	15.84

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

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

Provision for bad debt as at 31 December 2019

	Related party grouping			Third party grouping		
As at 31 December 2019	Amount	Bad debt provision	Expected credit loss(%)	Amount	Bad debt provision	Expected credit loss(%)
Within 1 year	4,232,756	15,005	0.35	6,357,594	85,950	0.95
Including:						
No overdue	3,903,164	11,709	0.30	5,483,724	16,452	0.30
Overdue within 1 year	329,592	3,296	1.00	873,870	43,693	5.00
1 – 2 years	416,992	21,308	5.11	814,767	207,480	25.46
2 – 3 years	121,794	12,507	10.27	435,209	221,626	50.92
3 – 4 years	58,920	14,491	24.59	232,752	186,583	80.16
4 – 5 years	27,248	13,848	50.82	298,129	252,401	84.66
Over 5 years	27,938	22,350	80.00	403,328	403,328	100.00
Total	4,885,648	99,509	2.04	8,541,779	1,331,563	15.59

(3) Provision, recovery or reversal of bad debt

	Bad debt provision
As at 31 December 2019	2,513,990
Provision	213,945
Other increase or other decrease	5,373
Recovery or reversal	175,799
Written-off	153,900
As at 30 June 2020	2,403,609

(4) Accounts receivable written off during this year

Name	Reasons for written off	Amount
Entity A	Unable to receive	38,104
Entity B	Unable to receive	47,782
Entity C	Unable to receive	41,755
Entity D	Unable to receive	25,217
Others	Unable to receive	1,042
Total	/	153,900

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	3,558,162	26.23	43,708
Entity B	1,108,260	8.17	41,969
Entity C	970,310	7.15	970,310
Entity D	483,819	3.57	24,702
Entity E	480,633	3.54	1,740
Total	6,601,184	48.66	1,082,429

4. Accounts receivable financing

Item	As at 30 June 2020	As at 31 December 2019
Bills receivable	1,753,783	1,446,389
Accounts receivable	–	–
Subtotal:	1,753,783	1,446,389
Less: Other comprehensive income from changes in fair values	–	–
Total	1,753,783	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 30 June 2020, the bills receivables that had been endorsed or discounted but not yet due were RMB5,577,669 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 30 June 2020, 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.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments

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

	As at 30 June 2020		As at 31 December 2019	
Ageing	Amount	Proportion %	Amount	Proportion %
Within 1 year	688,929	86.83	517,085	93.38
1 – 2 years	86,374	10.89	14,955	2.70
2 – 3 years	7,850	0.99	11,889	2.15
Over 3 years	10,255	1.29	9,797	1.77
Total	793,408	100.00	553,726	100.00

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

The total amount of the five largest prepayments is 363,723 thousand, which contributed 45.84% of the total ending balance amount of prepayments.

Company Name	Amount	Percentage of total prepayments
Entity A	213,143	26.86
Entity B	49,534	6.24
Entity C	42,205	5.32
Entity D	33,851	4.27
Entity E	24,990	3.15
Total	363,723	45.84

6. Other receivables

Items	As at 30 June 2020	As at 31 December 2019
Dividends receivable	–	–
Other receivables	2,829,147	2,365,418
Total	2,829,147	2,365,418

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

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

① *The ageing analysis is as follows:*

Category	As at 30 June 2020	As at 31 December 2019
Within 1 year	2,492,187	1,994,210
1 – 2 years	280,591	328,161
2 – 3 years	147,209	155,985
3 – 4 years	210,211	212,106
4 – 5 years	174,600	116,053
Over 5 years	269,032	269,588
Subtotal:	3,573,830	3,076,103
Less: provision for bad debts	744,683	710,685
Total:	2,829,147	2,365,418

② *Other receivables disclosed by nature:*

	As at 30 June 2020			As at 31 December 2019		
Items	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Imprest	16,610	347	16,263	12,249	838	11,411
Guarantee	1,407,749	175,353	1,232,396	1,412,018	191,575	1,220,443
Amount paid on behalf	1,059,954	175,010	884,944	732,671	140,267	592,404
Temporary payment	536,350	340,517	195,833	623,580	338,308	285,272
Escrow funds	7,159	5,394	1,765	39,529	6,502	33,027
Deposits	49,180	4,344	44,836	46,742	5,659	41,083
Export tax refund receivable	22,316	6,144	16,172	8,663	457	8,206
Others	474,512	37,574	436,938	200,651	27,079	173,572
Total	3,573,830	744,683	2,829,147	3,076,103	710,685	2,365,418

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

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

③ ***Provision for bad debts***

As at 30 June 2020, 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	16,610	2.09	347	16,263
Guarantee and deposits	1,021,612	4.36	44,568	977,044
Others	1,734,975	4.70	81,485	1,653,490
Total	2,773,197	4.56	126,400	2,646,797

As at 30 June 2020, the company did not have interests receivable, dividends receivable and other receivables in the second stage.

As at 30 June 2020, 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	167,016	71.48	119,380	47,636
Others	633,617	78.74	498,903	134,714
Total	800,633	77.22	618,283	182,350

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 1 January 2020	100,831	–	609,854	710,685
Provision	65,651	–	44,726	110,377
Reversal	40,082	–	36,297	76,379
Written-off	–	–	–	–
Others	–	–	–	–
As at 30 June 2020	126,400	–	618,283	744,683

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

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

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

Company Name	Nature of payment	Amount	Ageing	Percentage of total other receivable %	Ending balance of bad debt provision
Entity A	Amount paid on behalf	508,689	Within 2 years	14.23	21,909
Entity B	Temporary payment	337,930	1 – 3 years	9.46	169,244
Entity C	Guarantee	231,786	Within 1 year	6.49	8,546
Entity D	Temporary payment	166,339	Over 5 years	4.65	166,339
Entity E	Temporary payment	129,408	1 – 3 years	3.62	9,466
Total	/	1,374,152	/	38.45	375,504

7. Inventories

(1) Inventories by categories

Items	As at 30 June 2020			As at 31 December 2019		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	**913,430**	**51,774**	**861,656**	1,030,568	52,489	978,079
Work in progress	**5,730**	**1,671**	**4,059**	8,781	1,671	7,110
Finished goods	**83,830**	**283**	**83,547**	53,875	615	53,260
Turnover materials	**9,582**	**–**	**9,582**	10,016	–	10,016
Costs to fulfil a contract	**430,200**	**–**	**430,200**	137,039	–	137,039
Total	**1,442,772**	**53,728**	**1,389,044**	1,240,279	54,775	1,185,504

As at 30 June 2020 and 31 December 2019 the cost of inventories didn't include capitalized interest. In addition, the inventories haven't been used for mortgage or guarantee.

(2) Provision for diminution in value of inventories

Category	As at 1 January 2020	Increase during the period		Written back during the period		As at 30 June 2020
		Provision	Others	Reversal or Write-off	Others	
Raw materials	52,489	–	–	715	–	51,774
Work in progress	1,671	–	–	–	–	1,671
Finished goods	615	–	–	332	–	283
Total	54,775	–	–	1,047	–	53,728

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Contract assets

Items	As at 30 June 2020	As at 31 December 2019
Contract assets	13,894,632	9,609,431
Less: Impairment of contract assets	45,492	39,182
Subtotal	13,849,140	9,570,249
Less: Contract assets listed in other non-current assets	–	–
Total	13,849,140	9,570,249

(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

	As at 30 June 2020					As at 31 December 2019				
	Cost		Provision for impairment			Cost		Provision for impairment		
Type	Amount	Proportion(%)	Amount	Expected credit loss(%)	Net carrying amount	Amount	Proportion(%)	Amount	Expected credit loss(%)	Net carrying amount
Provision for bad and doubtful debts collectively										
Including：										
Petroleum Engineering	13,894,632	100.00	45,492	0.33	13,849,140	9,609,431	100.00	39,182	0.41	9,570,249
Total	13,894,632	100.00	45,492	0.33	13,849,140	9,609,431	100.00	39,182	0.41	9,570,249

9. Other current assets

Items	As at 30 June 2020	As at 31 December 2019
Prepaid VAT	656,455	571,886
Value-added tax to be certified	22,086	10,285
Excess value-added tax paid	1,104,547	1,135,967
Prepaid income tax	22,387	24,200
Others	2	–
Total	1,805,477	1,742,338

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term equity investments

Name of company	As at 31 December 2019	The fluctuation of this period: Additional investment	Reduce investment	Investment gains and losses confirmed by the equity method	Adjustment of other comprehensive income	Changes in other equity	The issuance of profit	Impairment	Others	As at 30 June 2020	The ending balance of impairment
① Joint venture											
Zhong Wei Energy Service Co. Ltd. (A Sinopec-Weatherford Joint Venture)	8,303	–	–	-656	–	–	–	–	–	7,647	–
Sinopec Gulf Petroleum Engineering Services, LLC	13,383	–	–	-272	–	–	–	–	–	13,111	–
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	2,105	–	–	-88	–	–	–	–	–	2,017	–
EBAPAN, S.A. DE C.V	–	8	–	–	–	–	–	–	–	8	
Subtotal	23,791	8	–	-1,016	–	–	–	–	–	22,783	–
② Associates											
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	5,090	–	–	1,090	–	–	700	–	–	5,480	–
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,970	–	–	1,024	–	–	700	–	–	3,294	–
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,198	–	–	675	–	–	246	–	–	2,627	–
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	2,409	–	–	568	–	–	–	–	–	2,977	–
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	3,260	–	–	679	–	–	–	–	–	3,939	–
Subtotal	15,927	–	–	4,036	–	–	1,646	–	–	18,317	–
Total	39,718	8	–	3,020	–	–	1,646	–	–	41,100	–

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.

11. Other equity instrument investments

Item	As at 30 June 2020	As at 31 December 2019
Sinopec&Tharwa Drilling Company	23,699	23,699
Shengli oilfield Niuzhuang Petroleum Development Co., Ltd	9,010	9,010
Dongying Kewei Intelligent Technology Co., Ltd	138	138
Total	32,847	32,847

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.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed assets

Category	As at 30 June 2020	As at 31 December 2019
Fixed assets	22,192,749	23,502,540
Disposal of fixed assets	17,624	13,887
Total	22,210,373	23,516,427

(1) Fixed assets

① *Fixed assets by categories*

Items	Buildings	Equipment and others	Total
Cost:			
1. At 1 January 2020	1,637,760	60,903,010	62,540,770
2. Increase in the year	486	189,991	190,477
(1) Purchase	–	135,203	135,203
(2) Transferred from construction in progress	–	45,776	45,776
(3) Others	486	9,012	9,498
3. Written back during the year	373	178,318	178,691
(1) Disposal or retirement	373	178,318	178,691
4. At 30 June 2020	1,637,873	60,914,683	62,552,556
Accumulated depreciation:			
1. At 1 January 2020	545,647	37,130,827	37,676,474
2. Increase in the year	27,767	1,463,491	1,491,258
(1) Depreciation	27,767	1,455,606	1,483,373
(2) Others	–	7,885	7,885
3. Written back during the year	362	152,387	152,749
(1) Disposal or retirement	362	152,387	152,749
4. At 30 June 2020	573,052	38,441,931	39,014,983
Provision for impairment			
1. At 1 January 2020	8,436	1,353,320	1,361,756
2. Increase in the year	–	–	–
(1) Purchase from related parties	–	–	–
3. Written back during the year	–	16,932	16,932
(1) Disposal or retirement	–	16,932	16,932
4. At 30 June 2020	8,436	1,336,388	1,344,824
Net carrying amount			
1. At 30 June 2020	1,056,385	21,136,364	22,192,749
2. At 1 January 2020	1,083,677	22,418,863	23,502,540

Notes:
A. At 30 June 2020, the net amount of the Group's fixed assets were pledged is RMB821,297 thousand (At 31 December 2019: RMB880,352 thousand).

② *The situation of premises without qualified ownership certificates*

There had been a total amount of 27 premises without qualified ownership certificates up to 30 June 2020, totaling amount in cost of 177,062 thousand, in accumulated depreciation of 31,408 thousand and net book value of 145,654 thousand.

(2) Disposal of fixed assets

Items	As at 30 June 2020	As at 31 December 2019	Reasons for moving to disposal
Equipment	17,624	13,887	Written off

As at 30 June 2020, no disposal of fixed assets were turned in more than a year.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Construction in progress

Category	As at 30 June 2020	As at 31 December 2019
Construction in progress	506,522	213,819
Construction materials	1	–
Total	506,523	213,819

(1) Construction in progress

① *Details of construction in progress*

Items	As at 30 June 2020			As at 31 December 2019		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	3,890	3,502	388	5,631	3,502	2,129
Major Materials and equipment procurement projects	574,329	68,232	506,097	273,086	68,232	204,854
Other construction projects	37	–	37	6,836	–	6,836
Total	578,256	71,734	506,522	285,553	71,734	213,819

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

Project name	As at 31 December 2019	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	As at 30 June 2020
	A	B	C	D		E=A+B-C-D
Purchase of high pressure and large displacement mud pump set in 2020	–	8,746	–	–	–	8,746
Top drive purchase project in 2020	–	8,292	–	–	–	8,292
Purchase Project of SP261 drilling rig	–	72,984	–	–	–	72,984
Modification of ZJ90DB drilling rig in Shunbei	–	8,898	–	–	–	8,898
Purchase project of Coiled Tubing Operation Equipment	11,708	–	–	–	–	11,708
5700 Series Ultra High Temperature and High Pressure Logging Instrument Update Project	16,400	–	–	–	–	16,400
Project of Pneumatic gun Focus Vessel in Paralic Zone	9,418	–	–	–	–	9,418
Purchase project of Wireless MWD instruments	–	39,387	–	–	–	39,387
Upgrade of Gas well workover drilling rig In Saudi Arabia	–	39,320	–	–	–	39,320
Upgrade of gas well workover drilling rig In Saudi Arabia	–	33,170	27,014	–	–	6,156
Total	37,526	210,797	27,014	–	–	221,309

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Construction in progress (Continued)

(1) Construction in progress (Continued)

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

Project name	Budget	Percentage of current input over budget (%)	Progress(%)	Sources of funds
Purchase of high pressure and large displacement mud pump set in 2020	41,039	21	21	Selfraised
Top drive purchase project in 2020	31,700	26	26	Selfraised
Purchase Project of SP261 drilling rig	77,450	94.23	94.23	Selfraised
Modification of ZJ90DB drilling rig in Shunbei	38,900	22.87	22.87	Selfraised
Purchase project of Coiled Tubing Operation Equipment	25,150	98.42	98.42	Selfraised
5700 Series Ultra High Temperature and High Pressure Logging Instrument Update Project	21,140	77.58	77.58	Selfraised
Project of Pneumatic gun Focus Vessel in Paralic Zone	19,180	49	49	Selfraised
Purchase project of Wireless MWD instruments	39,910	99	99	Selfraised
Upgrade of Gas well workover drilling rig In Saudi Arabia	39,730	99	99	Selfraised
Upgrade of gas well workover drilling rig In Saudi Arabia	39,730	83.49	83.49	Selfraised
Total	373,929	–	–	–

(2) Construction materials

Items	As at 30 June 2020			As at 31 December 2019		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Special materials	1	–	1	–	–	–

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Right-of-use assets

Items	Land	Buildings	Equipment and others	Total
Cost:				
1. At 1 January 2020	211,535	772,541	944,579	1,928,655
2. Increase in the year	12,708	100,225	52,238	165,171
(1) Lease	12,708	100,225	52,238	165,171
(2) Adjustment of lease liability	–	–	–	–
(3) Others	–	–	–	–
3. Written back during the year	–	–	29,020	29,020
(1) Change in contract	–	–	29,020	29,020
4. At 30 June 2020	224,243	872,766	967,797	2,064,806
Accumulated depreciation:				
1. At 1 January 2020	46,447	178,350	156,036	380,833
2. Increase in the year	27,163	107,375	126,821	261,359
(1) Depreciation	27,163	107,375	126,821	261,359
(2) Business combination involving entities not under common control	–	–	–	–
(3) Others	–	–	–	–
3. Written back during the year	–	–	–	–
(1) Disposal or retirement	–	–	–	–
(2) Others	–	–	–	–
4. At 30 June 2020	73,610	285,725	282,857	642,192
Provision for impairment				
1. At 1 January 2020	–	–	–	–
2. Increase in the year	–	–	–	–
(1) Depreciation	–	–	–	–
(2) Business combination involving entities not under common control	–	–	–	–
(3) Others	–	–	–	–
3. Written back during the year	–	–	–	–
(1) Disposal or retirement	–	–	–	–
(2) Others	–	–	–	–
4. At 30 June 2020	–	–	–	–
Net carrying amount				
1. At 30 June 2020	150,633	587,041	684,940	1,422,614
2. At 1 January 2020	165,088	594,191	788,543	1,547,822

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Intangible assets

(1) Classification of intangible assets

Items	Land use rights	Computer software	Contract revenue right	Others	Total
Cost:					
1. At 1 January 2020	136,660	170,597	399,071	76,928	783,256
2. Increase in the year	–	–	–	–	–
(1) Purchase	–	–	–	–	–
(2) Reclassification	–	–	–	–	–
3. Written back during the year	–	–	–	–	–
(1) Reclassification	–	–	–	–	–
4. At 30 June 2020	136,660	170,597	399,071	76,928	783,256
Accumulated amortization:					
1. At 1 January 2020	25,210	131,437	210,984	22,678	390,309
2. Increase in the year	1,547	5,888	41,065	4,318	52,818
(1) Provision	1,547	5,888	41,065	4,318	52,818
(2) Reclassification	–	–	–	–	–
3. Written back during the year	–	–	–	–	–
(1) Reclassification	–	–	–	–	–
4. At 30 June 2020	26,757	137,325	252,049	26,996	443,127
Provision for impairment					
1. At 1 January 2020	–	–	–	–	–
2. Increase in the year	–	–	–	–	–
3. Written back during the year	–	–	–	–	–
4. At 30 June 2020	–	–	–	–	–
Carrying amount	–	–	–	–	–
1. At 30 June 2020	109,903	33,272	147,022	49,932	340,129
2. At 1 January 2020	111,450	39,160	188,087	54,250	392,947

Notes:
① At 30 June 2020, no internal research form intangible assets.
② At 30 June 2020, the above intangible assets were not pledged.

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Long-term deferred expenses

Items	As at 31 December 2019	Increase in the year	Decrease in the year		As at 30 June 2020
			Amortization in the year	Other decreases	
Special tools of petroleum engineering	4,163,931	466,633	707,548	7,054	3,915,962
Other tools of Petroleum engineering	723,059	44,062	179,808	–	587,313
Camping house	472,621	33,994	78,467	337	427,811
Other long-term deferred expenses	19,867	4,591	7,615	2,399	14,444
Total	5,379,478	549,280	973,438	9,790	4,945,530

17. Deferred income tax assets and deferred income tax liabilities

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

Items	As at 30 June 2020		As at 31 December 2019	
	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	1,519,779	245,249	1,466,534	245,249
Provision for bad debts	928,574	163,265	880,471	162,393
Deferred income		9,363	59,936	9,362
Subtotal	2,448,353	417,877	2,406,941	417,004
Deferred income tax liabilities				
Revaluation of assets	58,650	14,362	62,810	15,359
Depreciation of fixed assets	1,937	484	1,937	484
Changes in fair value through other comprehensive income	8,737	2,011	8,737	2,011
Subtotal	69,324	16,857	73,484	17,854

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

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

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

Items	As at 30 June 2020	As at 31 December 2019
Deductible temporary differences	2,193,447	2,290,907
Tax losses	17,450,570	17,746,849
Total	19,644,017	20,037,756

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

Years	As at 30 June 2020	As at 31 December 2019
year 2020	355,057	626,781
year 2021	10,298,350	10,696,304
year 2022	6,001,109	6,017,933
year 2023	371,858	371,858
year 2024	33,973	33,973
year 2025	390,223	–
Total	17,450,570	17,746,849

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Short-term loans

(1) Classification of short-term loans

Items	Currency	As at 30 June 2020	As at 31 December 2019
Unsecured borrowings from related parties	RMB	19,640,000	18,080,000
	USD	1,925,624	2,323,075
Total	/	21,565,624	20,403,075

As at 30 June 2020, no assets of the Group were pledged.

As at 30 June 2020, the Group has no overdue short-term borrowings.

As at 30 June 2020, the interest rate range of short-term borrowings is 1.48%-3.92% (31 December 2019: 3.09%-3.92%).

19. Bills payable

Category	As at 30 June 2020	As at 31 December 2019
Trade acceptance bills	6,937,651	4,596,462
Bank acceptance bills	90,707	137,470
Total	7,028,358	4,733,932

Notes：There is no unpaid bills and bank deposit pledged for bills payable at 30 June 2020.

20. Accounts payable

Items	As at 30 June 2020	As at 31 December 2019
Payables for materials	5,546,137	5,155,319
Payables for construction	4,723,093	5,252,570
Payable for labour cost	5,848,134	5,969,634
Payables for equipment	3,094,713	2,967,070
Others	1,034,140	723,701
Total	20,246,217	20,068,294

Important accounts payable aged over one year:

Items	As at 30 June 2020	Overdue reasons
Entity A	53,893	Retention money, Unsettled
Entity B	41,539	Retention money, Unsettled
Entity C	24,626	Retention money, Unsettled
Entity D	23,312	Retention money, Unsettled
Entity E	17,557	Retention money, Unsettled
Total	160,927	/

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Contract liabilities

Items	As at 30 June 2020	As at 31 December 2019
Petroleum Engineering	979,129	1,628,189
Construction Engineering	1,544,416	1,947,465
Total	2,523,545	3,575,654

The balance of contract liabilities as at 1 January 2020 is RMB3,575,654 thousand, in which RMB2,209,489 thousand was recognized as revenue during the period.

22. Employee benefits payable

Items	As at 31 December 2019	Increase in the year	Decrease in the year	As at 30 June 2020
Short term employee benefits	421,679	6,051,245	5,814,759	658,165
Post-employment benefits	259	700,424	606,814	93,869
Termination benefits	–	6,243	6,243	–
Total	421,938	6,757,912	6,427,816	752,034

(1) Short-term employee benefits

Items	As at 31 December 2019	Increase in the year	Decrease in the year	As at 30 June 2020
Wages or salaries, bonuses, allowances and subsidies	262,904	4,155,266	3,976,469	441,701
Staff welfare	–	361,636	361,636	–
Social security contributions	544	366,430	341,820	25,154
Including: 1. Basic medical insurance	178	254,417	234,750	19,845
2. Supplementary medical insurance	–	54,070	54,070	–
3. Work-related injury insurance	22	14,620	11,013	3,629
4. Birth insurance	13	15,638	14,394	1,257
5. Other insurance	331	27,685	27,593	423
Housing funds	2,545	477,806	474,907	5,444
Labor union and employee education funds	147,566	89,843	72,942	164,467
Others	8,120	600,264	586,985	21,399
Total	421,679	6,051,245	5,814,759	658,165

(2) Post-employment benefits

Items	As at 31 December 2019	Increase in the year	Decrease in the year	As at 30 June 2020
Basic pension insurance	227	372,950	283,407	89,770
Unemployment insurance	13	16,053	12,090	3,976
Annuity	19	311,421	311,317	123
Total	259	700,424	606,814	93,869

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

(3) Termination benefits

During this report, the Group paid 6,243 thousand compensation to the resigning employee for terminating labor relation.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Taxes payable

Items	As at 30 June 2020	As at 31 December 2019
VAT	178,062	259,488
Urban maintenance and construction tax	30,316	33,433
Education surtax	17,619	20,613
Corporate income tax	354,414	324,190
Individual income tax	43,210	89,876
Withholding tax	19,923	28,009
Others	73,795	88,106
Total	717,339	843,715

24. Other payables

Items	As at 30 June 2020	As at 31 December 2019
Interest payable	15,321	19,158
Other payables	1,934,236	1,751,439
Total	1,949,557	1,770,597

(1) Interest payable

Items	As at 30 June 2020	As at 31 December 2019
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	374	1,849
Interest payable of short term loan	14,947	17,309
Total	15,321	19,158

The Group have no overdue interest to pay at 30 June 2020.

(2) Other payables

Items	As at 30 June 2020	As at 31 December 2019
Guarantee	518,746	385,596
Deposits	105,009	112,746
Amount paid on behalf	500,973	688,996
Temporary receipts	271,752	237,657
Escrow payments	49,346	51,789
Withheld payments	107,092	65,867
Others	381,318	208,788
Total	1,934,236	1,751,439

As at 30 June 2020, other payables with aging over 1 year with a carrying amount of 625,217 thousand (31 December 2019: 597,901 thousand). Those are mainly construction projects retention money, deposits, guarantee and so on. Those payables are unsettled due to the guarantee period isn't end or not yet reached the settlement period.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Non-current liabilities due within one year

Items	As at 30 June 2020	As at 31 December 2019
Long-term payables within one year	140,239	141,147
Lease liabilities within one year	378,779	394,328
Total	519,018	535,475

(1) Long-term payables within one year

Items	As at 30 June 2020	As at 31 December 2019
Obligations under finance leases	140,139	141,047
Other long-term payables	100	100
Total	140,239	141,147

26. Long-term loans

Items	As at 30 June 2020	Range of interest rate	As at 31 December 2019	Range of interest rate
Loans on credit	530,963	2.92%	474,382	7.89%-8.80%
Subtotal	530,963	–	474,382	–
Less: Long-term loans within one year	–	–	–	–
Total	530,963	–	474,382	–

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

27. Lease liabilities

Item	As at 30 June 2020	As at 31 December 2019
Land and buildings	734,911	755,689
Equipment and others	693,586	773,385
Subtotal	1,428,497	1,529,074
Less: Lease liabilities within one year	378,779	394,328
Total	1,049,718	1,134,746

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Long-term payables

Items	As at 30 June 2020	As at 31 December 2019
Long-term payables	764,525	784,377
Special payables	–	–
Total	764,525	784,377

(1) Long-term payables

Items	As at 30 June 2020	As at 31 December 2019
Loans payable	773,539	839,747
Obligations under finance leases	–	–
Others	131,225	85,777
Subtotal	904,764	925,524
Less: Long-term payables within one year	140,239	141,147
Total	764,525	784,377

29. Provisions

Items	As at 30 June 2020	As at 31 December 2019	Reasons
Outstanding litigation	1,891	1,915	/
Executory onerous contracts	69,558	82,736	Expected loss of construction contract
Expected loss of judicial restructuring	355,538	364,605	Estimated payment of judicial restructuring
Total	426,987	449,256	/

30. Deferred income

Items	As at 31 December 2019	Increase for the period	Decrease for the period	As at 30 June 2020
Government grants	92,211	84,913	102,783	74,341

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Share capital (Unit: ten thousand shares)

At 30 June 2020:

Items	As at 31 December 2019	Changes in current(+、-)		Subtotal	As at 30 June 2020
		Issued shares	Others		
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 2019:

Items	As at 31 December 2018	Changes in current (+、-)		Subtotal	As at 31 December 2019
		Issued shares	Others		
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

32. Capital reserve

At 30 June 2020:

Items	As at 31 December 2019	Increase for the period	Decrease for the period	As at 30 June 2020
Share premium	11,629,142	–	–	11,629,142
Other capital reserve	85,439	2,299	–	87,738
Total	11,714,581	2,299	–	11,716,880

At 31 December 2019:

Items	As at 31 December 2018	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

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

33. Other comprehensive income

Items	As at 31 December 2019 (1)	For the six months ended 30 June 2019					As at 30 June 2020 (3)=(1)+(2)
		Pre-tax income for the period	Less: previously recognized amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Company(2)	Net-of-tax amount attributable to non-controlling interests	
I. Items that will not be reclassified to profit or loss							
1. Changes in fair value through other equity instrument investments	6,447	–	–	–	–	–	6,447
II. Items that may be reclassified to profit or loss							
Total	6,447	–	–	–	–	–	6,447

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Special reserve

Items	As at 31 December 2019	Increase for the period	Decrease for the period	As at 30 June 2020
Safety costs	373,238	551,604	241,326	683,516

In accordance with PRC regulations, the Group appropriated production safety fund of RMB551,604 thousand to specific reserve for the year ended 30 June 2020 (For the year ended 30 June 2019: RMB501,235 thousand), which was recognised in the cost of related products and the Specific reserve. For the year ended 30 June 2020, the Group utilised production safety fund amounting to RMB241,326 thousand (For the year ended 30 June 2019: RMB206,750 thousand) which was of expenditure nature.

35. Surplus reserve

Items	As at 31 December 2019	Increase for the period	Decrease for the period	As at 30 June 2020
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.

36. Retained earnings

Items	For the six months ended 30 June 2020	For the year ended 31 December 2019	Appropriation/ distribution ratio
Retained earnings at 31 December 2019 before adjustment	-24,515,117	-25,429,361	–
Adjustment of total retained earnings at 31 December 2019 (Increase in "+", decrease in "-")	–	–	–
Retained earnings at 31 December 2019 after adjustment	-24,515,117	-25,429,361	–
Add: Net profit attributable to parent company	298,277	914,244	–
Less: Withdrawal of statutory surplus reserves	–	–	–
Retained earnings at 30 June 2020	-24,216,840	-24,515,117	–
Including: Surplus reserve attributable to parent company extracted by subsidiaries	–	39,616	–

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Revenue and cost of sales

Items	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	Revenue	Cost	Revenue	Cost
Major business	31,067,360	28,454,426	30,009,996	27,250,852
Other business	365,077	200,529	246,034	236,779
Total	31,432,437	28,654,955	30,256,030	27,487,631

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

(1) Income decomposition information

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

Reporting policy	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Total
Major areas of business							
PRC	1,293,694	12,509,122	1,103,410	3,406,582	5,931,145	627,847	24,871,800
Other countries or regions	515,067	4,408,430	34,831	376,060	861,172	–	6,195,560
Total	1,808,761	16,917,552	1,138,241	3,782,642	6,792,317	627,847	31,067,360
Customer types							
Related party	1,193,967	9,880,865	992,700	2,767,335	3,590,384	72,331	18,497,582
Third party	614,794	7,036,687	145,541	1,015,307	3,201,933	555,516	12,569,778
Total	1,808,761	16,917,552	1,138,241	3,782,642	6,792,317	627,847	31,067,360
Time of revenue recognition							
Recognized (outputs) at a certain time	–	3,510	4,949	–	8,799	64,461	81,719
Recognized (services) over time	1,808,761	16,914,042	1,133,292	3,782,642	6,783,518	563,386	30,985,641
Total	1,808,761	16,917,552	1,138,241	3,782,642	6,792,317	627,847	31,067,360

(2) Statement of performance obligations

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

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

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

(3) Information related to residual performance obligations

The Group signs engineering service contracts with several customers to provide petroleum engineering technical services and construction engineering contracting services, and will perform them in a certain period of time. These contracts usually constitute an individual performance obligation. As at 30 June 2020, 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 19.6 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)

38. Tax and surcharges

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Urban maintenance and construction tax	12,898	19,124
Education surtax	9,918	15,004
Overseas tax	28,700	32,022
Land use tax	28,642	33,252
Stamp duty	14,035	15,541
Others	10,681	10,409
Total	104,874	125,352

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

39. Selling and distribution expenses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Freight	1,017	656
Staff costs	23,081	19,420
Depreciation	152	145
Travel expenses	1,367	1,652
Sales service fees	–	118
Business promotion fee	–	91
Rental expenses	219	592
Office expense	949	884
Others	2,093	1,742
Total	28,878	25,300

40. General and administrative expenses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Repair and maintenance	165,916	149,206
Staff costs	514,776	476,627
Integrated service	218,937	192,827
The information system runs maintenance fees	74,438	52,225
Business entertainment	4,395	13,009
Travel expenses	9,197	22,676
Rental expenses	6,171	26,934
Depreciation and amortization	49,093	21,727
Consultation	4,895	6,772
Property insurance	1,447	1,453
Others	101,427	97,064
Total	1,150,692	1,060,520

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Research and development expenses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Staff costs	154,910	144,176
Material cost	173,792	105,483
Technical collaboration fee	17,817	15,545
Experimental expenses	2,222	5,542
Depreciation	5,132	8,528
Others	265,930	200,508
Total	619,803	479,782

42. Finance costs

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Interest expenses	476,850	488,160
Less: Interest capitalized	–	–
Interest income	-19,405	-79,224
Exchange losses/(gains)	3,211	18,761
Bank charges and others	26,491	27,391
Total	487,147	455,088

43. Other income

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Related to assets/income
National research grants	23,753	13,722	Related to income
Subsidy of heavy-polluting vehicles	–	2	Related to income
Subsidies of enterprise development	786	–	Related to income
Subsidies of stable post	13,574	1,294	Related to income
Self-use consumption tax refund	49,983	4,466	Related to income
Government incentives	425	442	Related to income
Recurrent funding subsidies	–	5,218	Related to income
Additional input VAT credit	10,124	378	Related to income
Labor protection fee refund	–	266	Related to income
Non-profit compensation of relocation	–	27	Related to income
National special research related to assets	594	379	Related to asset
Return of individual income tax fee	3,544	333	Related to income
Total	102,783	26,527	/

Notes:

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

(2) In accordance to "Notification of refund of consumption tax for own use refined oil during oil (gas) field production" (Cai Shui [2011] No. 7)) issued by MOF and State Taxation Administration, the oil field enterprises will be refunded the consumption tax after the actual payment of consumption tax paid for the purchases of refined oil from Sinopec. For the six months ended 30 June 2020, the Self-use consumption tax refund of 49,983 thousand from the MOF was closely related to the company's business, it was a government grant that was quantitatively allocated according to the national uniform standard and was taken as a regular profit and loss.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Investment income

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Investment income from long-term equity	3,020	9,410
Gains from derecognition of financial assets measured at amortised cost	37,298	75,509
Total	40,318	84,919

45. Credit impairment losses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Losses form impairment of accounts receivable (loss in "-")	-72,144	19,073
Losses form impairment of contract assets (loss in "-")	-6,310	-14,885
Total	-78,454	4,188

46. Disposal income on assets

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Gains from disposal of fixed assets (loss in "-")	2,906	-2,675
Others	933	1,238
Total	3,839	-1,437

47. Non-operating income

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Recognised as non-recurring income
Penalty income	1,149	3,845	1,149
Waived payables	5,873	14,709	5,873
Compensation received	6,053	3,466	6,053
Others	5,151	2,335	5,151
Total	18,226	24,355	18,226

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Non-operating expenses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Recognised as non-recurring income
Fixed assets written off	751	87	751
Penalty	4,485	4,074	4,485
Compensation	3,909	2,310	3,909
Others	10,785	11,661	10,785
Total	19,930	18,132	19,930

49. Income tax expense

(1) Details of income taxes expenses

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Current tax in accordance with tax laws and related regulations	156,463	232,700
Deferred income tax	-1,870	649
Total	154,593	233,349

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

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Profit before income tax	452,870	742,777
Taxation calculated at the statutory tax rate (profit before income tax * 25%)	113,218	185,694
Effect of other tax rates used by certain subsidiaries	19,567	144,697
Adjustments of current tax in previous years	2,262	33,819
Equity method accounting for the joint venture and associates' profit or loss	-592	-2,322
Non-deductible costs, expenses and losses	82,254	80,746
Effect on the change in statutory tax rate on opening balance of deferred tax	–	–
Effect of utilization of unrecognised tax losses and deductible temporary differences (expressed in "-")	-27,945	-193,232
Effect of unrecognised tax losses and deductible temporary differences	8,018	68,961
Tax effect on research and development expenses (expressed in "-")	-42,189	-85,014
Income tax expense	154,593	233,349

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Amount paid on behalf	112,555	98,408
Government grants	26,113	14,686
Temporary receipt and payment	265,812	199,498
Guarantee	618,239	692,585
Compensation	51,869	38,059
Others	114,312	231,043
Total	1,188,900	1,274,279

(2) Cash paid for other operating activities

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Temporary receipt and payment	186,196	152,930
Guarantee	487,832	403,564
Research and development expenses	165,916	149,208
Integrated service	459,762	381,887
Repair and maintenance expenses	218,937	192,827
Other period expenses	207,614	563,302
Others	23,909	55,707
Total	1,750,166	1,899,425

(3) Cash paid for other financing activities

Items	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Finance lease expenses	81,415	80,582
Notes acceptance fees	2,495	6,542
Payment of guarantee and commitment fees	7,181	4,015
Principal and interest payable on lease liabilities	108,664	90,844
Total	199,755	181,983

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	For the six months ended 30 June 2020	For the six months ended 30 June 2019
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	298,277	509,428
Add: Credit impairment losses	78,454	-4,188
Depreciation of fixed assets	1,483,373	1,474,702
Depreciation of right-of-use assets	261,359	178,143
Amortization of intangible assets	52,818	40,856
Amortization of long-term deferred expenses	973,438	789,846
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in "-")	-3,839	1,437
Losses on retirement of fixed assets (Gain as in "-")	751	-72
Fair value losses (Gain as in "-")	–	–
Finance costs (Income as in "-")	489,738	519,458
Investment losses (Income as in "-")	-40,318	-9,410
Decrease in deferred tax income assets (Increase as in "-")	-873	1,645
Increase in deferred income tax liabilities (Decrease as in "-")	-997	-996
Decrease in inventories (Increase as in "-")	-203,540	-229,492
Decrease in operating receivables (Increase as in "-")	-4,755,421	-5,219,734
Increase in operating payables (Decrease as in "-")	1,335,461	942,202
Safety costs	310,278	294,485
Others	2,299	2,531
Net cash flows from operating activities	281,258	-709,159
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	1,998,170	1,885,874
Less: Opening balance of cash	1,650,732	2,173,580
Add: Closing balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
Net decrease/(increase) in cash and cash equivalents	347,438	-287,706

(2) Composition of cash and cash equivalents

Items	As at 30 June 2020	As at 1 January 2020
1. Cash	1,998,170	1,650,732
Including：Cash in hand	11,861	6,792
Cash at bank	1,982,513	1,643,824
Other monetary funds	3,796	116
2. Cash equivalents	–	–
3. Closing balance of cash and cash equivalents	1,998,170	1,650,732
4. Restricted funds	41,754	18,105
5. Balance of cash on hand and at bank	2,039,924	1,668,837

52. Assets with restrictive ownership title or right of use

Item	As at 30 June 2020	Reason for restriction
Cash at bank and on hand	41,754	Guarantee and funds that are blocked frozen
Fixed assets	821,297	Sale-leaseback assets
Total	863,051	/

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Foreign currency items

(1) Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			**1,735,375**
Including: USD	130,850	7.0795	926,346
DZD	703,087	0.0549	38,599
KWD	14,646	22.9705	336,433
KZT	631,054	0.0174	10,999
SAR	96,557	1.8874	182,239
BOB	30,847	1.0245	31,604
Others	–	–	209,155
Accounts receivable			**5,026,020**
Including: USD	512,578	7.0795	3,628,798
DZD	1,826,510	0.0549	100,188
KWD	20,641	22.9705	474,137
KZT	9,267,094	0.0174	161,525
SAR	192,844	1.8874	363,966
BOB	41,352	1.0245	42,366
Others	–	–	255,040
Other receivables			**2,060,869**
Including: USD	136,960	7.0795	969,603
DZD	63,653	0.0549	3,492
KWD	19,418	22.9705	446,034
KZT	3,269,882	0.0174	56,994
SAR	234,148	1.8874	441,930
BOB	17,647	1.0245	18,080
Others	–	–	124,736
Accounts payable			**1,443,479**
Including: USD	94,148	7.0795	666,519
DZD	490,010	0.0549	26,878
KWD	7,589	22.9705	174,326
KZT	1,401,614	0.0174	24,430
SAR	201,741	1.8874	380,757
BOB	4,183	1.0245	4,285
Others	–	–	166,284
Other payables			**586,642**
Including: USD	39,182	7.0795	277,388
DZD	609,702	0.0549	33,443
KWD	4,138	22.9705	95,059
KZT	2,128,110	0.0174	37,093
SAR	41,687	1.8874	78,678
BOB	877	1.0245	899
Others	–	–	64,082
Interest payable			**374**
Including: USD	53	7.0795	374
Short-term loans			**1,925,624**
Including: USD	272,000	7.0795	1,925,624
Long-term loans			**530,963**
Including: USD	75,000	7.0795	530,963

VI. CHANGE OF CONSOLIDATION SCOPE

There are no changes in scope of consolidation for the year ended 30 June 2020.

VII.INTEREST IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise groups

				% of shareholding held		
Name	Place of major operation activities	Place of registration	Nature of business	directly	indirectly	Ways of acquisition
Sinopec Oilfield Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control
Sinopec Shengli Petroleum Engineering Corporation	China	Dongying, Shandong	Petroleum Engineering	100		Business combination under common control
Sinopec Zhongyuan Petroleum Engineering Corporation	China	Puyang, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec Jianghan Petroleum Engineering Corporation	China	Qianjiang, Hubei	Petroleum Engineering	100		Business combination under common control
Sinopec East China Petroleum Engineering Corporation	China	Nanjing, Jiangsu	Petroleum Engineering	100		Business combination under common control
Sinopec North China Petroleum Engineering Corporation	China	Zhengzhou, Henan	Petroleum Engineering	100		Business combination under common control
Sinopec South West Petroleum Engineering Corporation	China	Chengdu, Sichuan	Petroleum Engineering	100		Business combination under common control
Sinopec Geophysical Corporation	China	Beijing	Geophysical prospecting	100		Business combination under common control
Sinopec Petroleum Engineering and Construction Corporation	China	Beijing	Engineering and Construction	100		Business combination under common control
Sinopec Offshore Petroleum Engineering Corporation	China	Shanghai	Offshore Petroleum Engineering	100		Business combination under common control
Sinopec International Petroleum Service Corporation	China	Beijing	Petroleum Engineering	100		Business combination under common control

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

				% of shareholding held		
Name	Place of major operational activities	Place of registration	Nature of business	Directly	Indirectly	Method of accounting
①Joint ventures						
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

Items	Zhong Wei Energy Service Co. Ltd.	
	Closing balance	Opening balance
Current assets	19,538	23,584
Including: Cash and cash equivalents	2,308	6,460
Non-current assets	4,786	4,656
Total assets	24,324	28,240
Current liabilities	9,026	11,623
Non-current liabilities	–	–
Total liabilities	9,026	11,623
Net assets	15,298	16,617
Equity attributable to shareholders of the Company	7,649	8,308
Adjustments	-2	-6
Including: Goodwill	–	–
Others	-2	-6
Carrying amount of equity investment in joint ventures	7,647	8,303
Fair value of investments in joint ventures which have quoted market price	–	–

Continued:

Items	Zhong Wei Energy Service Co. Ltd.	
	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Revenue	4,463	61
Finance costs	-21	-27
Income tax expense	–	–
Net profit	-1,312	-2,307
Other comprehensive income	–	–
Total comprehensive income	-1,312	-2,307
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	15,127	15,487
Equity contributed to the Group	–	–
Net profit	-360	558
Other comprehensive income	–	–
Total comprehensive income	-360	558
Associates:		
Total investment from the Group	18,317	15,928
Equity contributed to the Group:	–	–
Net profit	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–

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

(5) The Group has signed the investment contract and remains RMB129,625 thousand on 30 June 2020.

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 48.66% (2019: 51.33%); among the other receivable of the Group, the other receivable of the top five customers accounted for 38.45% (2019: 45.48%).

(2) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Cash flow forecasting is performed by Group's finance department. The Group's finance management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The department monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient headroom on its undrawn committed borrowing facilities from Sinopec Finance Co., LTD and major financial institute to meet the short-term and long-term liquidity requirements. In addition, the Group will also consider negotiating with suppliers to reduce the amount of debt to reduce the company's cash flow pressure.

The Group raises working capital from its operations, bank and other borrowings. As at 30 June 2020, the amount of bank loans not yet used by the Group is 8,151,114 thousand.(As at 31 December 2019: 6,308,264 thousand)

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

1. Objectives and policies of financial risk management (Continued)

(2) Liquidity risk (Continued)

The financial assets and liabilities, off-balance-sheet guarantee items of the Group at 30 June 2020 are analyzed by their maturity date below at their undiscounted contractual cash flows:

Items	As at 30 June 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	2,039,924	–	–	–	2,039,924
Bills receivable	–	–	–	–	
Accounts receivable	11,162,893	–	–	–	11,162,893
Accounts receivable financing	1,753,783	–	–	–	1,753,783
Other receivables	2,829,147	–	–	–	2,829,147
Long-term receivables	–	–	–	–	
Other current assets	1,805,477	–	–	–	1,805,477
Total assets	19,591,224	–	–	–	19,591,224
Financial liabilities:					–
Short-term loans	21,565,624	–	–	–	21,565,624
Bills payable	7,028,358	–	–	–	7,028,358
Accounts payable	20,246,217	–	–	–	20,246,217
Other payables	1,949,557	–	–	–	1,949,557
Non-current liabilities due within 1 year	557,251	–	–	–	557,251
Other current liabilities:					–
Long-term loans	15,494	530,963	–	–	546,457
Lease liabilities	–	376,303	653,758	76,982	1,107,043
Long-term payables	–	153,678	417,326	259,511	830,515
Total liabilities	51,362,501	1,060,944	1,071,084	336,493	53,831,022

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 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.

(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 2019 and the six months ended 30 June 2020, 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.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

1. Objectives and policies of financial risk management (Continued)

(3) Market risk (Continued)

Interest-bearing financial instruments held by the Group:

Items	30-Jun-20	31-Dec-19
Fixed interest rate financial instruments		
Financial assets	3,000	35,270
including: Cash and cash equivalents	3,000	35,270
Long-term receivables	–	–
Financial liabilities	21,842,037	19,999,123
Including: Short-term borrowings	19,640,000	18,080,000
Lease liabilities	1,428,498	1,529,074
Long-term payables	773,539	839,747
Floating interest rate financial instruments		
Financial assets	2,036,924	1,633,567
including: Cash and cash equivalents	2,036,924	1,633,567
Financial liabilities	2,456,587	2,797,457
Including: Short-term borrowings	1,925,624	2,323,075
Long-term borrowings	530,963	474,382

As at 30 June 2020, 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 RMB9,212 thousand (As at 31 December 2019: RMB10,490 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.

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at 30 June 2020:

	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
Items	As at 2020/6/30	As at 2019/12/31	As at 2020/6/30	As at 2019/12/31
USD	3,400,868	3,876,822	5,524,747	5,428,317
SAR	459,435	577,237	988,135	887,666
KWD	269,385	128,467	1,256,604	889,554
Others	357,394	294,560	1,052,778	1,070,266
Net exposure in RMB	4,487,082	4,877,086	8,822,264	8,275,803

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 six months ended 30 June 2020.

VIII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

1. Objectives and policies of financial risk management (Continued)

(3) Market risk (Continued)

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	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
Appreciation in USD	5%	79,645	5%	61,686
Depreciation in USD	-5%	-79,645	-5%	-61,686
Appreciation in SAR	5%	19,826	5%	7,775
Depreciation in SAR	-5%	-19,826	-5%	-7,775
Appreciation in KWD	5%	37,021	5%	33,730
Depreciation in KWD	-5%	-37,021	-5%	-33,730

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 30 June 2020	As at 31 December 2019
Short-term borrowings	21,565,624	20,403,075
Long-term borrowings due within 1 year	–	–
Lease liabilities due within 1 year	378,779	394,328
Long-term payables due within 1 year	140,239	141,147
Long-term borrowings	530,962	474,382
Lease liabilities	1,049,718	1,134,746
Long-term payables	633,400	698,600
Less: cash and cash equivalents	1,998,170	1,650,732
Net debt	22,300,552	21,595,546
Shareholder's equity	7,374,726	6,763,872
Total equity	29,675,278	28,359,418
Debt to equity ratio	75.15	76.15

IX. FAIR VALUE

Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement.

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

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

As at 30/6/2020, 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	–	–	1,753,783	1,753,783
Total assets measured at fair value on a non-recurring basis	–	–	1,786,630	1,786,630
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 2020, 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 Level 3 fair value measurement that are significant and are reasonably available.

Items	Fair value As at 30/6/2020	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instrument investments:				
Unlisted equity investments	32,847	Net assets	N/A	N/A

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

		Total gains or losses for the year			
	As at 31/12/2019	Included in profit or loss	Included in other comprehensive income	As at 30/6/2020	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	**32,847**	**–**	**–**	**32,847**	**–**

		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	–

(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.

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

4. Other related parties of the Group

Names of other related parties	Relationships with the Group
China Petroleum & Chemical Corporation	Controlled by Sinopec Group
Sinopec Shengli Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Zhongyuan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jianghan Petroleum Administrative Bureau	Controlled by Sinopec Group
Sinopec Henan Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Jiangsu Petroleum Explorative Bureau	Controlled by Sinopec Group
Sinopec Star Petroleum Co., LTD	Controlled by Sinopec Group
Sinopec East China Petroleum Bureau	Controlled by Sinopec Group
Sinopec North China Petroleum Bureau	Controlled by Sinopec Group
Sinopec Southwest Petroleum Bureau	Controlled by Sinopec Group
Sinopec Northeast Petroleum Bureau	Controlled by Sinopec Group
Sinopec Pipeline Storage & Transportation Company	Controlled by Sinopec Group
Sinopec Shanghai Offshore Petroleum Bureau	Controlled by Sinopec Group
Sinopec International Petroleum Exploration And Production Corporation	Controlled by Sinopec Group
Sinopec Finance Co., LTD	Controlled by Sinopec Group
Sinopec Century Bright Capital Investment Limited	Controlled by Sinopec Group
Sinopec Assets Operating And Management Company	Controlled by Sinopec Group
CITIC Group Corporation	Shareholder with 5% of voting rights
China CITIC Bank	Subsidiary of CITIC Group Corporation
Taiping Petrochemical Financial Lease Co. Ltd	Joint ventures of the Sinopec Group
Director, General Manager, Chief Financial Office And the Secretary of the Board of Directors	Key Managers

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties

(1) Details of related purchase and sales

① Purchase of goods and Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	4,648,267	4,519,246
Joint ventures and associates of the Group	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	91,438	–

② Sales of goods and provision of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	46,813	67,337

(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 six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	18,343,386	18,199,681
Joint ventures and associates of the Group	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	50,054	367,755
Joint ventures and associates	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	78,222	21,383

② Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Services	Based on normal commercial terms or relevant agreements	–	208,480
Joint ventures and associates of the Group	Services	Based on normal commercial terms or relevant agreements	807,212	1,342,147

(3) Details of related comprehensive services

① Receiving of comprehensive services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Purchase of comprehensive resident services	Based on normal commercial terms or relevant agreements	218,937	181,912
	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	86,542	–
Joint ventures and associates of the Group	Purchase of other comprehensive resident services	Based on normal commercial terms or relevant agreements	74,566	42,208

② Rendering of comprehensive services:

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Rendering comprehensive resident services	Based on normal commercial terms or relevant agreements	407	–

(4) Technology research and development service

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	43,936	69,604

X. RELATED PARTIES AND TRANSACTION (Continued)

5. Transactions with related parties (Continued)

(5) Details of related party leases

① The Group as a lessor

Related party	Type of leasing assets	Pricing policy and procedure for decision-making	Leasing expense for the current period	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Buildings	Based on normal commercial terms or relevant agreements	**286**	286

② The Group as a lessee

Name of lessor	Type of leasing assets	Pricing policy and procedure for decision-making	Leasing expense for the current period	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Land and buildings	Based on normal commercial terms or relevant agreements	**90,292**	58,962
	Including: Short-term leases		**1,689**	4,395
	Right-of-use assets		**88,603**	54,567

(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

As at 30 June 2020, the balance of credit guarantees provided by the Group to subsidiaries is equivalent to RMB6,572,145 thousand.

(7) Related party financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms	**778**	1,390
	Loan interest expense	Based on normal commercial terms or relevant agreements	**404,381**	375,754
	Obtaining the borrowings	Based on normal commercial terms or relevant agreements	**26,309,046**	16,917,831
	Payment of the loan	Based on normal commercial terms or relevant agreements	**25,660,652**	15,224,918
Joint ventures and associates of the Group	Financial leasing interest expense	Based on normal commercial terms or relevant agreements	**16,146**	36,412

As at 30 June 2020, the balance of borrowings from Sinopec Group and its subsidiaries was 21,565,624 thousand.

(8) Security funds

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	**38,080**	40,321
	Return on security fund	Based on normal commercial terms or relevant agreements	**61,178**	25,681

(9) Remuneration of key management personnel

Item	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Remuneration	**5,682**	5,202
Retirement scheme contribution	**210**	241
Share options	**37**	76
Total	**5,929**	5,519

X. RELATED PARTIES AND TRANSACTION (Continued)

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

Item	Related party	As at 30 June 2020 Amount	As at 31 December 2019 Amount
Bank deposit	Sinopec Finance Co., LTD	59,308	52,438
	Sinopec Century Bright Capital Investment Limited	842,424	753,019
	CITIC Bank	1	1
Accounts receivable	Sinopec Group and its subsidiaries	4,041,981	4,760,085
	Joint ventures of the Group	5,106	13,848
	Joint ventures and associates of Sinopec Group	62,982	111,715
Contract assets	Sinopec Group and its subsidiaries	7,709,440	4,683,457
	Joint ventures and associates of Sinopec Group	132,218	232,917
Prepayments	Sinopec Group and its subsidiaries	221,110	85,051
	Joint ventures and associates of Sinopec Group	2	–
Other receivables	Sinopec Group and its subsidiaries	221,497	270,291
	Joint ventures of the Group	301	356
	Joint ventures and associates of Sinopec Group	72,528	82,678

(2) Payables to related parties

Item	Related party	As at 30 June 2020	As at 31 December 2019
Accounts payable	Sinopec Group and its subsidiaries	1,745,310	1,148,614
	Joint ventures and associates of the Group	7,228	19,723
	Joint ventures and associates of Sinopec Group	27	1,311
Contract liabilities	Sinopec Group and its subsidiaries	1,621,839	2,386,904
	Joint ventures and associates of Sinopec Group	15,315	12,304
Other payables	Sinopec Group and its subsidiaries	26,647	42,026
	Joint ventures and associates of the Group	470	466
Short-term borrowings	Sinopec Finance Co., LTD	10,640,000	12,080,000
	Sinopec Century Bright Capital Investment Limited	1,925,624	2,323,075
	Sinopec Group	9,000,000	6,000,000
Interest payable	Sinopec Group and its subsidiaries	10,958	19,158
Lease liabilities	Sinopec Group and its subsidiaries	538,781	590,713
Long-term loan	Sinopec Century Bright Capital Investment Limited	–	474,382
Long-term payable	Joint ventures and associates of Sinopec Group	773,539	839,747

XI. PAYMENT OF SHARE OPTION

On 1 November 2016, the Proposal regarding the Adjustment of the List of Participants and the Number of the Share Option under the Proposed Grant of the Share Option Incentive Scheme and the Proposal regarding the Proposed Grant under the Share Option Incentive Scheme were reviewed and adopted at the 14th meeting of the Eighth Session of the board of directors of Sinopec Oilfield Service Corporation.

The Company granted 49,050,000 A share options (0.3469% of the total share capital of the company) to 477 employees on the grant date, 1 November 2016. The Exercise Price of the Proposed Grant shall be RMB5.63 per share. The Company may only grant options under the Scheme to the Participants provided that both the Company and the Participants have fulfilled the following conditions:

The Company's compound growth rate for 2017、2018、2019 shall not be less than 6%(on the base of the Company's total profit for 2015)

Ⅱ. The Company's EOE for 2017、2018、2019 shall not be less than 32%;

The performance conditions of item Ⅰ and Ⅱ are no less than the average performance level of the target enterprise.

Ⅲ. The Economic Value Added for 2017、2018、2019 reaches the performance objective set by China Petrochemical Corporation, and ΔEVA shall be more than 0.

XI. PAYMENT OF SHARE OPTION (Continued)

As at 31 December 2017, the exercise date and exercise price of the share options are as follows, the share options will expire in 12 months after the exercise date:

Exercise date	Exercise price (RMB per share)	Number of share options
1 November 2018	5.63	14,715,000
1 November 2019	5.63	14,715,000
1 November 2020	5.63	19,620,000

1. Changes of share options for 2020

	For the 6 months ended 30 June 2020
Number of share options at 1 January 2019	17,084,000
Number of share options granted in the period	–
Number of share options exercised in the period	–
Number of share options lapsed in the period	–
Number of share options in the end of balance sheet date	17,084,000

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

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

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

The fair value of share options calculated with the figures above is 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	2,299
The accumulated amount of equity-settled share-based payment in capital reserves	19,769

XII. COMMITMENTS AND CONTINGENCIES

1. Principle commitments

(1) Capital commitments

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	As at 30 June 2020	As at 31 December 2019
Construction of long-term assets commitments	385,933	517,738
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 30 June 2020.

XII.COMMITMENTS AND CONTINGENCIES (Continued)

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 30 June 2020, the amount of provisions is 355,538 thousand.

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

As at 30 June 2020, there is no contingent liability from guarantee provided for other entities.

As at 30 June 2020, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD820,759 thousand and THB 3,142,900 thousand guarantee to its subsidiaries(31 December 2019: USD836,838 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), which was a 40% decrease in the amount of the original penalty. 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

As at 25 August 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 37,298 thousand. There is no individually significant debt restructuring during the period.

3. The main contents and major changes of pension plan

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

4. Discontinued operation

There is no discontinued operation during the reporting period.

5. Segment information

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

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

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

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities

For the year ended 30 June 2020 and as at 30 June 2020	Geophysics	Drilling engineering	logging and mud logging	Special down-hole operations	Engineering construction	Others	Elimination	Total
Revenue	1,831,638	17,867,655	1,612,113	3,929,087	6,847,661	1,560,260	-2,215,977	31,432,437
Including:External revenue	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	–	31,432,437
Inter-segment revenue	2,034	867,745	468,092	144,207	20,759	713,140	-2,215,977	–
Including: Major business revenue	1,810,795	17,785,297	1,606,333	3,926,849	6,813,076	1,340,987	-2,215,977	31,067,360
Cost of sales	1,692,136	16,303,362	1,367,494	3,649,638	6,379,384	1,478,918	-2,215,977	28,654,955
Including: Major business cost	1,688,235	16,248,025	1,367,079	3,645,893	6,351,666	1,369,505	-2,215,977	28,454,426
Operating expenses	166,178	970,445	109,058	149,128	453,661	621,379	–	2,469,849
Operating profit/(loss)	-23,133	667,982	137,464	136,902	42,986	-507,627	–	454,574
Total assets	4,354,909	40,676,535	3,278,712	7,195,798	21,225,805	27,186,628	-38,378,578	65,539,809
Total liabilities	3,167,456	27,892,525	1,777,114	3,449,301	21,039,078	39,218,187	-38,378,578	58,165,083
Supplementary information:								
Capital expenditure	52,057	392,067	34,965	69,578	44,582	16,592	–	609,841
Depreciation and amortization	246,311	1,752,666	137,978	366,734	131,558	135,741	–	2,770,988
Impairment loss on assets	5,820	21,165	1,666	15,673	31,463	2,667	–	78,454

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

5. Segment information (Continued)

(2) Other segment information

① External revenue of goods and services

Item	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Geophysics	1,829,604	1,869,906
Drilling engineering	16,999,910	16,779,456
Logging and mud logging	1,144,021	1,048,528
Special down-hole operations	3,784,880	3,197,268
Engineering construction	6,826,902	6,481,250
Others	847,120	879,622
Total	31,432,437	30,256,030

② Geographical information

For the six months ended 30 June 2020 and as at 30 June 2020	PRC	Other countries or regions	Total
External revenue	25,225,924	6,206,513	31,432,437
Non-current assets	25,602,510	4,314,483	29,916,993

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

③ The dependence of principle customers

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

XIV. OTHER SIGNIFICANT EVENTS (Continued)

6. Government grants

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

Government grants projects	category	As at 31 December 2019	Increase in current year	Amount recognized in current profit or loss	As at 30 June 2020	Presentation item in current income statements	Related to assets/income
Consumption tax refund of self-used refined oil	Financial appropriation	–	49,983	49,983	–	Other income	Related to income
Special funds for national scientific research	Financial appropriation	87,585	3,858	23,753	67,690	Other income	Related to income
Stabilization allowance	Financial appropriation	–	15,477	13,574	1,903	Other income	Related to income
Subsidies for enterprises' development	Financial appropriation	–	786	786	–	Other income	Related to income
Government incentives	Financial appropriation	–	425	425	–	Other income	Related to income
Additional input VAT credit	Financial appropriation	–	10,840	10,124	716	Other income	Related to income
National special research related to assets	Financial appropriation	4,626	–	594	4,032	Other income	Related to assets
Total		**92,211**	81,369	99,239	74,341	/	/

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 2020, the company received refund of consumption tax (RMB49,983 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. RMB24,347 thousand was recognized as other income in 2020.

(2) The government subsidy of RMB99,239 thousand which was recognized in current profit and loss was counted in other income.

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS

1. Other receivables

Items	As at 30 June 2020	As at 31 December 2019
Interest receivables	–	–
Dividends receivable	–	–
Other receivables	4,399,050	4,399,759

(1) Other receivable

① The ageing analysis is as follows:

Ageing	As at 30 June 2020	As at 31 December 2019
Within 1 year	4,399,050	4,399,759
Over 1 years	–	–
Subtotal	4,399,050	4,399,759
Less: provision for bad debts	–	–
Total	4,399,050	4,399,759

② Other receivables disclosed by nature:

Items	As at 30 June 2020			As at 31 December 2019		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Amounts due from wholly-owned subsidiaries	4,399,050	–	4,399,050	4,399,759	–	4,399,759

XV. NOTES TO PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Other receivables (Continued)

(1) Other receivable (Continued)

③ Provision for bad debts

As at 30 June 2020, 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	4,399,050	–	–	4,399,050	Subsidiaries within the scope of consolidation
Amounts due from wholly-owned subsidiaries	–	–	–	–	/
Provision for bad and doubtful debts collectively	–	–	–	–	/
Total	4,399,050	–	–	4,399,050	/

As at 30 June 2020, 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	4,399,050	Within 1 year	100	–

2. Long-term equity investment

Item	As at 30 June 2020			As at 31 December 2019		
	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

(1) Investment in subsidiary

Investee	As at 31 December 2019	Increase during the period	Decrease during the period	As at 30 June 2020
Sinopec oilfield service corporation	27,891,662	–	–	27,891,662

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

XVI. SUPPLEMENTARY INFORMATION

1. Details of non-recurring gains or losses

Items	For the year ended 30 June 2020
Gain or loss on disposal of non-current assets	3,839
Government grants recognized in profit or loss for the year/period	49,257
Gain or loss from debt restructuring	37,298
Gain or loss on previously held equity interests re-measured at acquisition date	–
Non-operating income/(expenses) excluding the aforesaid items	-1,703
Other gains and losses that meet the definition of non-recurring profit and loss	–
Total non-recurring gains or losses	88,691
Less: Effects of income tax on non-recurring gains or losses	18,115
Net non-recurring gains or losses	70,576
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	70,576

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	4.31	0.016	0.016
Net profit attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	3.29	0.012	0.012

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 30 June 2020	For the year ended 31 December 2019	As at 30 June 2020	As at 31 December 2019
Based on CASBE	298,277	509,428	7,374,726	6,763,872
Adjusted items and amounts in accordance with IFRS:				
Special reserve	310,278	294,485	–	–
Based on IFRS	608,555	803,913	7,374,726	6,763,872

(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

25 August 2020

Prepared in accordance with International Financial Reporting Standards

Grant Thornton
致同

Independent Review Report

To the Board of Directors of Sinopec Oilfield Service Corporation

(Established in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 125 to 150, which comprises the condensed consolidated statement of financial position as at 30 June 2020, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

25 August 2020

Kwok Siu Kwan Sylvia

Practising Certificate No.: P06616

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	**31,432,437**	30,256,030
Cost of sales and taxes and surcharges		**(28,449,551)**	(27,318,498)
Gross profit		**2,982,886**	2,937,532
Selling expenses		**(28,878)**	(25,300)
General and administrative expenses		**(1,150,692)**	(1,060,520)
Research and development expenses		**(619,803)**	(479,782)
Finance expenses – net	5	**(487,147)**	(455,088)
(Provision for)/Reversal of expected credit loss – net	6	**(78,454)**	4,188
Share of (loss)/profit from joint ventures		**(1,016)**	9,410
Share of profit from associates		**4,036**	–
Operating profit		**620,932**	930,440
Other income	7	**162,146**	127,629
Other expenses	8	**(19,930)**	(20,807)
Profit before income tax	9	**763,148**	1,037,262
Income tax expense	10	**(154,593)**	(233,349)
Profit for the period		**608,555**	803,913
Other comprehensive income for the period, net of tax		**–**	–
Profit attributable to owners of the Company and total comprehensive income for the period		**608,555**	803,913
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	11		
Basic and diluted		**0.032**	0.042

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020	As at 31 December 2019
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	24,231,789	25,375,631
Other non-current assets		4,944,482	5,374,781
Intangible assets		230,226	281,497
Interests in joint ventures		22,783	23,791
Interests in associates		18,317	15,927
Financial assets at fair value through other comprehensive income	15	32,847	32,847
Deferred tax assets		417,877	417,004
Total non-current assets		29,898,321	31,521,478
Current assets			
Inventories	19	958,844	1,048,465
Financial assets at fair value through other comprehensive income	15	1,753,783	1,446,389
Notes and trade receivables	16	11,162,893	11,996,855
Prepayments and other receivables	17	5,446,704	4,680,066
Contract assets	18	14,279,340	9,707,288
Restricted cash		41,754	18,105
Cash and cash equivalents		1,998,170	1,650,732
Total current assets		35,641,488	30,547,900
Total assets		65,539,809	62,069,378
Equity			
Share capital	20	18,984,340	18,984,340
Reserves		(11,609,614)	(12,220,468)
Total equity		7,374,726	6,763,872
Liabilities			
Non-current liabilities			
Long term borrowings	24	2,214,081	2,307,828
Deferred income		74,341	92,211
Deferred tax liabilities		16,857	17,854
Provisions		426,987	449,256
Total non-current liabilities		2,732,266	2,867,149
Current liabilities			
Notes and trade payables	22	27,274,575	24,802,226
Other payables	23	3,195,741	2,797,837
Contract liabilities	18	2,523,545	3,575,654
Short term borrowings	24	22,084,542	20,938,450
Current income tax payable		354,414	324,190
Total current liabilities		55,432,817	52,438,357
Total liabilities		58,165,083	55,305,506
Total equity and liabilities		65,539,809	62,069,378
Net current liabilities		(19,791,329)	(21,890,457)
Total assets less current liabilities		10,106,992	9,631,021

Chairman: CHEN Xikun

Executive Director and General Manager: YUAN Jianqiang

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company							
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	Total equity
	RMB'000 (Note 20)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	18,984,340	11,622,283	92,298	200,383	373,238	6,447	(24,515,117)	6,763,872
Profit and total comprehensive income for the period	–	–	–	–	–	–	608,555	608,555
Transactions with owners:								
Appropriation of specific reserve	–	–	–	–	551,604	–	(551,604)	–
Utilisation of specific reserve	–	–	–	–	(241,326)	–	241,326	–
Equity settled share-based transaction (Note 21)	–	–	2,299	–	–	–	–	2,299
Total transactions with owners	–	–	2,299	–	310,278	–	(310,278)	2,299
At 30 June 2020 (Unaudited)	18,984,340	11,622,283	94,597	200,383	683,516	6,447	(24,216,840)	7,374,726

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	Total equity
	RMB'000 (Note 20)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	18,984,340	11,622,283	88,480	200,383	300,609	11,676	(25,429,361)	5,778,410
Profit and total comprehensive income for the period	–	–	–	–	–	–	803,913	803,913
Transactions with owners:								
Appropriation of specific reserve	–	–	–	–	501,235	–	(501,235)	–
Utilisation of specific reserve	–	–	–	–	(206,750)	–	206,750	–
Equity settled share-based transaction (Note 21)	–	–	2,531	–	–	–	–	2,531
Total transactions with owners	–	–	2,531	–	294,485	–	(294,485)	2,531
At 30 June 2019 (Unaudited)	18,984,340	11,622,283	91,011	200,383	595,094	11,676	(24,919,933)	6,584,854

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Cash flows from operating activities		
Cash flows generated from/(used in) operations	388,093	(655,622)
Interest received	19,405	79,224
Income tax paid	(126,240)	(132,761)
Net cash generated from/(used in) operating activities	281,258	(709,159)
Cash flows from investing activities		
Purchases of property, plant and equipment	(458,057)	(717,565)
Purchases of intangible assets	–	(370)
Proceeds from disposal of property, plant and equipment	11,915	10,210
Proceeds from disposal of other non-current assets	5,237	9,020
Increase in investments in a joint venture	(8)	–
Dividends received from associates	1,646	1,296
Net cash used in investing activities	(439,267)	(697,409)
Cash flows from financing activities		
Proceeds from borrowings	26,840,429	16,917,831
Repayments of borrowings	(25,660,652)	(15,224,918)
Payment of lease liabilities	(190,079)	(171,426)
Interests paid	(466,144)	(404,948)
Net cash generated from financing activities	523,554	1,116,539
Net increase/(decrease) in cash and cash equivalents	365,545	(290,029)
Effect of foreign exchange rate changes on cash and cash equivalents	(18,107)	2,323
Cash and cash equivalents at the beginning of the period	1,650,732	2,173,580
Cash and cash equivalents at the end of the period	1,998,170	1,885,874

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

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.

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 25 August 2020.

2 BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

As at 30 June 2020, the Group had net current liabilities of approximately RMB19,791,329,000 (31 December 2019: RMB21,890,457,000) and capital commitments of approximately RMB385,933,000; and it had a net profit of RMB608,555,000 for the period then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In 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 this interim financial information.

2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, which are carried at fair value.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

3.1 Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's interim financial information:

Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the new and amended IFRSs had no material impact on the Group's results and financial position.

3.2 Significant accounting policies

The interim financial information have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2019.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Geophysics	**1,829,604**	1,869,906
Drilling engineering	**16,999,910**	16,779,456
Logging and mud logging	**1,144,021**	1,048,528
Special downhole operations	**3,784,880**	3,197,268
Engineering construction	**6,826,902**	6,481,250
Others	**847,120**	879,622
	31,432,437	30,256,030

Segment information

The Group identifies operating segments based on the internal organisation structure, senior executive management requirements and internal reporting system. The Group's has identified five operating segments including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction. These operating segments are identified based on the regular internal financial information reported to the senior executive management. Senior executive management of the Company regularly reviews the segment information for their decision about the resources allocation and performance assessment.

Five reportable operating segments are as follows:

– Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;

– Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;

– Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;

– Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and

– Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects, oil and gas transporting process projects, storage and transportation projects, petrochemical supporting projects, building construction, water resources and hydropower, ports and waterways, electricity transmission and distribution projects, manufacturing of pressure vessels, LNG projects, coal chemical engineering, geothermal utilisation, energy saving and municipal roads and bridges.

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain 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 venture and associates, gain on investment, income tax expense as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

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

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

(a) Segment results, assets and liabilities

For the six months ended 30 June 2020 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2020 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	–	31,432,437
Inter-segment revenue	2,034	867,745	468,092	144,207	20,759	713,140	(2,215,977)	–
Reportable segment revenue	1,831,638	17,867,655	1,612,113	3,929,087	6,847,661	1,560,260	(2,215,977)	31,432,437
Reportable segment (loss)/profit	(24,220)	881,502	135,169	130,755	19,681	(521,955)	–	620,932
Other income	4,255	93,177	2,396	6,141	38,022	18,155	–	162,146
Other expenses	(1,322)	(14,803)	(1,606)	(613)	(1,520)	(66)	–	(19,930)
(Loss)/Profit before income tax	(21,287)	959,876	135,959	136,283	56,183	(503,866)	–	763,148
Income tax expense								(154,593)
Profit for the period								608,555
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	192,078	906,010	100,299	293,245	122,449	132,198	–	1,746,279
– Other non-current assets	54,224	805,469	37,001	69,500	5,395	1,849	–	973,438
– Intangible assets	9	41,187	678	3,989	3,714	1,694	–	51,271
Capital expenditure								
– Property, plant and equipment	52,057	392,067	34,965	69,570	44,582	16,592	–	609,833
– Long-term equity investments	–	–	–	8	–	–	–	8
Provision for/(Reversal of provision) ECL on trade receivables, net	4,453	22,802	286	12,547	(1,110)	(832)	–	38,146
Provision for/(Reversal of provision) ECL on other receivables, net	1,198	(2,001)	330	792	30,381	3,298	–	33,998
Provision for ECL on contract assets	169	364	1,050	2,334	2,192	201	–	6,310
As at 30 June 2020 (Unaudited)								
Assets								
Segment assets	4,354,909	40,676,535	3,278,712	7,195,798	21,225,805	27,186,628	(38,378,578)	65,539,809
Liabilities								
Segment liabilities	3,167,456	27,892,525	1,777,114	3,449,301	21,039,078	39,218,187	(38,378,578)	58,165,083

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

As at 31 December 2019 and for the six months ended 30 June 2019, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2019 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622	–	30,256,030
Inter-segment revenue	3,876	782,349	273,910	146,431	121,828	679,375	(2,007,769)	–
Reportable segment revenue	1,873,782	17,561,805	1,322,438	3,343,699	6,603,078	1,558,997	(2,007,769)	30,256,030
Reportable segment (loss)/profit	(36,158)	1,215,590	142,319	128,386	75,372	(595,069)	–	930,440
Other income	4,118	37,128	1,211	801	52,600	31,771	–	127,629
Other expenses	(2,411)	(6,065)	(5,163)	(1,539)	(4,710)	(919)	–	(20,807)
(Loss)/Profit before income tax	(34,451)	1,246,653	138,367	127,648	123,262	(564,217)	–	1,037,262
Income tax expense								(233,349)
Profit for the period								803,913
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	184,057	884,906	93,719	237,515	117,430	136,734	–	1,654,361
– Other non-current assets	20,817	622,477	18,707	68,472	5,913	53,460	–	789,846
– Intangible assets	9	32,610	852	290	3,434	2,145	–	39,340
Capital expenditure								
– Property, plant and equipment	437,077	82,408	10,062	119,811	63,838	24,189	–	737,385
– Intangible assets	–	–	–	370	–	–	–	370
(Reversal of provision)/Provision for ECL on trade receivables, net	(358)	25,702	(9,536)	(6,042)	(67,936)	1,480	–	(56,690)
(Reversal of provision)/Provision for ECL on other receivables, net	(30)	6,496	87	367	30,610	87	–	37,617
(Reversal of provision)/Provision for ECL on contract assets	(485)	5,909	861	1,230	3,165	4,205	–	14,885
As at 31 December 2019 (Audited)								
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

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	25,225,924	24,246,723
Middle East	4,270,277	3,481,141
Other countries	1,936,236	2,528,166
	31,432,437	30,256,030

	Specified non-current assets	
	As at 30 June 2020	As at 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	25,169,408	26,705,971
Other countries	4,278,189	4,365,656
	29,447,597	31,071,627

(c) Major customer

For the six months ended 30 June 2020 and 2019, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	18,434,828	18,336,908

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction accounted for 59% (2019: 61%) of the Group's revenue.

4 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the six months ended 30 June 2020 and 2019, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2020							
Timing of revenue recognition:							
– At a point in time	169	10,442	5,919	235	21,122	269,596	307,483
– Over time	1,829,435	16,989,468	1,138,102	3,784,645	6,805,780	577,524	31,124,954
Total	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	31,432,437
For the six months ended 30 June 2019							
Timing of revenue recognition:							
– At a point in time	–	16,359	–	–	18,077	209,912	244,348
– Over time	1,869,906	16,763,097	1,048,528	3,197,268	6,463,173	669,710	30,011,682
Total	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622	30,256,030

5 FINANCE EXPENSES – NET

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Finance income		
Interest income		
– Sinopec Group's subsidiaries	778	1,390
– Third-parties and other financial institutions	18,627	77,834
	19,405	79,224
Finance expenses		
Interest expenses on loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	(404,381)	(375,754)
– Third-party and other financial institutions	(18,578)	(49,826)
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	(14,452)	(8,534)
– Associates and joint ventures of Sinopec Group	(31,909)	(47,445)
– Third-parties	(7,530)	(6,601)
Exchange losses, net	(3,211)	(18,761)
Bank and other charges	(26,491)	(27,391)
	(506,552)	(534,312)
	(487,147)	(455,088)

6 PROVISION FOR/(REVERSAL OF) EXPECTED CREDIT LOSS ("ECL") – NET

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Provision for/(Reversal of) ECL on trade and other receivables, net	**72,144**	(19,073)
ECL on contract assets	**6,310**	14,885
	78,454	(4,188)

7 OTHER INCOME

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment, net	**2,906**	–
Gain on disposal of other non-current assets, net	**933**	1,238
Government grants (Note)	**99,239**	26,194
Waived payables	**5,873**	14,709
Penalty income	**1,149**	3,845
Compensation received	**6,053**	3,466
Gain on debt restructuring	**37,298**	75,509
Others	**8,695**	2,668
	162,146	127,629

Note:
For the six months ended 30 June 2020 and 2019, government grants primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

8 OTHER EXPENSES

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment, net	**–**	2,675
Loss on scraps of assets	**751**	87
Penalty	**4,485**	4,074
Compensation	**3,909**	2,310
Others	**10,785**	11,661
	19,930	20,807

9 PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Staff costs, including directors and supervisors emoluments	6,754,339	6,659,838
Retirement benefit plan contribution (including in the above mentioned staff costs)		
– Municipal retirement scheme costs	372,719	646,194
– Supplementary retirement scheme costs	311,265	173,261
Share options granted to directors and employees (including in the above mentioned staff costs)	2,299	2,531
Changes in inventories of finished goods and work in progress	27,236	59,369
Raw materials and consumables used	12,654,392	8,373,042
Depreciation and amortisation		
– Property, plant and equipment	1,746,279	1,654,361
– Other non-current assets	973,438	789,846
– Intangible assets	51,271	39,340
Operating lease expenses		
– Short term leases and leases with lease term shorter than 12 months	528,707	780,946
Provision for/(Reversal of) ECL – net		
– Trade and other receivables	72,144	(19,073)
– Contract assets	6,310	14,885
Rental income from property, plant and equipment after relevant expenses	(6,078)	(19,470)
(Gain)/Loss on disposal/write-off of property, plant and equipment, net	(2,906)	2,675
Gain on disposal/write-off of other non-current assets, net	(933)	(1,238)
Exchange losses, net	3,211	18,761

10 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Current tax		
PRC enterprise income tax	19,502	40,073
Overseas enterprise income tax	136,961	192,627
	156,463	232,700
Deferred tax		
(Reversal) and origination of temporary difference	(1,870)	649
Income tax expense	154,593	233,349

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2020 and 2019 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the six months ended 30 June 2020 and 2019, the majority of the companies of the Group are subject to 25% income tax rate.

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

11 EARNINGS PER SHARE

(a) Basic

For the six months ended 30 June 2020 and 2019, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company (RMB'000)	**608,555**	803,913
Weighted average number of ordinary shares in issue (Shares)	**18,984,340,033**	18,984,340,033
Basic earnings per share (RMB)	**0.032**	0.042

(b) Diluted

For the six months ended 30 June 2020 and 2019, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares during the periods.

12 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2020 (2019: Nil).

13 EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**6,068,056**	5,837,852
Retirement benefit plan contribution (Note)		
－Municipal retirement scheme costs	**372,719**	646,194
－Supplementary retirement scheme costs	**311,265**	173,261
Share options granted to directors and employees (Note 21)	**2,299**	2,531
	6,754,339	6,659,838

Note：

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2020, the Group and the employees pay 20% and 8% (31 December 2019: 20% and 8%) of salary respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 8% (31 December 2019: 5%) of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

Those employees who involved supplementary retirement scheme are entitled to receive the pension in accordance with a certain percentage of the pre-retirement salary after retirement. The Group has no other material obligation for the payment of retirement benefits associated with these plans beyond Municipal retirement scheme and Supplementary retirement scheme.

14 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2020

	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						
Balance at 1 January 2020	2,410,301	61,847,590	211,535	136,660	285,553	64,891,639
Additions	100,225	187,441	12,708	–	338,479	638,853
Remeasurement of leases	–	(29,020)	–	–	–	(29,020)
Disposals/Write-off	(373)	(178,318)	–	–	–	(178,691)
Transferred from construction in progress	–	45,776	–	–	(45,776)	–
Reclassification	486	1,127	–	–	–	1,613
At 30 June 2020	2,510,639	61,874,596	224,243	136,660	578,256	65,324,394
Accumulated depreciation						
Balance at 1 January 2020	723,997	37,286,864	46,447	25,210	–	38,082,518
Depreciation	135,142	1,582,427	27,163	1,547	–	1,746,279
Disposals/Write-off	(362)	(152,387)	–	–	–	(152,749)
At 30 June 2020	858,777	38,716,904	73,610	26,757	–	39,676,048
Accumulated impairment loss						
Balance at 1 January 2020	8,436	1,353,320	–	–	71,734	1,433,490
Disposals/Write-off	–	(16,933)	–	–	–	(16,933)
At 30 June 2020	8,436	1,336,387	–	–	71,734	1,416,557
Carrying amounts						
At 30 June 2020 (Unaudited)	1,643,426	21,821,305	150,633	109,903	506,522	24,231,789
At 31 December 2019 (Audited)	1,677,868	23,207,406	165,088	111,450	213,819	25,375,631

Note:
As at 30 June 2020, right-of-use assets with carrying amounts of RMB2,353,814,000 are included in property, plant and equipment (31 December 2019: RMB2,539,624,000).

	Carrying amounts		Depreciation
	As at 30 June 2020	As at 1 January 2020	During the six months ended 30 June December 2019
	RMB'000	RMB'000	RMB'000
Buildings	587,041	594,191	107,375
Oil engineering equipment and others	1,506,236	1,668,894	161,631
Land	150,634	165,089	27,163
Prepaid land leases	109,903	111,450	1,547
	2,353,814	2,539,624	297,716

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the six months ended 30 June 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						
Balance at 1 January 2019	1,545,881	59,218,964	–	–	437,148	61,201,993
Adjustment under IFRS 16	439,690	388,024	116,765	144,531	–	1,089,010
Additions	111,207	189,562	3,855	–	432,761	737,385
Disposals/Write-off	(1,069)	(201,960)	–	–	–	(203,029)
Reclassification	–	–	4,549	(4,263)	–	286
Transferred from construction in progress	–	67,806	–	–	(67,806)	–
At 30 June 2019	2,095,709	59,662,396	125,169	140,268	802,103	62,825,645
Accumulated depreciation						
Balance at 1 January 2019	500,517	35,042,629	–	–	–	35,543,146
Adjustment under IFRS 16	–	–	–	26,196	–	26,196
Depreciation	115,349	1,518,570	18,926	1,516	–	1,654,361
Disposals/Write-off	(1,037)	(185,960)	–	–	–	(186,997)
At 30 June 2019	614,829	36,375,239	18,926	27,712	–	37,036,706
Accumulated impairment loss						
Balance at 1 January 2019	8,436	1,372,505	–	–	71,734	1,452,675
Disposals/Write-off	–	(681)	–	–	–	(681)
At 30 June 2019	8,436	1,371,824	–	–	71,734	1,451,994
Carrying amounts						
At 30 June 2019 (Unaudited)	1,472,444	21,915,333	106,243	112,556	730,369	24,336,945

15 FINANCIAL ASSETS AT FVTOCI

	As at 30 June 2020	As at 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Financial assets at FVTOCI (non-recycling)		
Non-current asset:		
Equity securities – the PRC	**32,847**	32,847
Current assets:		
Notes receivables	**1,753,783**	1,446,389

Notes:

(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 30 June 2020, notes 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. All financial assets at FVTOCI are denominated in RMB.

16 NOTES AND TRADE RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables		
– Sinopec Group and its subsidiaries	4,041,981	4,760,085
– Joint ventures of the Group	5,106	13,848
– Joint ventures and associates of Sinopec Group	62,982	111,715
– Third parties	9,456,433	9,624,697
	13,566,502	14,510,345
Less: ECL allowance	(2,403,609)	(2,513,990)
Trade receivables – net	11,162,893	11,996,355
Notes receivables	–	500
Notes and trade receivables – net	11,162,893	11,996,855

As at 30 June 2020 and 31 December 2019, the Group's notes and trade receivables were approximately their fair values.

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

As at 30 June 2020 and 31 December 2019, none of the Group's notes receivables were pledged as collateral or overdue.

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

Ageing analysis of notes and trade receivables net of ECL allowance based on invoice date is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	9,748,840	10,515,700
1 to 2 years	985,013	1,002,971
2 to 3 years	288,742	322,870
Over 3 years	140,298	155,314
	11,162,893	11,996,855

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

	2020 RMB'000	2019 RMB'000
At 1 January	2,513,990	2,525,191
ECL allowance	213,945	182,164
Reversal	(175,799)	(238,854)
Others	5,373	–
Receivables written-off as uncollectible	(153,900)	(1,704)
At 30 June (Unaudited)	2,403,609	2,466,797

17 PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Prepayments (Note (a))	793,408	553,726
Other receivables (Note (b))		
Petty cash funds	16,610	12,249
Guarantee deposits	1,407,749	1,412,018
Disbursement of funds	1,059,954	732,671
Temporary payment	536,350	623,580
Escrow payments	7,159	39,529
Deposits	49,180	46,742
Export tax refund receivables	22,316	8,663
Excess value-added tax paid	1,104,547	1,135,967
Value added tax to be certified	22,086	10,285
Prepaid value-added tax	656,455	571,886
Prepaid income tax	22,387	24,200
Others	493,186	219,235
	6,191,387	5,390,751
Less: ECL allowance	(744,683)	(710,685)
Prepayments and other receivables – net	5,446,704	4,680,066

Notes:

(a) As at 30 June 2020, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB221,110,000 (31 December 2019: RMB85,051,000) and the joint ventures and associates of Sinopec Group amounting at RMB2,000 (31 December 2019: Nil).

(b) As at 30 June 2020, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB221,497,000 (31 December 2019: RMB270,291,000), the joint ventures of the Group amounting at RMB301,000 (31 December 2019: RMB356,000) and associates and the joint ventures of Sinopec Group amounting at RMB72,528,000 (31 December 2019: RMB82,678,000).

(c) The amounts due from related parties are unsecured, interest free and repayable on demand.

(d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2020 and 31 December 2019 approximate their fair values.

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

	2020	2019
	RMB'000	RMB'000
At 1 January	710,685	614,716
ECL allowance	110,377	115,480
Reversal	(76,379)	(77,863)
At 30 June (Unaudited)	744,683	652,333

18 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Contract assets arising from construction and service contracts	14,324,832	9,746,470
Less: ECL allowance	(45,492)	(39,182)
	14,279,340	9,707,288

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 RMB77,551,000 (31 December 2019: RMB179,571,000).

(b) Contract liabilities

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Contract liabilities arising from construction and service contracts	2,523,545	3,575,654

The balance of contract liabilities as at 1 January 2020 is RMB3,575,654,000, in which RMB2,209,489,000 was recognised as revenue during the period.

Unsatisfied performance obligation:

The group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 30 June 2020, 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 RMB19.6 billion (31 December 2019: RMB19.85 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.

19 INVENTORIES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Raw materials	913,430	1,030,568
Finished goods	83,830	53,875
Work in progress	5,730	8,781
Turnover materials	9,582	10,016
	1,012,572	1,103,240
Less: Provision for impairment/Write off	(53,728)	(54,775)
	958,844	1,048,465

For the periods ended 30 June 2020 and 2019, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB12,681,628,000 and RMB8,432,411,000 respectively. For the six months ended 30 June 2020, no provision for inventories (for the six months ended 30 June 2019: Nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB1,047,000 (31 December 2019: RMB9,310,000).

20 SHARE CAPITAL

	As at 30 June 2020		As at 31 December 2019	
	Number of shares (Share)	Share capital RMB'000 (Unaudited)	Number of shares (Share)	Share capital RMB'000 (Audited)
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1.00 each	**11,786,045,218**	**11,786,046**	11,786,045,218	11,786,046
– Social public A shares of RMB1.00 each	**1,783,333,333**	**1,783,333**	1,783,333,333	1,783,333
– H shares of RMB1.00 each	**5,414,961,482**	**5,414,961**	5,414,961,482	5,414,961
	18,984,340,033	**18,984,340**	18,984,340,033	18,984,340

21 SHARE-BASED PAYMENTS

Pursuant to the resolution of the fourteen meeting of the eighth session of the Board of Directors of the Company on 1 November 2016, the proposal regarding "the Adjustment of the List of Participants and the Number of the Share Options under the Proposed Grant of the Share Option Incentive Scheme" and the proposal regarding "the Proposed Grant under Share Option Incentive Scheme" was approved.

According to the Company's share option incentive scheme, the grant date of share options was 1 November 2016, and there were a total of 49,050,000 share options granted to 477 participants (0.3469% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB5.63 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

(i) achieving compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;

(ii) ratio of earnings before interest, tax, depreciation and amortisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;

(iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and

(iv) the performance of the indicator for economic value added has reached the target set by the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 30 June 2020, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price (per share in RMB)	Outstanding shares options
1 November 2020	5.63	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 30 June 2020, the Company have 17,084,000 share options has not been exercised with a total fair value of RMB22,067,000 at the grant date.

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, 1 January 2020 and 30 June 2020	17,084,000

21 SHARE-BASED PAYMENTS (Continued)

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB3.96
Exercise price	RMB5.63
Expected volatility	46.17%
Maturity (years)	3-5 years
Risk-free interest rate	2.34% – 2.45%
Expected dividend yield	0%

Share-based payment of RMB2,299,000 have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 (For the six months ended 30 June 2019: RMB2,531,000). For the six months ended 30 June 2020, no share option had been exercised.

As at 30 June 2020, under the current capital structure, fully exercise of the outstanding shares will lead to issue of 17,084,000 (31 December 2019: 17,084,000) extra ordinary A share and increase in share capital of RMB17,084,000 (31 December 2019: RMB17,084,000), before issue expenses.

22 NOTES AND TRADE PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables		
– Sinopec Group and its subsidiaries	**1,745,310**	1,148,614
– Joint ventures of the Group	**7,228**	19,723
– Joint ventures and associates of Sinopec Group	**27**	1,311
– Third parties	**18,493,652**	18,898,646
	20,246,217	20,068,294
Notes payables	**7,028,358**	4,733,932
	27,274,575	24,802,226

As at 30 June 2020 and 31 December 2019, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	**26,571,008**	24,029,249
1 and 2 years	**369,455**	377,839
2 and 3 years	**63,672**	61,377
Over 3 years	**270,440**	333,761
	27,274,575	24,802,226

23 OTHER PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Salaries payables	752,034	421,938
Other tax payables	362,925	519,525
Interest payables (Note (a))	15,321	19,158
Other payables (Note (b))		
Guarantee deposits	518,746	385,596
Deposits	105,009	112,746
Disbursement of funds	500,973	688,996
Temporary receipts	271,752	237,657
Escrow payments	49,346	51,789
Withheld payments	107,092	65,867
Others	512,543	294,565
	3,195,741	2,797,837

Notes:

(a) As at 30 June 2020, the interest payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB10,958,000 (31 December 2019: RMB19,158,000).

(b) As at 30 June 2020, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB26,647,000 (31 December 2019: RMB42,026,000), associates of the Group amounting to RMB470,000 (31 December 2019: RMB466,000).

(c) The above amounts due to related parties are unsecured, interest free and repayable on demand.

24 BORROWINGS

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Current liabilities		
Loans from Sinopec Finance Company Limited (Note (a))	10,640,000	12,080,000
Loans from Sinopec Century Bright Capital Investment Limited (Note (a))	1,925,624	2,323,075
Loans from Sinopec Group (Note (a))	9,000,000	6,000,000
Lease liabilities (Note (b))	518,918	535,375
	22,084,542	20,938,450
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Limited (Note (a))	–	474,382
Bank borrowings (Note (a))	530,963	–
Lease liabilities (Note (b))	1,683,118	1,833,446
	2,214,081	2,307,828
	24,298,623	23,246,278

24 BORROWINGS (Continued)

Notes:

(a) The borrowings of the Group are repayable as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	21,565,624	20,403,075
1 to 2 years	530,963	–
2 to 5 years	–	474,382
	22,096,587	20,877,457

As at 30 June 2020, annual interest rates of credit loans from related parties and bank ranged from 1.48% to 3.92% (31 December 2019: 3.09% to 8.80%).

(b) Lease liabilities

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Total minimum lease payments		
– Within 1 year	557,151	574,873
– 1 to 2 years	529,982	578,535
– 2 to 5 years	1,071,084	1,224,369
– Over 5 years	205,267	291,008
	2,363,484	2,668,785
Future finance charges on lease liabilities	(161,448)	(299,964)
Present value of lease liabilities	2,202,036	2,368,821

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Present value of minimum lease payments:		
– Within 1 year	518,918	535,375
– 1 to 2 years	489,282	517,746
– 2 to 5 years	996,189	1,057,059
– Over 5 years	197,647	258,641
	2,202,036	2,368,821
Less: Portion due within one year included under current liabilities	(518,918)	(535,375)
Portion due after one year included under non-current liabilities	1,683,118	1,833,446

As at 30 June 2020, the Group leases various residential properties, office and equipment. The leases run for an initial period of 1 to 30 years (31 December 2019: 1 to 30 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 six months ended 30 June 2020, total cash outflow for the lease payment is RMB757,471,000 (30 June 2019: RMB1,014,952,000).

25 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2020 and 31 December 2019 not provided for in the interim financial information are as follows:

	As at 30 June 2020	As at 31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted but not provided for	385,933	517,738

(b) Lease commitments

The lease commitments for short-term leases as at 30 June 2020 and 31 December 2019 are as follows:

	As at 30 June 2020	As at 31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 1 year	287,563	150,486

As at 30 June 2020 and 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.

(c) Investment commitments

As at 30 June 2020, the Group has outstanding commitments of RMB129,625,000 (31 December 2019: RMB129,625,000) in respect of its investment in in joint ventures.

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2020.

26 CONTINGENCIES

In preparing this interim financial information, there were no further developments of those contingencies as at 30 June 2020, which were disclosed in the 2019 annual report.

27 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2020 and 2019.

The transactions with related parties are carried out on normal commercial terms or relevant agreements with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Purchases of materials		
– Sinopec Group and its subsidiaries	4,648,267	4,519,246
Sales of products		
– Sinopec Group and its subsidiaries	46,813	67,337
Rendering of engineering services		
– Sinopec Group and its subsidiaries	18,343,386	18,199,681
Receiving of engineering services		
– Sinopec Group and its subsidiaries	–	208,480
Receiving of community services		
– Sinopec Group and its subsidiaries	218,937	181,912
Receiving of integrated services		
– Sinopec Group and its subsidiaries	86,542	–
Rendering of integrated services		
– Sinopec Group and its subsidiaries	407	–
Rendering of technology research and development services		
– Sinopec Group and its subsidiaries	43,936	69,604
Rental income – Buildings		
– Sinopec Group and its subsidiaries	286	286
Lease payment – Lands and buildings		
– Sinopec Group and its subsidiaries	90,292	58,962
Deposits interest income		
– Sinopec Group's subsidiaries	778	1,390
Loans interest expenses		
– Sinopec Group and its subsidiaries	404,381	375,754
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	14,452	8,534
Borrowings obtained		
– Sinopec Group and its subsidiaries	26,309,046	16,917,831

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Borrowings repaid		
– Sinopec Group and its subsidiaries	**25,660,652**	15,224,918
Safety and insurance fund expenses		
– Sinopec Group	**38,080**	40,321
Safety and insurance fund refund		
– Sinopec Group	**61,178**	25,681

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rendering of engineering services		
– Associates and joint ventures of the Group	**78,222**	21,383
Receiving of engineering services		
– Associates and joint ventures of the Group	**807,212**	1,342,147

(c) Significant related party transactions arising with the associates and joint ventures of Sinopec Group:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
– Associates and joint ventures of Sinopec Group	**91,438**	–
Rendering of engineering services		
– Associates and joint ventures of Sinopec Group	**50,054**	367,755
Receiving of integrated services		
– Associates and joint ventures of Sinopec Group	**74,566**	42,208
Interest expenses on lease liabilities		
– Associates and joint ventures of Sinopec Group	**31,909**	47,445

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(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:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee	**350**	400
Salaries, allowances and bonus	**5,332**	4,802
Contributions to pension plans	**210**	241
Share-based payments	**37**	76
	5,929	5,519

(e) Provision for counter guarantee

As at 30 June 2020, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB500,000,000. The counter guarantee will be ended in November 2021 (30 June 2019: Nil).

Section IX Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 26 August 2020 (Wednesday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2020 signed by the Chairman of the Company;
2. The financial report of the Company for the six months ended 30 June 2020 signed by the Chairman, General Manager, Chief Financial Officer and the person in charge of the accounts;
3. The Articles of Association of the Company;
4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by the CSRC during the report period.

* This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IFRS, the Chinese version will prevail.