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
Annual Report

IMPORTANT NOTE

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

2. The 2020 Annual Report has been approved at the second meeting of the tenth session of the Board. A total of 7 directors of the Company attended the meeting. Mr. Lu Baoping and Mr. Wei Ran, directors of the Company, were absent from the meeting due to other working arrangements, and had respectively authorised Mr. Chen Xikun and Mr. Yuan Jianqiang, directors of the Company, to attend the meeting and to exercise their voting rights on their behalf.

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

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

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

   In 2020, after the audit by Grant Thornton (Special General Partnership) and prepared in accordance with the PRC ASBE, the net profit attributable to equity shareholders of the Company was RMB78,978,000 (In accordance with the IFRS, the net profit attributable to shareholders of the Company was RMB -35,737,000), and the parent company's undistributed profit at the end of 2020 was RMB -1,516,087,000. Since the undistributed profit of the parent company at the end of the year is negative, the Board proposes not to pay cash dividend and not to transfer the capital reserve to share capital. The proposal still needs to be submitted to the general meeting of shareholders for consideration.

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

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

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

9. There is no situation where more than half of the directors of the Company cannot guarantee the authenticity, accuracy and completeness of the Company's 2020 Annual Report.

Contents

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

Company, SSC	Sinopec Oilfield Service Corporation, a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and H Shares are listed on the Main Board of the Stock Exchange (Stock code 1033)
Group	The Company and its subsidiaries
Board	The Board of the Company
Articles of Association	The articles of association of the Company, as amended, modified or supplemented from time to time
CPC	China Petrochemical Corporation, a wholly State-owned company established in the PRC and the controlling shareholder of the Company
Sinopec	China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the Stock Exchange as well as in New York, London and Shanghai, a subsidiary of CPC
A Shares	Domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, and the relevant shares are listed on the SSE
H Shares	Overseas listed foreign Share(s) each which is (are) listed on the Main Board of the Hong Kong Stock Exchange and par value per share is RMB1.00
SSE	Shanghai Stock Exchange
HKSE, Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
CSRC	China Securities Regulatory Commission
HKSCC (Nominees) Limited	Hong Kong Securities Clearing Company (Nominees) Limited
Share Option Incentive Scheme	A Share Option Incentive Scheme of the Company
This Grant	The Company granted the total amount of incentive objects not exceeding 50.85 million stock options according to the Share Option Incentive Scheme
CITIC Limited	China International Trust and Investment Co., Ltd.
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd., a subsidiary of China Petrochemical Corporation
SOSC	Sinopec Oilfield Service Co., Ltd., the subsidiary of the Company
Jingwei Company	Sinopec Jingwei Co., Ltd., an indirectly wholly-owned subsidiary of the Company
Century Bright Company	Sinopec Century Bright Capital Investment, Ltd., a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of CPC
Non-public Placement	Non-public Placement of A shares and H shares
Qi Xin Gong Ying Scheme	Qi Xin Gong Ying Scheme for the management of Sinopec Oilfield Service Corporation
Geophysical exploration, geophysical	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration
Drilling	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole
Completion	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	The technology of acquiring parameters of various formation characteristics from downhole by using special tools or equipment and technology, and of being used to discover the oil and gas reservoir and other mineral resources
Mud Logging	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information
Downhole Operation service	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Two dimensional geophysical	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis
Three dimensional geophysical	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells
Northwest China, North China, Northeast China and Sichuan	Northwest, Northeast, North China, Sichuan, Chongqing and other regions within China
CNPC	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corporation
PipeChina	China Oil & Gas Pipeline Network Corporation
CNSPC	SINOPEC Star Petroleum Co., Ltd
Yanchang Petroleum Group	Shaanxi Yanchang Petroleum (Group) Corp. Ltd
EPC	Engineering, Procurement and Construction; A project contract model, the main services include project design, procurement and construction
China	People's Republic of China

Section II Company Profile and Principal Financial Indicators

1. Company Information

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

2. Contact Information

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

3. Company Profile

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

4. Disclosing information and inspection place

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

5. Stock Briefs

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

6. Other related Information

Domestic Auditors	Name	Grant Thornton (Special General Partnership)
	Address	5th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing
	Signing accountants	Zhang Yaxu, Hao Jianwei
Overseas Auditors	Name	Grant Thornton Hong Kong Limited
	Address	Level 12, 28 Hennessy Road, Wan Chai, Hong Kong
	Signing accountants	Kwok Siu Kwan Sylvia
Name of the domestic Legal advisor	Beijing Haiwen & Partners	
Address	20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing	
Name of the overseas Legal advisor	Zhong Lun Law Firm	
Address	23th-31th Floor, South Tower of Third Building, Zhengda Center, No. 20 Jinhe East Road, Chaoyang District, Beijing, China	
Share registrars and transfer office	A Share	China Securities Registration and Clearing Corporation Limited Shanghai Branch
	Address	36th Floor, China Insurance Building, 166 Lujiazui Eastern Road, Pudong New District, Shanghai
	H Share	Hong Kong Registrars Limited
	Address	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong

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

(1) Principal financial data

Unit: RMB'000

	For the year ended 31 December 2020	For the year ended 31 December 2019	Increase/(Decrease) (%)	For the year ended 31 December 2018
Operating income	**68,073,394**	69,870,147	-2.6	58,409,078
Operating income deducted the amount unrelated to main business and the amount without commercial essence	**67,045,738**	/	/	/
Operating profit ("-" for losses)	**283,335**	1,251,242	-77.4	852,278
Profit before income tax ("-" for losses)	**348,054**	1,355,768	-74.3	515,637
Net profit attributable to equity shareholders of the Company ("-" for losses)	**78,978**	914,244	-91.4	142,056
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses)	**-266,915**	503,704	Not Applicable	37,951
Net cash inflow from operating activities ("-" for outflow)	**4,471,820**	1,377,053	224.7	-2,939,789

	As at 31 December 2020	As at 31 December 2019	Year-on-year change (%)	As at 31 December 2018
Total equity attributable to equity shareholders of the Company	**6,722,866**	6,763,872	-0.6	5,778,410
Total assets	**61,091,195**	62,069,378	-1.6	60,904,715

(2) Principal financial indicators

	For the year ended 31 December 2020	For the year ended 31 December 2019	Year-on-year change (%)	For the year ended 31 December 2018
Basic earnings per share (RMB) ("-" for losses)	**0.004**	0.048	-91.7	0.008
Diluted earnings per share (RMB) ("-" for losses)	**0.004**	0.048	-91.7	0.008
Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for losses)	**-0.014**	0.027	Not Applicable	0.002
Weighted average return on net assets (%)	**1.16**	14.66	decreased by 13.5 percentage points	2.86
Weighted average return on net assets deducted extraordinary gain and loss (%)	**-3.92**	8.08	decreased by 12.0 percentage points	0.76

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

☐ Applicable √ Not Applicable

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

Unit: RMB'000

	Net profit ("-" for losses) attributable to owners of the Company		Total equity attributable to owners of the Company	
	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019
PRC ASBE	**78,978**	914,244	**6,722,866**	6,763,872
Difference items and amount:				
Special reserve (a)	**-114,715**	72,629	**–**	–
IFRS	**-35,737**	986,873	**6,722,866**	6,763,872

Explanation of differences between domestic and foreign accounting standards:

(a) Special reserve

In accordance with the PRC ASBE, the safety production expenses withdrawn in accordance with national regulations are recorded in the current profit and loss and separately reflected in the special reserve in the owner's equity. When expenses related to production safety are incurred, the special reserve is directly offset. When using fixed assets related to production safety, the special reserve shall be written off according to the cost of forming the fixed assets, and the accumulated depreciation of the same amount shall be confirmed, and the relevant assets will no longer be depreciated in future periods. In accordance with the IFRS, expense expenditures are included in profit or loss when incurred, capital expenditures are recognized as fixed assets when incurred, and depreciation is accrued according to the corresponding depreciation method.

9. Quarterly Financial Data of 2020 (Prepared in accordance with PRC ASBE)

Unit: RMB'000

	The first quarter (January~March)	The second quarter (April~June)	The third quarter (July~September)	The fourth quarter (October~December)
Operating income	12,868,009	18,564,428	14,995,482	21,645,475
Net profit attributable to equity shareholders of the Company ("-" for losses)	-182,308	480,585	-66,574	-152,725
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses)	-215,842	443,543	-102,891	-391,725
Net cash inflow from operating activities ("-" for outflow)	-1,184,219	1,465,477	347,330	3,843,232

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

☐ Applicable √ Not Applicable

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

Unit: RMB'000

Extraordinary gain and loss item	2020	2019	2018
Gain and loss on disposal of non-current assets	**5,961**	67,044	278
Government grants recognised in profit or loss during the year	**293,684**	170,446	472,569
Gain and loss from debt restructuring	**53,960**	154,539	395,261
Net profit or loss from the beginning to the merger date of the subsidiary of the business combination under common control	**–**	–	-2,385
Profits and losses arising from matters unrelated to the normal business of the Company	**–**	–	-475,276
Gains or losses on previously held equity interests re-measured at acquisition date	**–**	27,474	–
Other non-operating income and expenses excluding the aforesaid items	**64,719**	104,526	-257,894
Other gains and losses that meet the definition of non-recurring profit and loss	**–**	-1,292	–
Tax effect	**-72,431**	-112,197	-28,448
Total	**345,893**	410,540	104,105

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

Unit: RMB'000

	As at 31 December				
	2020	2019	2018	2017 (Restated)	2016 (Restated)
Total assets	**61,091,195**	62,069,378	60,904,715	62,089,315	74,794,669
Total liabilities	**54,368,329**	55,305,506	55,126,305	64,190,633	66,343,412
Equity attributable to owners of the Company	**6,722,866**	6,763,872	5,778,410	(2,099,946)	8,452,533
Net assets per share attributable to owners of the Company (RMB)	**0.35**	0.36	0.30	(0.15)	0.60
Equity ratio of owners	**11.00%**	10.90%	9.49%	(3.38%)	11.30%
Return on net assets	**(0.53%)**	14.59%	4.16%	(503.02%)	(191.89%)

	For the year ended 31 December				
	2020	2019	2018	2017 (Restated)	2016
Revenue	**68,073,394**	69,870,147	58,409,078	48,593,948	42,923,500
Profit/(Loss) before income tax	**233,339**	1,428,397	613,769	(10,324,177)	(15,887,181)
Income tax expense	**269,076**	441,524	373,581	239,034	311,196
(Loss)/Profit attributable to owners of the Company	**(35,737)**	986,873	240,188	(10,563,211)	(16,198,242)
Basic and diluted (loss)/earnings per share (RMB)	**(0.002)**	0.052	0.013	(0.747)	(1.145)

Section III Company Business Summary

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

With more than 60 years of business operation and rich experience in project execution, the Company is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. By the end of 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 in more than 30 countries and regions.

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

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

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

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

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

On 31 December 2020, under PRC ASBE, the total assets of the Company was RMB61,091,195,000, a year-on-year decrease of 1.6%, of which RMB16,358,089,000 was overseas assets, accounting for 26.8% of the total assets; The net assets attributable to the shareholders of the Company was RMB6,722,866,000, a decrease of RMB41,006,000 from the end of the previous year, mainly due to business accumulation and the change in special reserve in 2020; The debt-to-asset-ratio of the Company was 89.0%, a year-on-year decrease of 0.1 percentage point.

3. Analysis on core competitiveness in the reporting period

The Company has the service ability to cover the full industrial-chain of oilfield service. As of the end of 2020, there were 674 land drilling rigs (including 309 rigs above 7,000 meter), 14 offshore drilling platforms, 69 seismograph hosts, 142 imaging logging systems, 435 integrated logging tools, and 175 sets of 2,500 and 3,000 fracturing trucks, 43 workover rigs above 750HP, 1,588 drilling, geophysical and other professional teams. It can provide the full range of services from exploration, development and production for oilfields and bring value to oil companies. The Company has been the largest onshore drilling contractor of Saudi Aramco, Kuwait Petroleum and Ecuadorian National Petroleum Corporation for many years, and Algeria's largest international geophysical contractor status.

The Company is the large-scale integrated provider of petroleum engineering services and integrated oilfield technical services in China, with over 60 years of experiences for oilfield service and strong execution capabilities. Its representative projects include Puguang gas field, Fuling shale gas, Yuanba gas field, Tahe oilfield, Shunbei oil and gas field etc.

The Company has advanced exploration and development technologies as well as strong R&D abilities. It has a number of advanced technologies with proprietary intellectual property rights, such as shale gas, highly acidic oil and gas reservoirs, and ultra-deep well drilling, etc. which can bring sustainable high added-value to its services.

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

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

Dear Shareholders,

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

Facing the dual challenges of the COVID-19 epidemic and low oil prices in 2020, the Company adhered to the philosophy of "leading technology for value creation and supporting oil and gas provision to serve the customers", focused on expanding market, improving efficiency, adjusting structure, intensifying reform, preventing risks and other work and vigorously advanced overcoming difficulties and efficiency improvement.

In 2020, the Company's consolidated revenue under PRC ASBE was RMB68.07 billion, a year-on-year decrease of 2.6%; the net profit attributable to the shareholders of the Company was RMB79 million, a year-on-year decrease of 91.4%, and the operating results of the Company withstood the test under the particular period. Affected by the previous sluggish period of the oil service industry, as of the end of 2020, the accumulated undistributed profit of parent company was negative, the Board would like to propose not to pay cash dividend and not to transfer the capital reserve to share capital for the year 2020. The above proposed profit distribution scheme is still subject to be submitted to the annual general meeting for approval.

2020 was a decisive year for the Company to promote overall and sustainable development and was also an extraordinary year with challenges. The Company braved the difficulties and concentrated on the expansion of domestic and overseas markets, achieving growth against the trend under the extremely difficult environment. The total cumulative amount of newly signed contracts in the year was RMB69.8 billion, representing a year-on-year increase of RMB300 million. In the domestic Sinopec market, the Company established a close communication and coordination mechanism with the other party to fully display the advantages of synergy. The total amount of newly signed contracts amounted to RMB41.4 billion. For the domestic external markets, the Company vigorously expanded key markets such as CNPC and PipeChina and the total amount of newly signed contracts with them was RMB12.8 billion. Many teams of the Company entered CNPC's Sichuan shale gas market. It has signed new general contracting agreements on well drilling and completion for 7 platforms with an amount of RMB1.05 billion and won the bids for the pipeline construction projects of PipeChina and Zhejiang Petroleum & Chemical with a contracted amount of RMB2.2 billion. In overseas markets, the Company overcame various difficulties such as the international epidemic spreading and the cancellation or postponement of bids by project owners and achieved progress in Saudi Arabia, Kuwait and other high-quality markets. The value of newly signed contracts was RMB15.6 billion. The Company obtained qualifications on screwing services, unconventional fracturing, directional wells and other services, further consolidating and expanding market advantages.

Section IV Chairman's Statement

The Company continued to put more efforts in overcoming difficulties in scientific research. It continuously improved the scientific and technological R&D system, established the Sinopec Oilfield Acid Gas Technology Center and the Tight Oil and Gas Technology Center and was granted 505 new patents during the year. Breakthroughs were made in technological bottlenecks. The rotary steering system was successfully trialed in horizontal drilling for shale gas wells for the first time and the 200℃ high-temperature and high-pressure logging system was successfully applied in Shunbei. Technological transformation achieved tangible results. The intelligent node seismograph realized industrial application in more than 10 domestic industrial zones. The high-density 3D seismic exploration technology, the automatic processing system of tubular columns in drilling wells, the network imaging logging system and other technologies created an output value of RMB230 million.

The Company actively facilitated reform in key areas. It stably advanced the professional reorganization of testing, logging and locating businesses and the preparation of Sinopec Jingwei Co., Ltd. was advanced in an orderly manner. It coordinated market layouts and optimized resources allocation and promoted the flow of teams, equipment, materials, engineering technology and other resources to high-efficient markets. It continued to optimize and adjust the size and structure of teams. The total number of teams reduced to 1,588, a decrease of 11.6% as compared with previous year. The number of auxiliary business units dropped to 68, decreasing by 40.4%. The number of administrative personnel decreased over 10% for three consecutive years.

The Company focused on and promoted epidemic prevention and safety production at the same time. Thanks to the targeted and effective epidemic prevention, local enterprises in Hubei resisted heavy pressures and held positions in the center of the epidemic, which guaranteed the health of employees and achieved safe and stable production and operation. In overseas markets, it overcame various difficulties and arranged working shifts for nearly 6,000 entry-exit employees. It recorded no group infections and severe or death cases. The environmental work was constantly enhanced. The application of electric fracturing pumps, network electricity and other green technologies and equipment on sites sped up. Three local (professional) companies and 416 grassroots teams passed the acceptance on green enterprises.

In February 2021, the Company completed the re-election of the ninth session of the Board and elected the tenth session of the Board. During the past three years, all directors of the ninth session of the Board worked diligently and prudently together, strengthened risk prevention and control, made decisions in a prudent and scientific manner and guaranteed the sustainable and healthy development of all businesses. On behalf of the Company, I express my gratitude to all directors of the ninth session of the Board for their diligence and contributions. With the trust of all shareholders and directors, I was fortunate to be elected as the chairman of the tenth session of the Board. I will work with all directors to contribute to the prosperity and development of the Company and actively return all shareholders for their support and assistance for a long time.

Looking into 2021, under the background of expanded vaccination globally, the development of the COVID-19 epidemic is expected to be effectively curbed and consumption and economy are likely to recover. The international oil prices have picked up recently. The Brent crude oil price stood at US$60/barrel and maintained an upward trend. In international markets, the oil service industry escaped the gloom and international oil service companies stepped out of the trough period and gradually recovered. In domestic markets, China's three major oil companies implemented the seven-year action plan on exploration and development and will continue increase upstream capital expenditures, which will further benefit the domestic oil service market. Meanwhile, we clearly realized that the COVID-19 epidemic has not ended and the rapid recovery of oil prices still faces barriers. In the face of the comprehensive and rapid development of new energy, the energy industry is seeking transformation. Oil companies' requirements on the improvement of the quality, service speed, efficiency and production in oil and gas production are more intense. Oil service companies will win more survival and development space with better quality, higher efficiency and lower costs and service guarantees.

2021 is the first year of the "14th Five-year Plan" and China will enter a new development stage. The Company will keep a foothold in the new development stage, implement new development concepts, focus on new development patterns and deeply implement professional, market-based, international, high-end and featured development strategies. It will advance reform and innovation, speed up in transformation and upgrading and fully advance towards a technology guided oil service company. It will continue to improve efficiency, inject vitality, develop competitiveness and strive to embark on a new journey in high-quality development.

Firstly, keeping aggressive and vigorously expanding development space. The Company will fully leverage on the integrated advantages, solidly advance the improvement of the quality, service speed, efficiency and production, continuously enhance engineering and technical service capabilities and promote market expansion in all dimensions with great efforts and high quality. It will deeply penetrate into the internal markets of the Group, continue to optimize the domestic external markets and optimize and strengthen overseas markets. It plans to achieve a newly signed contract value of over RMB70 billion and achieve the internal and external linkage and mutual supplementation and benefits of three major markets in 2021.

Secondly, enhancing the driving of innovation and fully developing technological weapons. The Company will establish four R&D platforms on wellbore engineering, geophysical services, project construction and maritime engineering to integrate scientific research resources, strengthen overcoming difficulties in scientific research and speed up in achieving breakthroughs in drilling rotary steering system, high-temperature logging and other technological difficulties. It will promote standardized, serialized and software-based engineering technologies with low costs and advance the close integration of innovation chains, industrial chains, talent chains and value chains.

Thirdly, continuing reform and optimization and fully stimulating vitality and momentum. The Company will focus on the preparation of Jingwei Company, project management and the reform of three systems and the coordinated and optimized allocation of key resources such as market, capitals, labors, materials and equipment to stimulate vitality through reform and improve efficiency through optimization.

Fourthly, comprehensively enhancing management and improving development quality. The Company will highlight the orientation of problems, carry out normalized epidemic prevention and control and strive to improve safety. It will constantly strengthen investment management, cost management, capital management and standardized management and consolidate the foundation of high-quality development.

Time stops for no one, but hard work always pays off. The Board and I believe that through the joint efforts of the Board, the Supervisory Committee, the management and all the staff, coupled with the support of our shareholders and the wider community, SSC will write new chapters in the new development stage, keep advancing towards a technology-guided oil service company and create more value for shareholders and the society.

Chen Xikun

Chairman

Beijing, China

24 March 2021

1. Discussion and analysis of operation during the reporting period

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

Annual Results

In the face of the dual impacts of the COVID-19 epidemic and the low oil prices in 2020, the Company coordinated epidemic prevention and control, production and operation, reform and development and other various work and focused on expanding market, creating revenue, adjusting structure, intensifying reform and preventing risks, achieving significant strategic results in the prevention and control of the epidemic. Its operating results achieved profitability for three consecutive years and the risk resistance capacity was continuously enhanced.

Due to the impacts of the COVID-19 epidemic and the plunge of oil prices in 2020, oil companies reduced expenditure in upstream exploration and exploitation. The workload of the Company in the main profession decreased year-on-year while the expenses in epidemic prevention increased, resulting in a year-on-year decrease of 0.7 percentage point in the gross profit margin of the principal business. Financial expenses recorded a year-on-year increase of RMB250 million due to exchange rate fluctuations. Due to the abovementioned factors, the Company's consolidated revenue was RMB68,073,394,000, representing a year-on-year decrease of 2.6%, and net profit attributable to shareholders of the Company amounted to RMB78,978,000, representing a year-on-year decrease of 91.4%. Basic earnings per share was RMB0.004, representing a year-on-year decrease of 91.7%. Through the increase in clearance of inventories and account receivable, the strict control of cost and expense and capital expenditure, the Company maintained sound cash flow conditions and the net cash flow in operating activities reached RMB4.47 billion.

Market Review

The COVID-19 epidemic caused significant effects to the world economy in 2020 and major economies experienced recession to different extent. China's economy was also greatly affected. However, with the domestic COVID-19 epidemic under effective control, China's economy showed the trend of recovery and the gross domestic product (GDP) expanded by 2.3% year on year, making it the only major economy with positive economic growth in the world. The abundant supply in the global crude oil market was further intensified due to the impacts of the macro economy and the COVID-19 epidemic. The annual average Europe Brent Spot Price was US$41.96 per barrel, representing a decrease of 34.7% as compared to 2019. Global oil and gas companies reduced upstream exploration and development capital expenditure and the oilfield service industry remained sluggish on the whole. As domestic oil companies continued to implement the seven-year action plan aiming at expanding reserves and production, domestic oil and gas output achieved steady growth and the domestic oilfield service workload recorded a year-on-year increase, creating opportunities for the Company to expand the market and improve the efficiency.

In 2020, the Company achieved remarkable results in market expansion. Under the complicated and severe operating environment, the Company achieved growth against the market trend. The total newly signed contracts amounted to RMB69.8 billion, representing a year-on-year increase of 0.4%. In particular, the newly signed contracts in the Sinopec market amounted to RMB41.4 billion, representing a year-on-year increase of 7.8%. The newly signed contracts in domestic external markets amounted to RMB12.8 billion, representing a year-on-year decrease of 11.7%. The newly signed contracts in overseas markets amounted to RMB15.6 billion, representing a year-on-year decrease of 6.0%.

Operation Review

In 2020, the Company actively seized market opportunities in the improved demands in the domestic oilfield service market with the progress in expanding reserves and production, coordinated the epidemic prevention and control and production and operation, vigorously advanced market layouts and optimized resources allocation. It solidly carried out the campaign on "achieving breakthroughs and improving efficiency in 100 days" and "continuously achieving breakthroughs and improving efficiency" to consistently enhance the engineering technical service capability. It focused on promoting the professional reform and restructuring of testing, logging and locating businesses and strengthened cost control and risk management to constantly improve the profitability of projects under low oil prices. In 2020, the Company achieved positive results in market expansion, technological development, management and reform, laying a solid foundation for comprehensively facilitating the high-quality development of the Company.

1. Geophysical services

In 2020, the Company's operation revenue from the principal business of geophysical service was RMB4,599,371,000, an increase of 9.0% than the same period of the previous year, for which the figure was RMB4,219,721,000. The completed 2D seismic accumulated for 8,414 kilometers in the year, a decrease of 55.5% than the previous year; while the 3D seismic accumulated for 20,681 square kilometers, an increase of 46.6% than the previous year. The Company improved the quality of seismic data continuously, with 2D and 3D records reaching quality rate of 100%. It boosted efforts in promoting application of self-developed wireless node collection and other high-end collection equipment to fully improve its oil and gas exploration capabilities; sped up in promoting the high-quality development of geophysical business and improved the efficiency of completed collection projects by 23%; and maintained a good cooperative relationship with China Geological Survey and the Chinese Academy of Geological Sciences, and won the bids for 22 seismic collection projects, with a contract value of RMB150 million. The Company continued to expand the new business market for China Petrochemical Corporation's soil pollutant survey, with a newly signed contract value of RMB204 million, representing a year-on-year increase of 36.0%.

2. Drilling service

In 2020, the Company's operation revenue from the principal business of drilling service was RMB34,199,657,000, a decrease of 6.3% than the same period of the previous year, for which the figure was RMB36,487,700,000. Its completed drilling footage reached 9,320 kilometers, representing a year-on-year decrease of 6.7%. The Company intensified the requirements on integrated geological engineering, served China Petrochemical Corporation's high-efficient exploration and efficiency development in a high-quality and efficient manner, and made every effort to promote the improvement of the quality, service speed, efficiency and production in "Northwest China, North China, Northeast China and Sichuan", achieving the average drilling cycle and the time on complicated failures reducing by 20.5% and 34.8%. The Company successfully completed the task of capacity construction of oil and gas fields such as eastern old oil fields, Fuling shale gas field, Shunbei super deep oil and gas field, tight gas fields in North China, gas fields in western Sichuan, and Weirong shale gas. It continuously consolidated traditional high-quality markets such as CNPC and CNOOC with various teams entered CNPC's southwestern shale gas market. It has signed new general contracting agreements on well drilling and completion for 7 platforms with an amount of RMB1.05 billion.

3. Logging/Mud logging service

In 2020, the Company's operation revenue from the principal business of logging/mud logging service was RMB2,728,760,000, an increase of 9.0% than the same period of the previous year, for which the figure was RMB2,503,262,000. Its completed logging projects have accumulated for 274,740,000 standard meters, a decrease of 1.2% than the previous year. Its completed mud logging projects have accumulated for 9,410 kilometers, an increase of 1.1% than the previous year. The pass rate of logging/mud logging data was 100% and the one-time success rate of logging was above 93%. The Company consistently improved its logging/mud logging service capabilities, made full efforts to meet domestic oil companies' market demand for oil stabilization, gas increase and cost reduction, providing high-quality and effective guarantee for the production stabilization and increase task of China Petrochemical Corporation's key regions in "Northwest China, North China, Northeast China and Sichuan" and eastern old oil fields. It witnessed the scale of domestic and foreign markets, including CNPC's southwest shale gas, and local coal bed methane, continuing to expand steadily and the traction perforating and other featured technical service capabilities consistently improved.

4. Downhole operation service

In 2020, the Company's operation revenue in downhole operation was RMB8,596,355,000, an increase of 12.3% than the same period of the previous year, for which the figure was RMB7,657,148,000. It completed downhole operation for 6,228 wells, a decrease of 9.4% than the previous year. The qualified rate of one-time downhole special operation was 98.5%. The Company continued to enhance the construction capabilities on large-scale deep and atmospheric pressure shale gas fracturing, completion testing of ultra-high temperature, ultra-high pressure and ultra-deep oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs and other complicated oil and gas reservoirs. The fracturing construction efficiency in key regions in "Northwest China, North China, Northeast China and Sichuan" was improved by 49.3% as compared with the same period of the previous year. Several oil wells with a daily output of more than 100 cubic meters were discovered in Shunbei oil and gas field. The Company further expanded the cooperative development of difficult-to-use reserves and has cumulatively completed capacities of over 800,000 tons. It improved and strengthened high-end business such as high-pressure operations and smart tubing business. It successfully explored the Saudi Arabian market for the coiled tubing and continuously expanded the overseas market share.

5. Engineering and construction service

In 2020, the Company's operation revenue in engineering and construction service was RMB15,683,065,000, a decrease of 4.3% than the same period of the previous year, for which the figure was RMB16,381,730,000. In 2020, the cumulative value of newly signed contracts was RMB15.6 billion, a decrease of 15.2% than the same period of the previous year. While guaranteeing the oil and gas capacity construction of China Petrochemical Corporation, the Company displayed its advantages in the construction of large-scale oil and gas pipeline, roads and bridges and strengthened the business integration with China Oil & Gas Pipeline Network Corporation ("PipeChina"). It won the bids for 4 phases of oil and gas pipeline projects with a total contracted amount of over RMB700 million. It consistently expanded local natural gas pipeline market and won the bids for projects with a total contracted amount of RMB1.29 billion. For the traditional road and bridge market, it won the bids for the expansion of Beijing-Shanghai Expressway with a contracted amount of RMB930 million. Breakthroughs have been made in the offshore engineering market. It won the bids for the general contracting of the Yushan-Zhongjin submarine pipeline construction project with a contracted amount of RMB1.42 billion.

International business

In 2020, the Company's operation revenue in international business service was RMB11,331,043,000, a decrease of 12.0% than the same period of the previous year, for which the figure was RMB12,875,129,000. The revenue contributed by the international business accounted for 16.9% of the whole revenue, with a year-on-year decrease of 1.8 percentage points. In 2020, the Company continued to optimize overseas market layouts and resources allocation, formulated and completed the Implementation Plan on Coordination of Market Layouts and Optimization of Resources Allocation for International Business. It formulated market strategies based on the size and category of markets to ensure scale benefits of key markets, effective development of potential markets and withdrawal from inefficient markets in an orderly manner. The Company struggled to overcome various difficulties such as the international epidemic spreading and the cancellation or postponement of bids or price cut by project owners, resolutely stabilized the fundamentals in overseas markets and achieved remarkable results in the development of Saudi Arabia, Kuwait and other high-quality markets. In the Kuwaiti market, the Company renewed contracts for 17 drilling and repairing rigs projects and obtained qualifications on screwing services, unconventional fracturing, directional wells and other services. The geophysical services business maintained the large-scale Algerian market. For the ground projects construction business, it won the bids for roads upgrading and transformation in Kenya, the King's Cultural Center in Dammam, Saudi Arabia and other projects.

Technology research & development

In 2020, the Company deeply implemented the innovation-driven strategy and stepped up efforts in overcoming difficulties in scientific research. It achieved various new results and new progress and was granted 505 new domestic and overseas patents. Firstly, the technological R&D system was continuously improved. It officially established the Sinopec Oilfield Acid Gas Technology Center and the Tight Oil and Gas Technology Center and generally completed the establishment of the wellbore engineering R&D system with "2 R&D centers" and "12 technical centers" as the main body. Secondly, breakthroughs were made in overcoming technological difficulties. The Company achieved breakthroughs in key and core technologies for the rotary steering system, which was trialed in 14 wells on site and was successfully trialed in the horizontal drilling of shale gas wells for the first time; the near-bit geosteering system achieved accurate judgment and trajectory control in key formation; the 200℃ high-temperature and high-pressure logging system achieved breakthroughs and was successfully applied in Shunbei 53-2H well; and new progresses were made in coiled tubing sidetracking drilling technology, carbon isotope logging appraisal technology and other key technologies. Shunbei 55X achieved a drilling depth of 8,725 meters and Shunbei 53-2H achieved a drilling depth of 8,874 meters, setting a record in the depth of onshore directional wells in Asia and marking that the ultra-deep drilling technology of the Company reached a world-leading level.

Internal reform and management

In 2020, the Company continued to deepen its internal reforms, and various reform measures came into effect. Firstly, significant breakthroughs were made in coordinating market layouts and optimizing resources allocation. It promoted the flow of teams, equipment, materials, engineering technology and other resources to high-efficient markets and preliminary results have been achieved in logistic bases for industrial zones in Northwest China, North China and Southwest China and the integration of departments. Secondly, periodic results have been achieved in structural adjustment. The total number of teams reduced to 1,588, a decrease of 11.6% as compared with previous year. The number of auxiliary business units dropped to 68 through optimization and consolidation, decreasing by 40.4%. The number of administrative personnel decreased over 10% for three consecutive years. Thirdly, the internal professional reorganization achieved remarkable progress. It actively and steadily advanced the professional reorganization of testing, logging and locating businesses and the preparation of Sinopec Jingwei Co., Ltd. was advanced in an orderly manner. Fourthly, cost control achieved obvious results. The Company carried out optimization of all processes, reduction of all factors and tapped potential of all chains to reduce rigid costs, reducing a total cost of RMB500 million for the whole year.

Capital expenditures

In 2020, the Company actually had a capital expenditure of RMB3.07 billion. In 2020, to further enhance the exploration and development service capability, fully guarantee the increase in oil and gas reserves and production and actively respond to external market changes, the Company focused on the improvement of the quality, service speed, efficiency and production, increased investment in equipment updating and reduced investment in certain external markets and non-emergency production projects in domestic markets. The investment is mainly made for the transformation of 15 drilling rigs, 18 sets of top-drive guiding devices, 20 sets of fracturing trucks (crowbars), 66,000 seismic acquisition equipment, 20 sets of rig network electrical equipment, 98 high-pressure mud pumps, 1 set of rotary steering system, 4 sets of coiled tubing equipment, 3 sets of automatic welding equipment and investment projects such as safety hazard management and environmental protection.

2. Statement of main business during the reporting period

(1). Main business analysis

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

	2020	2019	The rate of change
	RMB'000	RMB'000	(%)
Operating revenue	**68,073,394**	69,870,147	-2.6
Operating cost	**62,605,007**	63,695,235	-1.7
Selling and distribution expenses	**72,604**	63,787	13.8
Research and development expenditures	**1,369,501**	1,194,198	14.7
General and administrative expenses	**2,781,058**	2,965,864	-6.2
Financial expenses	**1,196,670**	945,344	26.6
Net cash inflow from operating activities	**4,471,820**	1,377,053	224.7
Net cash outflow from investing activities	**-1,599,872**	-3,178,757	Not Applicable
Net cash (outflow)/inflow from financing activities	**-2,880,102**	1,249,626	Not Applicable

B. Income and cost analysis

a. Statement of operation by industry and products

Industry	Operating income for 2020	Operating cost for 2020	Gross profit margin	Increase or decrease in operating income as compared with last year	Increase or decrease in Operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Geophysical	4,599,371	4,246,892	7.7	9.0	6.1	Increased by 2.6 Percentage points
Drilling	34,199,657	31,785,498	7.1	-6.3	-4.1	Decreased by 2.1 Percentage points
Logging/Mud logging	2,728,760	2,206,279	19.1	9.0	11.2	Decreased by 1.7 Percentage points
Downhole Operation	8,596,355	8,146,749	5.2	12.3	12.9	Decreased by 0.5 Percentage point
Engineering and construction	15,683,065	14,427,278	8.0	-4.3	-6.0	Increased by 1.7 Percentage points
Other	1,250,272	1,261,927	-0.9	-18.7	-18.5	Decreased by 0.2 Percentage point
Total	67,057,480	62,074,623	7.4	-2.5	-1.8	Decreased by 0.7 Percentage point

b. Operating income by regions

Region	Operating income for 2020	Operating cost for 2020	Gross profit margin	Change in operating income as compared with last year	Change in operating cost as compared with last year	Gross profit margin compared with last year
	RMB'000	RMB'000	(%)	(%)	(%)	
Mainland China	55,726,437	51,987,986	6.7	-0.3	0.2	Decreased by 0.5 Percentage point
Hong Kong, Macau, Taiwan, and overseas	11,331,043	10,086,637	11.0	-12.0	-11.1	Decreased by 0.9 Percentage point

c. Cost analysis

Unit: RMB'000

Product	Item of costs structure	Amount in 2020 RMB'000	Percentage of amount in 2020 in total cost (%)	Amount in 2019 RMB'000	Percentage of amount in 2019 in total costs (%)	Year-on-year change (%)
Geophysical Service	Raw materials	365,193	8.6	337,647	8.4	8.2
	Fuel and power	174,543	4.1	175,156	4.4	-0.3
	Employees costs	1,324,721	31.2	1,314,275	32.8	0.8
	Depreciation and amortization	479,782	11.3	454,444	11.4	5.6
	Subcontracting costs and outsourcing services expenditures	280,865	6.6	267,972	6.7	4.8
	Others	1,621,788	38.2	1,453,840	36.3	11.6
	Sub-total	4,246,892	100.0	4,003,334	100.0	6.1
Drilling Service	Raw materials	7,147,247	22.5	7,873,905	23.8	-9.2
	Fuel and power	1,499,898	4.7	1,766,533	5.3	-15.1
	Employees costs	7,606,586	23.9	7,574,243	22.9	0.4
	Depreciation and amortization	3,226,534	10.2	3,011,007	9.1	7.2
	Subcontracting costs and outsourcing services expenditures	3,014,340	9.5	3,007,007	9.1	0.2
	Others	9,290,893	29.2	9,909,124	29.8	-6.2
	Sub-total	31,785,498	100.0	33,141,819	100.0	-4.1
Logging/Mud logging Service	Raw materials	561,162	25.4	474,358	23.9	18.3
	Fuel and power	29,200	1.3	26,466	1.3	10.3
	Employees costs	1,152,569	52.2	1,147,977	57.9	0.4
	Depreciation and amortization	234,801	10.6	215,414	10.9	9
	Subcontracting costs and outsourcing services expenditures	91,139	4.1	82,683	4.2	10.2
	Others	137,408	6.4	36,339	1.8	278.1
	Sub-total	2,206,279	100.0	1,983,237	100.0	11.2
Downhole operation Service	Raw materials	2,566,030	31.5	2,291,098	31.8	12.0
	Fuel and power	382,819	4.7	335,601	4.6	14.1
	Employees costs	1,311,067	16.1	1,305,844	18.1	0.4
	Depreciation and amortization	885,921	10.9	745,356	10.3	18.9
	Subcontracting costs and outsourcing services expenditures	1,617,788	19.9	1,371,007	19.0	18.0
	Others	1,383,124	16.9	1,168,734	16.2	18.3
	Sub-total	8,146,749	100.0	7,217,640	100.0	12.9
Engineering and Construction Service	Raw materials	3,235,927	22.4	3,573,070	23.3	-9.4
	Fuel and power	156,763	1.1	164,420	1.1	-4.7
	Employees costs	2,221,835	15.4	2,244,110	14.6	-1.0
	Depreciation and amortization	240,693	1.7	228,850	1.5	5.2
	Subcontracting costs and outsourcing services expenditures	1,810,294	12.5	1,761,500	11.5	2.8
	Others	6,761,766	46.9	7,370,912	48.0	-8.3
	Sub-total	14,427,278	100.0	15,342,862	100.0	-6.0

d. Information about major customer and major suppliers

During the reporting period, the aggregate operating revenue from the top five largest customers was RMB55,210,581,000, accounting for 81.1% of the Company's total operating revenue in 2020. Among the operating revenue form the top five largest customers, sales amount of related parties was RMB41,033,624,000, accounting for 60.3% of the Company's total operating revenue in 2020. The operating revenue of the top five customers in 2020:

Name of client	Amount (RMB'000)	Percentage to operating income (%)
CPC and its subsidiaries	41,033,624	60.3
China National Petroleum Corporation	5,916,077	8.7
SAUDI ARABIAN OIL COMPANY	3,639,081	5.3
KUWAIT OIL COMPANY	3,093,320	4.5
China Oil & Gas Pipeline Network Corporation	1,528,479	2.3
Total	55,210,581	81.1

During the reporting period, the aggregate purchase amount from the top five largest suppliers was RMB12,383,899,000 accounting for 26.4% of the Company's total purchase amounts. Among the purchase amount form the top five largest suppliers, purchase amount of related parties was RMB10,364,984,000 accounting for 22.1% of the Company's total purchase amount in 2020. Purchase amount from the largest supplier accounted for 22.1% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

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

C. Expense

Item	2020 RMB'000	2019 RMB'000	Year-on-year change (%)	Reason for change
General and administrative expenses	**2,781,058**	2,965,864	-6.2	Mainly due to the reduction in operating costs and repair costs of the management organization
Selling and distribution expenses	**72,604**	63,787	13.8	Mainly due to the increase in market expansion investment under the epidemic and low oil prices
Financial cost	**1,196,670**	945,344	26.6	Mainly due to the depreciation of the U.S. dollar and related currencies
Credit impairment loss	**38,350**	98,582	-61.1	The decrease of credit impairment loss was due to the drop in the balance of accounts receivable
Asset impairment loss	**70,743**	12,657	458.9	Mainly due to the increase in the provision for decline in value of inventories and the provision for contract assets impairment
Income tax expenses	**269,076**	441,524	-39.1	Mainly due to the decrease in corporate profits resulting in a corresponding decrease in income tax expenses

D. Statement of research and development expenditure

Unit: RMB'000

Expenditure research and development expenditure for 2020	1,369,501
Capitalized research and development expenditure for 2020	–
Total research and development expenditure for 2020	1,369,501
Percentage of total research and development expenditure in operating income (%)	2.0
Number of research and development Personnel	3,356
Percentage of R&D personnel number in the total personnel number of the Company (%)	4.7
The proportion of R&D investment of capital (%)	–

In 2020, the Company's research and development expenditure was RMB1,369,501,000, representing an increase of 14.7% as compared with RMB1,194,198,000 in last year. It is mainly due to the increase in technology investment in key technologies such as rotary steering systems, near-bit geosteering systems, 200℃ high temperature and high pressure logging systems, coiled tubing sidetracking, controllable expansion and plugging technology and carbon isotope logging evaluation technology.

E. Changes in cash flow statement items

Unit: RMB'000

Item	2020	2019	Increased/ decreased by	Change (%)	Reason for change
Net cash inflow from operating activities ("-" for outflow)	**4,471,820**	1,377,053	Inflow increased by 3,094,767	Inflow increased by 224.7%	Mainly due to increase the clearance of account receivables and inventories and the settlement of note payable
Net cash inflow from investing activities ("-" for outflow)	**-1,599,872**	-3,178,757	Outflow decreased by 1,578,885	Not Applicable	Mainly due to investments affected by the epidemic were mainly concentrated in the second half of the year, and capital expenditures decreased.
Net cash inflow from financing activities ("-" for outflow)	**-2,880,102**	1,249,626	Outflow increased by 4,129,728	Not Applicable	Mainly due to repayment of borrowings and payment of financing lease payments

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

☐ Applicable √ Not Applicable

(3). Statement of assets and liabilities analysis

A. Assets and liabilities

Item	Amount at 31 December 2020 RMB'000	Percentage of amount at 31 December 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 this year (%)
Cash at bank and on hand	**1,551,458**	**2.5**	1,668,837	2.7	-7.0
Accounts receivable	**9,358,385**	**15.3**	11,996,355	19.3	-22.0
Accounts receivable financing	**1,323,425**	**2.2**	1,446,389	2.3	-8.5
Inventories	**1,033,678**	**1.7**	1,185,504	1.9	-12.8
Contract assets	**11,610,888**	**19.0**	9,570,249	15.4	21.3
Other current assets	**1,995,808**	**3.3**	1,742,338	2.8	14.5
Long-term equity investments	**43,046**	**0.1**	39,718	0.1	8.4
Investment in other equity instruments	**22,835**	**0.04**	32,847	0.1	-30.5
Fixed assets	**22,939,838**	**37.6**	23,516,427	37.9	-2.5
Construction in progress	**284,292**	**0.5**	213,819	0.3	33.0
Right-of-use assets	**1,265,583**	**2.1**	1,547,822	2.5	-18.2
Intangible assets	**504,966**	**0.8**	392,947	0.6	28.5
Long-term deferred and prepaid expenses	**5,855,143**	**9.6**	5,379,478	8.7	8.8
Short-term borrowings	**19,370,520**	**31.7**	20,403,075	32.9	-5.1
Notes Payable	**6,305,228**	**10.3**	4,733,932	7.6	33.2
Accounts Payable	**20,497,509**	**33.6**	20,068,294	32.3	2.1
Contract liabilities	**3,024,461**	**5.0**	3,575,654	5.8	-15.4
Other payables	**1,675,104**	**2.7**	1,770,597	2.9	-5.4
Non-current liabilities due within one year	**356,747**	**0.6**	535,475	0.9	-33.4
Long-term borrowings	**580,716**	**1.0**	474,382	0.8	22.4
Lease liabilities	**898,469**	**1.5**	1,134,746	1.8	-20.8
Long-term payables	**26,812**	**0.04**	784,377	1.3	-96.6
Deferred income	**14,186**	**0.02**	92,211	0.1	-84.6
Other comprehensive income	**-2,014**	**–**	6,447	0.01	-131.2
Special reserves	**258,523**	**0.4**	373,238	0.6	-30.7

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

√ Applicable ☐ Not Applicable

On 31 December 2020, the Company's funds with restricted use such as margin deposit, etc. was RMB28,106,000 (On 31 December 2019: RMB18,105,000) and net book value of sale-leaseback fixed assets was RMB20,715,000 (On 31 December 2019: RMB880,352,000).

C. Note:

1. Other equity instruments decreased by RMB10,012,000 compared with that of the previous year, mainly due to changes in the fair value of investment in other equity instruments.
2. Construction in progress increased by RMB70,473,000 compared with that of the previous year, mainly due to slowdown of projects affected by the epidemic.
3. Note payables increased by RMB1,571,296,000 compared with that of the previous year, mainly due to the increase in the settlement volume of supplier notes.
4. Non-current liabilities due within one year decreased by RMB178,728,000 compared with that of the previous year, mainly due to repayment of the sale and leaseback of Taiping & Sinopec Financial Leasing.
5. Long-term payables decreased by RMB757,565,000 compared with that of the previous year, mainly due to the repayment of sale and leaseback payments.
6. Deferred income decreased by RMB78,025,000 compared with that of the previous year, mainly due to the confirmation of other income based on the progress of the project's research and development.
7. Other comprehensive income decreased by RMB8,461,000 compared with that of the previous year, mainly due to changes in the after-tax fair value of other equity instrument investments.
8. Special reserves decreased by RMB114,715,000 compared with that of the previous year, mainly due to increased investment in equipment safety production and hidden danger management.

(4). Analysis of the industry operation information

1. Market of crude oil and natural gas

In 2020, domestic oil and gas companies continuously increased exploration and development efforts and consistently enhance production workloads to enhance oil and gas supply. According to the data provided by National Bureau of Statistics, the crude oil output was 195 million tons during the year, an increase of 1.6% as compared with previous year, which is 0.8 percentage point higher than previous year and the second consecutive year with recovery. Natural gas production was 188.85 billion cubic meters, an increase of 9.8%, which is the same as previous year and the fourth consecutive year exceeding 10 billion cubic meters.

In 2020, despite the decline in demands for domestic refined oil due to the impact of the epidemic, crude oil processing enterprises fully seized the opportunity of "low oil prices" and maintained processing workloads. According to the data provided by National Bureau of Statistics, in 2020, the processing volume of crude oil was 674 million tons, a year-on-year increase of 3.0%, and the output of refined oil was 330 million tons, a year-on-year decrease of 8.1%. Apparent refined oil consumption was 289.75 million tons, a year-on-year decrease of 12.1%, of which gasoline decreased 7.6% year on year and diesel oil decreased 3.7% year on year. Due to factors such as the continued promotion of environmental protection policies, domestic natural gas consumption continued to grow rapidly. According to the data provided by National Bureau of Statistics, in 2020, the apparent natural gas consumption was 325.9 billion cubic meters, a year-on-year increase of 6.3%.

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

In 2020, due to the impact of the COVID-19 epidemic, global crude oil demands were sluggish and international crude oil prices plunged significantly as compared with previous year. Global oil and gas companies reduced investment in upstream exploration and development. To guarantee domestic energy security, China's three major oil companies have maintained steady investment in upstream exploration and development. According to the "2021 Strategic Prospects" announced by CNOOC, CNOOC expected the capital expenditures for exploration and development in 2020 would be RMB79.5 billion, an increase of 1.2% over the actual completion in 2019. The upstream exploration and development capital expenditures of both Sinopec and CNPC have remained relatively stable, thus providing opportunities for the steady development of the domestic oilfield service industry. The Company signed new contracts with a value of RMB54.2 billion in the domestic market throughout 2020, an increase of 2.5% as compared with previous year.

3. Business information in oilfield service industry

In 2020, the global oilfield service industry was significantly affected by the COVID-19 epidemic and low oil prices and it was generally sluggish in 2020. Three major international oilfield companies recorded huge losses in 2020. However, the workloads of domestic oilfield service companies remained to be relatively stable as domestic oil and gas companies maintained stable investments in upstream exploration and development, the operating results outperforming international oilfield service companies generally.

(5). Analysis of investments

A. Significant equity investment

After consideration and approval at the 22nd meeting of the ninth session of the Board held on 29 October 2020, Sinopec Oilfield Service Company Limited, a wholly-owned subsidiary of the Company, proposed to establish an indirect wholly-owned subsidiary, Sinopec Jingwei Co., Ltd. ("Jingwei Company"), and on such basis, the professional restructuring for logging, mud logging and directional well services are implemented within the Company. Jingwei Company has a registered capital of RMB1 billion, and the Company proposes to make capital contributions with its own funds. For details, please refer to the Announcement on the Establishment of an Indirectly Wholly Owned Subsidiary" (P. 2020-024) published in the China Securities Journal, Shanghai Securities News, Securities Times, and on www.sse.com.cn on 30 October 2020, and on www.hkexnews.hk on 29 October 2020.

On 19 December 2020, Jingwei Company was registered, established, and obtained a business license, but the professional restructuring for logging, mud logging and directional well services of the Company is still in progress.

B. Significant non-equity investment

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

C. Information of financial assets measured at fair value

☐ Applicable √ Not Applicable

(6). Sales of major assets and equity

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

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

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
		%	RMB'000	RMB'000	RMB'000	RMB'000	
SOSC	RMB4,000,000,000	100	61,105,635	58,727,760	2,377,875	98,853	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited*	RMB700,000,000	100	12,139,879	12,163,450	-23,571	11,378	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited*	RMB450,000,000	100	11,802,395	11,522,408	279,987	130,063	Petroleum engineering technical service
Sinopec Jianghan Oil Engineering Company Limited*	RMB250,000,000	100	4,101,553	2,838,138	1,263,416	61,294	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited*	RMB860,000,000	100	4,255,377	3,888,415	366,962	-158,770	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited*	RMB890,000,000	100	4,407,401	2,309,052	2,098,349	41,063	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited*	RMB300,000,000	100	5,942,261	2,379,695	3,562,567	41,102	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited*	RMB300,000,000	100	3,410,831	3,137,969	272,863	13,777	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation*	RMB500,000,000	100	20,312,984	20,109,943	203,041	48,023	Construction
Sinopec Shanghai Offshore Oil Engineering Company Limited*	RMB2,000,000,000	100	4,857,430	1,175,117	3,682,313	2,472	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation*	RMB700,000,000	100	3,206,071	2,164,928	1,041,142	3,745	Petroleum engineering technical service

Name of company	Revenue RMB'000	Operating profit RMB'000
SOSC	68,073,394	303,210
Sinopec Shengli Oil Engineering Company Limited*	14,505,936	67,041
Sinopec Zhongyuan Oil Engineering Company Limited*	12,213,924	195,243
Sinopec Jianghan Oil Engineering Company Limited*	5,796,799	62,761
Sinopec East China Oil Engineering Company Limited*	3,524,207	-139,063
Sinopec North China Oil Engineering Company Limited*	4,602,233	24,716
Sinopec Southwest Oil Engineering Company Limited*	5,705,636	51,383
Sinopec Oil Engineering Geophysical Company Limited*	4,413,123	-724
Sinopec Oil Engineering and Construction Corporation*	15,906,170	133,946
Sinopec Shanghai Offshore Oil Engineering Company Limited*	1,466,132	5,625
Sinopec International Petroleum Service Corporation*	731,415	-2,427

* Note: The Company holds shares though SOSC.

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

(1) Competitive Structure and Development Trend

Looking forward to 2021, with the popularization of vaccines, the global prevention and control of the COVID-19 epidemic will gradually improve, and the world economy will recover. However, there are still uncertainties in the development of the epidemic and the process of economic recovery. The international oil prices are likely to rise steadily with the global economic recovery. China's economy picked up firstly in the world and it is expected to record a GDP growth of over 6% throughout the year, which will drive the continuous increase in domestic oil and gas demands. The gradual recovery of oil prices will facilitate the recovery of capital investments by oil and gas companies. Domestic oil companies will continue to boost exploration and development to ensure energy security and the demands in the domestic oil service market will maintain steady increase. With the acceleration in the low-carbon development trend in the global energy industry, the development of the traditional oil and gas industries will face increasing challenges, which will raise urgent requirements on oil service companies to provide services with higher quality, efficiency and more cost competitiveness. The competition in the oil service market will remain fierce.

(2) Operation Plans in 2021

Facing the complicated and severe situation in 2021, the Company will continue to leverage the advantages of complicated services and special technologies and closely follow the development trends of the industry. It will strive to achieve high-quality development through various measures such as continuously improving the management, advancing technological innovation, enhancing cost control to fully guarantee exploration and development and vigorously expand market and improve efficiency. The Company plans to sign new contract to reach a yearly value of over RMB70.0 billion, in which RMB44.8 billion will be from China Petrochemical Corporation's internal market, RMB12.5 billion from domestic external market, and RMB12.7 billion from overseas market. It will continue to deepen internal reforms, strengthen management innovation, deepen resources optimization and integration, overall structure optimization and adjustment, advance reform and innovation, speed up in transformation and upgrading and fully advance the progress towards a technology-guided oil service company. The Company puts emphasis on the following aspects:

1. Geophysical service

In 2021, the Company will vigorously promote the application of high-density and high-precision seismic exploration technologies and node blind collection in oil and gas exploration, and continuously improve construction efficiency and data quality. It will continue to advance the high-quality development of geophysical services, improve the advanced equipment and information technology and facilitate major breakthroughs in exploration; efficiently serve the exploration and deployment of China Petrochemical Corporation, and do a good job in oilfield exploration in the Tarim Basin, eastern fault depressions and Junggar Basin, and natural gas exploration in Sichuan Basin and Ordos Basin; improve the integration of acquisition, processing, and interpretation service capabilities, consolidate the strategic cooperation with the systems of China Geological Survey, Yanchang Group and other key customers, maintain the position as the largest international geophysical contractor in Algeria and step efforts in the expansion of Saudi Arabia, Africa and other key overseas markets. It plans to complete annual acquisition of 2D seismic data of 1,670 kilometers and 3D of 21,000 sq. kilometers.

2. Drilling service

In 2021, the Company will vigorously satisfy the demands for efficient exploration and profitable development of China Petrochemical Corporation, based on the positioning of engineering technology support center, strengthen the services and guarantees of oil and gas exploration and development, and consolidate the internal market share; select high quality team to serve and ensure the construction of production capacity in key industrial areas such as the Shunbei ultra-deep oil and gas field, Southwest natural gas, Ordos tight oil and gas, Weirong deep shale gas and Fuling shale gas, helping China Petrochemical Corporation to stabilize oil, increase gas output and reduce costs, serve the development of low-cost benefits. In the domestic and foreign markets, it will continue to optimize the layout of external resources, consolidate and expand the market share in high-quality markets such as CNPC and CNOOC and strive to achieve greater breakthroughs in CNPC's Southwest shale gas, Northwest conventional oil and gas and other high-quality markets; actively expand local coalbed methane and other unconventional and non-oil businesses to achieve increase amid stability. The Company plans to complete drilling footage accumulated for 9,500 kilometers in 2021.

3. Logging/Mud logging service

In 2021, the Company will continue to focus on exploration and development. It will enhance and expand share in China Petrochemical Corporation's internal market while actively increasing income from external market. For China Petrochemical Corporation's internal market, the Company will ensure the implementation of key district projects in "Northwest China, North China, Northeast China and Sichuan" and eastern Shengli. For external market, the layout will be further optimized, and emphasis will be on market expansion in CNPC southwest shale gas, CNOOC East Sea and South Sea, China Geological Survey and Yanchang Group. It will continue to optimize the allocation of internal resources such as crews, equipment and staff and complete the professional restructuring of the testing, logging and locating businesses. It will perfect and strengthen its business in logging/mud logging service. The Company plans to complete logging footage accumulated for 279,000 kilometers in 2021, while the mud logging footage accumulated for 9,500 kilometers.

4. Downhole operation service

In 2021, the Company will constantly refine the construction technology system of special downhole operation, put effort into raising its support capability in exploration service, promote oil and gas development and improve quality, speed, efficiency and production, with a focus to ensure the exploration and development and the increase in reserves and production of the Fuling shale gas field in the Sichuan Basin and the Weirong shale gas field, Ordos tight oil and gas, Shunbei super deep oil and gas reserves, and offshore oil and gas fields. The Company will continue to expand the CNPC and local shale gas market in China and provide supports and guarantees to the increase in gas output and production; accelerate the expansion of the industrial chain and increase the intensity of cooperation and development of eastern old oil fields, tight gas fields in North China and other difficult-to-use reserves; improve and strengthen high-end business such as high-pressure operations and smart tubing business, and continue to develop new businesses such as anhydrous fracturing and smart completion. In 2021, the Company plans to complete downhole operation service of 6,457 well times.

5. Engineering and construction service

In 2021, the Company will boost efforts in overall deployment and coordination, promote the integrated operation of engineering projects, innovate development concepts, concentrate advantageous resources in the expansion of high-efficient and high-quality markets and effectively manage and control low-efficient markets. While consolidating and strengthening the oil and gas field service guarantees to China Petrochemical Corporation, it boosted the exploration of external markets such as PipeChina, CNPC and CNOOC. It will focus on tracking the Phase-II EPC project of Wen 23 gas storage facility (ground engineering) and the outbound pipelines project of the northwest oilfield; display the advantages in long-distance pipelines EPC and expand the domestic long-distance pipelines engineering market. In January 2021, the Company won the bid for the Project for Construction of South Main Gas Pipeline of Shandong Pipeline with an amount of RMB3.47 billion. Meanwhile, it will carry out the development and construction of the East Main Gas Pipeline of Shandong Pipeline, new gas pipeline Guangxi Branch, outbound pipelines of the Inner Mongolia Western Coal-based Natural Gas Transmission Pipeline, Northeast Anhui Natural Gas Pipeline and other projects. It will display its advantages in roads and bridges and conduct the development of domestic road and bridge projects. In 2021, the Company plans to sign new contracts valued RMB19.1 billion and complete contracts valued RMB15.5 billion.

6. International business

In 2021, the Company will continue to implement the internationalization business strategy. It will closely follow the steps of the "Belt and Road" initiatives, strengthen unified and standardized management, unswervingly support excellent and strong players, deeply integrate market resources and promote new breakthroughs in the full-chain market expansion. It will concentrate advantageous resources in the development of key markets such as Saudi Arabia, Kuwait and Ecuador, effectively develop potential markets such as Algeria and Nigeria and withdraw from high-risk and inefficient markets in an orderly manner to continuously improve the overall benefits. In February 2021, the Company entered into a five-year contract with one-year extension option on 10 workover rigs services with Kuwait Oil Company (KOC), which has a contract value of US$360 million. It will vigorously expand high-end technical service markets, continuously improve the businesses and strive to seize high-end markets and constantly advance the transformation of single drilling construction to general drilling contracting, comprehensive services and other models. It will pay close attention to unconventional, shale gas and other high value-added technical service projects and drive "going out" of business including logging, cementing, mud, directional, fracturing and other businesses. It will focus on the expansion of seismic data processing and interpretation, gravity, magnetic and electric exploration, drone mapping and other geophysical services and develop and enhance the execution capability on ground EPC contracting projects. In 2021, the Company plans to sign new contracts valued US$1.9 billion.

7. Technology development

In 2021, the Company will continue to step up efforts in overcoming technology difficulties, integrate scientific research resources and concentrate on making breakthroughs in key and core technologies. It will consistently strengthen engineering and technical service capabilities and speed up in advancing towards a technology guided oilfield service company. It will intensify research on technology difficulties such as drilling rotary steering system and high-temperature logging as well as breakthroughs in ultra-deep oil and gas exploration and development technology, ultra long-section horizontal wells, branch well drilling and other key and core technologies and accelerate the industrial development of equipment, instruments and chemical additives. The Company will continue to improve the petroleum engineering technologies with the shale gas innovation and integration technology and other comprehensive ancillary technologies as the main line, measurement while drilling and other professional technologies as the core and managed pressure drilling and other professional technologies and featured products as supplements to develop brand technology and knockout products.

8. Internal reform and management

In 2021, the Company will continue to boost reform in key industries and links, deeply optimize the business structure and market layout, vigorously advance the professional development of testing, logging and locating businesses and accelerate the transition to the mid-to-high end; deepen the management system reform, promote the management of "small institutions and large departments", further rationalize management functions, optimize business processes, develop a high-effective operation mechanism and reduce management personnel and fees; deepen the reform of the project-based management system and establish a "One Body, Two Wings" project-based management system with project management as the main body and the human resources coordination and allocation center and the materials and equipment deployment center as supports; coordinate and optimize the allocation of market, capitals, human resources, materials, equipment and other key resources and improve the utilization efficiency and benefits of resources; and put more efforts on the performance evaluation, implement the performance evaluation of the entire staff, and promote income increase or decrease. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2021, the reduced cost and fees are expected to be RMB500 million.

9. Capital expenditures

In 2021, the Company plans to arrange capital expenditure of RMB3.5 billion on fixed assets. The Company will focus on guaranteeing exploration and development, market expansion and efficiency improvement, closely follow the trends of automatic, electrified and intelligent development, give full play to the leading role of investment, intensify technical innovation and optimize team structures to facilitate the comprehensive, sustainable and high-quality development of the Company. Firstly, for high-quality exploration and increase in reserves, it will vigorously improve the capability to discover and identify oil and gas fields and increase input in seismic node equipment and equipment for key exploration wells construction. Secondly, for high-efficient oil and gas development, it will accelerate in project construction, reduce construction cost, and arrange the upgrading and transformation of drilling rigs for deep wells in key industrial zones and the procurement of coiled tubing operation equipment, high-pressure mud pumps and electric fracturing pumps for shale gas oilfields. Thirdly, for strengthening innovation-driven development and to overcome key technology difficulties, it will make input on the procurement of rotary steering system, wireless measurement equipment while drilling and laboratory infrastructure. Fourthly, based on the main line of improving safety, it will facilitate green development and arrange input in drilling equipment with grid electricity, equipment for collecting mud and projects with potential hazards. Fifthly, based on the main line of market expansion and efficiency improvement, it will arrange input in the fully automatic welding equipment for serving PipeChina and gas well rigs required in overseas quality markets such as Saudi Arabia and Kuwait. Sixthly, it will continue the construction of an integrated production and operation coordination platform (SICP) based on the main line of building a digital oilfield service company.

(3) Potential risks

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

A. Market uncertainty risk

Affected by the epidemic and violent fluctuations in oil prices, coupled with the influence of political, economic and other factors, there is still great uncertainty in the trend of international oil prices, and there may be protections for the local oilfield service industry market in some countries or regions, and market competition remains Intense, the oilfield service industry is still facing greater operating pressure, and the Company needs to face market competition risks.

B. Risk in fluctuation of international crude oil prices

International crude oil prices are affected by many factors such as global and regional political and economic changes, supply and demand conditions, and emergencies and disputes with international influence. With the popularization of vaccines and the recovery of the global economy, international crude oil demand has gradually recovered. Estimated crude oil prices in 2021 are expected to be higher than in 2020, but there is a risk of wide fluctuations of oil price. The rise and fall of international oil prices will directly related to the revenue of oil companies, which in turn affects the capital expenditure of upstream exploration and development of oil companies. The capital expenditure of upstream exploration and development directly affects the number of orders of the oilfield service companies, which in turn affects the profitability of the oilfield service companies.

C. Environmental damage, hidden hazards and force majeure risk

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

D. Overseas operation risk

The Company has business in many foreign countries who will have political, legal, supervision and management influences on the business. Due to the complexity of international political, economic and other conditions, including sanctions, barriers to entry, instability of fiscal and tax policies, contract breaches, etc., the company may increase the risks of the company's overseas business development and operations. Meanwhile, the current overseas epidemic is still spreading, which may increase the Company's related epidemic prevention expenditures and difficulties for the company's related projects.

E. Exchange rate risk

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

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

The Group's main sources of funds are operating activities, short-term and long-term borrowings, and the main uses of funds are operating expenses, capital expenditures and repayment of short- and long-term borrowings.

(1). Assets, liabilities and equity analysis

	As at 31 December 2020	As at 31 December 2019	The rate of change
	RMB'000	RMB'000	%
Total assets	**61,091,195**	62,069,378	(1.6)
Current assets	**29,802,287**	30,547,900	(2.4)
Non-current assets	**31,288,908**	31,521,478	(0.7)
Total liabilities	**54,368,329**	55,305,506	(1.7)
Current liabilities	**52,473,241**	52,438,357	0.1
Non-current liabilities	**1,895,088**	2,867,149	(33.9)
Total equity attributable to owners of the Company	**6,722,866**	6,763,872	(0.6)

Total assets were RMB61,091,195,000, representing a decrease of RMB978,183,000 from that at the end of 2019, of which: Current assets were RMB29,802,287,000, representing a decrease of RMB745,613,000 from that at the end of 2019. The decrease was mainly due to a decrease in notes and trade receivables of RMB2,638,470,000, an increase in contract assets of RMB1,911,313,000, an increase in prepayment and other receivables of RMB244,387,000 and a decrease in cash and cash equivalents of RMB127,380,000. Non-current assets were RMB31,288,908,000, representing a decrease of RMB232,570,000 from that at the end of 2019, which was mainly due to the combined impact of the decrease in the property, plant and equipment of RMB799,963,000 and the increase of RMB480,133,000 in other non-current assets due to the purchase of special tools for petroleum engineering.

Total liabilities were RMB54,368,329,000, representing a decrease of RMB937,177,000 from that at the end of 2019, of which: Current liabilities were RMB52,473,241,000, an increase of RMB34,884,000 as compared with the end of 2019, which was mainly due to comprehensive impact of an increase in notes and trade payables of RMB2,000,511,000, a decrease in contract liabilities of RMB551,193,000, a decrease in other payables of RMB145,589,000, a decrease in short-term borrowings of RMB1,211,283,000. Non-current liabilities were RMB1,895,088,000, a decrease of RMB972,061,000 compared with the end of 2019, which was mainly due to the decrease of long-term borrowings of RMB823,043,000.

Total equity attributable to owners of the Company was RMB6,722,866,000, a decrease of RMB41,006,000 as compared with the end of 2019, mainly due to the loss attributable to equity holders of the Company in 2020 achieved RMB35,737,000.

As at 31 December 2020, the ratio of total liabilities to total assets was 89.0%, and 89.1% as at 31 December 2019.

(2). Cash flow analysis

The main items of cash flow of the Group in 2020 and 2019 showed in the following table.

Main items of cash flow	2020	2019
	RMB'000	RMB'000
Net cash inflow from operating activities	**4,471,820**	1,377,053
Net cash outflow from investing activities	**(1,599,872)**	(3,178,757)
Net cash (outflow)/inflow from financing activities	**(2,880,102)**	1,249,626
Decrease in cash and cash equivalents	**(8,154)**	(552,078)
Effect of exchange rate changes	**(119,226)**	29,230
Cash and cash equivalents at the beginning of the year	**1,650,732**	2,173,580
Cash and cash equivalents at the end of the year	**1,523,352**	1,650,732

During the year ended 31 December 2020, the Group's net cash inflow from operating activities was RMB4,471,820,000, representing an increase of cash inflow by RMB3,094,767,000 as compared with last year. This was mainly due the increase in collection of the account receivables and inventories and settlement of bills payable.

During the year ended 31 December 2020, the Group's net cash outflow from investing activities was RMB1,599,872,000, a decrease of cash outflow by RMB1,578,885,000 as compared with last year. It was mainly due to the impact of the epidemic; investments were mainly concentrated in the second half of the year and the capital expenditure slowed down.

During the year ended 31 December 2020, the Group's net cash inflow from financing activities was RMB2,880,102,000, presenting a decrease of cash inflow by RMB4,129,728,000 compared with last year. This was mainly due to repayment of borrowings and payment of finance lease payments.

(3). Bank and affiliated company borrowings

As at 31 December 2020, the Company's bank and affiliated borrowings were RMB19,951,236,000 (31 December 2019: RMB20,877,457,000). These borrowings included the short-term borrowings in RMB19,370,520,000, and the long-term borrowings due more than one year of RMB580,716,000; the fixed-rate loans were RMB17,400,000,000 and the floating rate loans were RMB2,551,236,000. As at 31 December 2020, approximately 87.2% of the borrowings denominated in Renminbi and approximately 12.8% were denominated in US dollar borrowings.

(4). Gearing ratio

As at 31 December 2020, the gearing ratio of the Group was 74.5% (2019: 76.1%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

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

(1). Assets pledge

As at the year ended 31 December 2020, there was no pledge on the Group's assets.

(2). Foreign Exchange Risk Management

It is set forth in note 42 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(3). Financial Summary

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

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

(4). Reserves

Changes in reserves of the Company during the reporting period are set forth in note 28(ii) of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(5). Fixed assets

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

(6). Bank loans and other borrowings

Details of bank loans and other borrowings of the Company as at 31 December 2020 are set out in note 34 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

(7). Retirement plan

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

(8). Income tax

As of the twelve months ended 31 December 2020, the Company's incoming tax was RMB269,076,000 (2019: RMB441,524,000). The main reason for the change of the tax amount is as following: 1) the existence of losses of the Company and its certain subsidiaries, 2) the expansion of the Group's overseas business, and the different calculation method of tax rate in different countries of the Company's overseas subsidiaries, and 3) the fluctuations of the revenue contributions of the Company's certain subsidiaries which enjoy preferential income tax rate. In addition, the Group has paid tax in the countries and regions where it has businesses.

(9). Capitalized Interest

For the year ended 31 December 2020, there was no capitalized interest of the Company.

(10).Donations

During this reporting period, the amount of charity donations made by the Group amounted to RMB5,623,000.

(11).Environmental policy and performance of the Company

(1) The Company's environmental policy: guided by the construction of ecological civilization and green low-carbon strategy, the Company continues to carry out clean production, energy saving and emission reduction, carbon asset inventory and verification, and the "Energy Efficiency Doubling" plan, and in-depth implementation of the clear water blue sky environmental protection special action, The effectiveness of energy and environmental work continued to improve.

(2) In 2020, the Company was not on the list of heavily polluting enterprises released by relevant Chinese environmental protection department, and there were no major environmental protection or other major social safety issues about the Company.

(3) The Company has established a comprehensive environmental impact assessment system to further strengthen environmental management and control. In 2020, the Company did not have any environmental pollution accidents, nor was it complained, fined or sanctioned due to environmental pollution or violations of environmental regulations.

(12).Compliance with laws and regulations

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

(2) In 2020, the Company strictly abided by the relevant laws and regulations that have significant influence on the Company, and has not received any complaint, fined or sanctioned due to violating major laws and regulations.

(13).Key employees, customers and suppliers of the Company

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

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

(14).Management contract

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

(15).Pre-emptive rights

Neither the Articles of Association of the Company nor Chinese law stipulates the clause about pre-emptive rights.

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

For the twelve months ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

(17).Directors' interests in competing business

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

(18).Directors' interests in contracts

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

(19).Directors service contracts

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

(20).Permitted indemnity provisions

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

(21).Equity-linked agreement

For the year ended 31 December 2020, except for the Share Option Scheme disclosed under "Company's share option incentive plan and its respective effect" under "Significant Events" in this annual report, the Company has not entered into any equity-linked agreement.

On behalf of the Board

Chen Xikun

Chairman

Beijing, China

24 March 2021

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

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

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

Due to the negative of the Company's undistributed profits at the end of 2020, there were no cash dividends. But the Company would strictly implement its Articles of Association, as soon as the achievement of capability for cash dividends, the Company will perform decision-making process in accordance with relevant provisions and play the role of independent directors in order to safeguard the legitimate rights and interests of the minority shareholders.

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

Years of distribution	Amount of dividend for every 10 shares	Amount of cash dividends	Numbers of shares converted for every 10 shares	Net profit attributable to equity shareholders of the listed company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed companies in the consolidated financial statement
	(RMB) (Tax included)	(RMB) (Tax included)	(share)	(RMB'000)	(%)
2020	–	–	–	78,978	–
2019	–	–	–	914,244	–
2018	–	–	–	142,056	–

(3). Repurchasing shares in cash and included in cash dividends

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

2. Performance of undertaking

(1). The special undertakings made by the Company, the actual controller, shareholders, related parties, acquirer and other associated parties and the performance of such undertakings for the year ended 31 December 2020:

Undertakings Background	Type	Party	Undertakings	Date and duration	Whether there is a performance period	Performance of Undertakings
Undertakings regarding the Material Assets Reorganization	Solve the horizontal competition	China Petrochemical Corporation	The Non-Competition Undertaking 1. China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights. 2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. 3. After the Material Assets Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Date of undertaking: 12 September 2014 Duration: Long Term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Undertakings regarding the Material Assets Reorganization	Solve the connected transaction	China Petrochemical Corporation	The undertakings 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 fulfil the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September 2014 Duration: Long Term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Commitments regarding the Material Assets Reorganization	Other	China Petrochemical Corporation	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independence of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company.	Date of Commitment: 12 September 2014 Duration: Long Term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

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

☐ Achieved ☐ Not Achieved √ Not Applicable

3. Capital occupancy and progress on settlement of arrears

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

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

☐ Applicable √ Not Applicable

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

(1). Analysis and explanation of the reasons and effects of changes in accounting policies and accounting estimates

√ Applicable ☐ Not Applicable

The Ministry of Finance have issued Interpretation No.13 to Accounting Standards for Business Enterprises (Cai Kuai [2019] No.21) in December 2019 (the "Interpretation 13").

The Interpretation No.13 revised three elements that constitute business and specified judgement conditions to business. It also introduced "degree of concentration test" when making judgement on whether the operating activities or asset group, acquired by the purchaser in a business combination involving entities not under common control, constitutes a business.

The Interpretation No.13 clarified that the related party of an enterprise shall include joint venture and associates of other common members (including parent company and subsidiaries) that belong to the same enterprise group, and joint venture and associates of the investor that exerts common control over the enterprise.

The Interpretation No.13 was taken effective since 1 January 2020. The Group adopts prospective application to accounting for above accounting policy changes.

The adoption of Interpretation No.13 had no significant impact to the Group's financial position, operation performance and related party disclosure.

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

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

☐ Applicable √ Not Applicable

6. The appointment and dismissal of the accounting firm

	Currently hired
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	7
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The remuneration of the domestic and overseas accounting firm	RMB9,800,000
The audit period for the overseas accounting firm	7
The name of the internal control accounting firm	Grant Thornton (Special General Partnership)
The remuneration of the internal control accounting firm	RMB2,000,000

Note: Grant Thornton Tax Services Limited provided the Company tax services on Hong Kong profit tax declaration in 2020, and the compensation was HKD10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and overseas auditor for the year 2020. The proposal was approved by the shareholders at the annual general meeting for 2019 convened on 16 June 2020.

According to the relevant regulations of the Ministry of Finance and the State-owned Assets Supervision and Administration Commission of the People's Republic of China, there are certain restrictions in respect of the number of years for an accounting firm to continuously undertake the auditing services of the same state-owned enterprise and its subsidiaries. In view of such requirements, Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited will respectively retire as domestic and overseas auditor of the Company with effect from the conclusion of the forthcoming annual general meeting for the year 2020 of the Company.

On 24 March 2021, the Company's board of directors recommended the appointment of BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited as the domestic auditor and the overseas auditor of the Company for the year 2021. The proposal is subject to shareholders' approval at the annual general meeting for the year 2020.

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

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

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

9. Insolvency and restructuring

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

10. Material litigation and arbitration

☐ Applicable √ Not Applicable

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

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

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

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

On 15 July 2019 (Brazil time), the Brazil Subsidiary received a ruling from the Court of Rio on the approval of the judicial reorganization plan of the Brazil Subsidiary. For details, please refer to the "Announcement on Approval of Judicial Reorganization Plan of an Indirectly Wholly-owned Overseas Subsidiary by Overseas Court" (P.2019-032) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 19 July 2019, and on www.hkexnews.hk on 18 July 2019. After the judicial reorganization judge officially approved and published the reorganization scheme, the reorganization procedure entered into the execution stage with an execution period of two years. The Company actively and prudently pushes forward the judicial reorganization work in accordance with the general principles of "strengthening organization, detailing measures, being active and prudent, and putting risks under control", actively communicates and cooperates with all parties concerned, and pays creditors in accordance with regulations and the restructuring plan. Large-scale payment has been basically completed. At present, the judicial reorganization procedure is still being carried out in an orderly and steady manner.

On 8 October 2014, the Ecuador Banya Duri Company (厄瓜多爾斑尼亞杜麗公司), an indirectly wholly-owned subsidiary of the Company (the "Banya Duri Company") entered into the Contract for I-L-Y Oilfield Comprehensive Service Projects in Ecuador (the "I-L-Y Oilfield Projects Contract") with Corporacion Estatal Petrolera Ecuatoriana (the "PAM"). The Banya Duri Company is a project company established by the Company in Ecuador to engage in I-L-Y oilfield comprehensive service with 90% and 10% of its shares held by Sinopec International Petroleum Service Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Service Corporation Ecuador Subsidiary respectively. During the implementation of the projects, the parties had disputes on the payments for some increased oil production. After repeated unsuccessful negotiations, in April 2019, the Banya Duri Company served the Notice of Application for Legal Arbitration to the PAM in relation to such contract disputes in accordance with the relevant provisions of the I-L-Y Oilfield Projects Contract, recommending the Permanent International Court of Arbitration in Hague as the arbitration institution to conduct arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition). the Banya Duri Company requests made by the Applicant include: the PAM should pay an invoice amount of US$63.29 million for the increased oil production with interest, confirm the Y-12 well would operate with optimized production capacity and pay US$8.13 million, as well as pay the losses brought to the Applicant due to the default of the PAM and relevant charges for the legal arbitration. In August 2019, Banya Duri Company and PAM has each recommended one arbitrator and jointly appointed one presiding arbitrator to form the arbitration tribunal. In November 2020, PAM had submitted its Statement of Defense to the arbitral tribunal. Currently, the two parties are conducting evidence exchange and verification. The next step will be to hold a second round of defense, hearings and rendering arbitral award.

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

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

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

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

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

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

a. The grant date and quantity

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

b. Information on share options granted to directors, chief executives or major shareholders

The Company granted 1.85 million A-share stock options to ten people such as Mr. Lu Baoping, director, Mr. Zhang Yongjie, deputy general manager, Mr. Liu Rushan, deputy secretary of the Party Committee, and Mr. Zuo Yaojiu, deputy general manager of the Company, Mr. Zhang Jinhong, deputy general manager, Mr. Li Honghai, secretary of board of directors, Mr. Sun Qingde, former vice chairman and general manager of the Company, Mr. Zhou Shiliang, former director and deputy general manager, Mr. Huang Songwei, former supervisor, and Mr. Wang Hongchen, former chief financial officer, 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 as at the grant date.

c. Information on share options granted to key business personnel holding core positions

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

d. Exercise price of the Proposed Grant

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

e. Validity Period and Exercise Arrangement under the Proposed Grant

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

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

f. Exercise and Cancellation of the Proposed Grant during the reporting period

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

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

For details, please refer to the "Announcements relating to Non-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" published in China Securities Journal, Shanghai Securities News, Securities Times and on www.sse.com.cn on 30 October 2018, and on www.hkexnews.hk on 29 October 2018.

The performance of the Company has not fulfilled the exercise conditions for exercise of Option during the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme. On 28 October 2019, the Company convened the 17th meeting of the ninth session of the Board at which the "Resolution relating to non-fulfillment of the exercise conditions for the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme" was considered and approved. After consideration, the Board will cancel the 13,788,000 Share Options corresponding to the 2nd exercise period which have been granted but not yet been exercised under the First Grant of the A Share Option Incentive Scheme.

Meanwhile, in view of a total of 30 Participants of the Company's A Share Option Incentive Scheme came across matters such as retirement, change in job positions, resignation and death, etc., according to the Share Incentive Plan Measures and the relevant provisions of the Share Option Scheme, as the above Participants have not met the qualifications, the Company proposes to cancel a total of 1,300,000 Share Options that have been granted to but not yet been exercised by the above-mentioned personnel. After this adjustment, the Participants of the Company's A Share Option Incentives were adjusted from 453 to 423, and the number of A Share Options which have been granted but not yet been exercised were adjusted from 18,384,000 to 17,084,000.

For details, please refer to the "Announcement relating to Non-fulfillment of Exercise Conditions for the Second Exercise Period and Adjustment to the List of Participants and the Number of Share Options under the First Grant of the A Share Option Incentive Scheme." (P.2019-044) published in China Securities, Shanghai Securities News, Securities Times, and on www.sse.com.cn on 29 October 2019 and on www.hkexnews.hk on 28 October 2019.

14. The Company's significant connected transactions entered into during the year ended 31 December 2020 are as follows:

(1). The significant connected transactions relating to ordinary operation during the reporting period are as follow.

The nature of the transaction classification	Related parties	Amount of transaction	Proportion of the same type of transaction
		RMB'000	(%)
Purchase of materials and equipments	China Petrochemical Corporation and its associates	10,566,242	26.8
Rendering engineering services	China Petrochemical Corporation and its associates	43,255,129	64.2
Receiving of community services	China Petrochemical Corporation and its subsidiaries	389,047	100
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	351,306	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	79,300	95.8
Land and property lease expenses	China Petrochemical Corporation and its subsidiaries	208,038	35.6
Equipment rental expenses	China Petrochemical Corporation and its subsidiaries	264,645	27.6
Interest expenses	China Petrochemical Corporation and its associates	783,064	86.4
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	52,974,382	98.8
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	54,391,017	100
Safety and insurance fund expenses	China Petrochemical Corporation	76,160	100
Safety and insurance fund refund	China Petrochemical Corporation	107,168	100

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

On 25 August 2020, the Company entered into the Framework Agreement in relation to the Mutual Leasing of Equipment between the Group and China Petrochemical Corporation (the "Equipment Leasing Framework Agreement") with China Petrochemical Corporation, pursuant to which, the Group agreed to lease equipment to and from China Petrochemical Corporation and its subsidiaries and associates (excluding the Group) ("Sinopec Group") production and operation during the period from 16 October 2020 (the "Agreement Effective Date") to 31 December 2021. Under rules 14A.07(1) and 14A.07(4) of the Hong Kong Listing Rules, China Petrochemical Corporation and its associates are connected persons of the Company. Accordingly, the transactions between the Group and China Petrochemical Corporation constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. Pursuant to the Equipment Leasing Framework Agreement, from the Agreement Effective Date to 31 December 2020, the proposed annual caps for the lease of equipment by the Group from Sinopec Group (total right-of-use assets) and the lease of equipment by the Group to Sinopec Group (rental collected) were RMB450 million and RMB30 million, respectively; and from 1 January 2021 to 31 December 2021, the proposed annual caps for the lease of equipment by the Group from Sinopec Group (total right-of-use assets) and the lease of equipment by the Group to Sinopec Group (rental collected) were RMB850 million and RMB30 million, respectively. As the highest applicable percentage ratio of the proposed annual caps of the transactions contemplated under the Equipment Leasing Framework Agreement exceed 0.1% but fall below 5%, the transactions contemplated under the Equipment Leasing Framework Agreement and the proposed annual caps are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the Announcement of Connected Transaction on Entering into the Equipment Leasing Framework Agreement (P. 2020-016) published in China Securities Journal, Shanghai Securities News, Securities Times and on www.sse.com.cn on 26 August 2020 and the announcement of Continuing Connected Transactions Equipment Leasing Framework Agreement disclosed on www.hkexnews.hk on 25 August 2020.

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

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

Please refer to Note 10 of this year's financial statements prepared in accordance with the PRC ASBE Standards for details of the connected transactions conducted by the Company during the reporting period. Among them, the significant related party transactions with China Petrochemical Corporation and its subsidiaries also fall under the definition of continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the reporting period, the above-mentioned related party transactions between the Company and China Petrochemical Corporation and its subsidiaries have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

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

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

(3). Material connected transactions of joint external investment

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

(4). The following is non-operational obligatory rights and debts with related parties during the reporting period:

Unit: RMB'000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	9,798,884	-2,417,575	7,381,309	10,168,257	4,648,082	14,816,339
Sinopec Finance Company Limited	–	–	–	12,080,000	-5,680,000	6,400,000
Sinopec Century Bright Capital Investment Limited	–	–	–	2,797,457	-826,937	1,970,520
Total	9,798,884	-2,417,575	7,381,309	25,045,714	-1,858,855	23,186,859
Causes of connected claims and debts						Normal production and operation
Influence of connected claims and debts on the Company						No material adverse effect

15. Significant contracts and performance

(1). Trusteeship, sub-contracting and leasing

(1) Trusteeship, sub-contracting and leasing

☐ Applicable √ Not applicable

(2) Leasing of the Company during the reporting period

√ Applicable ☐ Not applicable

Unit: RMB

Lessor	Lessee	Leased Assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income	The impact of leasing proceeds on the Company	Whether a connected transaction	Connected relation
Taiping & Sinopec Financial Leasing (TSFL)	Shengli Petroleum Engineering Company	machines and equipment used for drilling and downhole operations	RMB1 billion	8 February 2018	24 November 2020	RMB -96.66 million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the Company
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd.	semi-submersible rig (Exploration IV)	RMB38.47 million	6 November 2019	5 November 2022	RMB -5.65 million (before renovation)	at the daily rental of no more than RMB15,500 per day	No significant impact	Yes	Shanghai Offshore Petroleum Bureau is a wholly-owned subsidiary of the controlling shareholder of the Company

On 24 November 2020, TSFL and Shengli Petroleum Engineering Company signed the “Early Termination Agreement” after friendly negotiation. Both parties agreed that the lease relationship under the “Leasing Contract” would be terminated from 24 November 2020. The ownership of the corresponding leased property is transferred to the lessee.

(2). Guarantee of the Company during the reporting period

√ 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	6,462,628
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	19,915,014
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total guarantee (A+B)	19,915,014
Total Amount of Guarantees as a Percentage of the Company’s Net Assets (%)	296.2
Among them：	
Amount of Guarantee provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantee Amount directly or indirectly for the guaranteed object whose asset-liability Ratio exceeds 70% (D)	7,773,813
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	16,553,581
Sum of the three Guarantee above (C+D+E)	24,327,394
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the Company are all provided by the guarantees for the performance of the performance guarantee letters issued by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting of the Company for 2019.

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

On 31 December 2020, the balance of the counter-guarantee provided by the Company to China Petrochemical Corporation was RMB500,000,000.

(3). Entrusting others to manage cash assets

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

(4). Other significant contract

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

16. Information on social responsibility

(1) Poverty alleviation of listed companies

☐ Applicable √ Not applicable

(2) Social responsibility

For social responsibility, please refer to the company's "2020 Environmental, Social and Governance Report".

17. Information on environment

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

☐ Applicable √ Not applicable

(2) Description of the environmental protection situation of companies other than the key pollutant discharge units

√ Applicable ☐ Not applicable

Adhering to the development concept of ecological civilization and green and low-carbon, the Company released the HSSE Management System of Sinopec Oilfield Service Corporation (2020 Version) in 2020 with more detailed responsibilities, processes, contents and requirements on environmental protection, energy conservation, water saving, clean production and other work. The Company strictly implements the "Environmental Protection Management Regulations", the "Clean Production Management Regulations", the "Pollution Prevention Management Regulations", the "Energy and Water Conservation Management Regulations" and other relevant rules and systems of Sinopec Oilfield Service Corporation in production and operation. Following the principles of "leaders accountability, full participation and full-process management and control", the Company strictly implements environmental protection laws and regulations, and the discharge standards of the countries where the operations are located, as well as the requirements of international conventions, continued to use clean energy, promoted clean materials, equipment and production technologies, strictly controls the generation of wastes and properly disposes of wastes; for hazardous waste, we return it to a qualified unit for recycling. The Company pays close attention to pollution prevention and energy and water conservation and promotes the orderly establishment of green enterprise and green construction teams.

Currently, the pollutants generated by the Company mainly include exhaust gas, domestic sewage, and solid waste and oil-based cuttings. The exhaust gas includes diesel engine exhaust gas and gas-powered exhaust gas, and the emission index meets the requirements of local standards; domestic sewage includes domestic sewage at fixed places and domestic sewage at mobile construction sites; domestic sewage at fixed production sites shall be handed to municipal pipe network for centralized disposal; sewage domestic sewage at mobile construction sites shall be comprehensively utilized or disposed of by third parties after pre-disposal at the site; and solid wastes are mainly rock cuttings, construction wastes and industrial refuse, which shall be disposed of by the owner's organization according to the owner's requirements, or dumped after harmless disposal, or stored after solid-liquid separation or comprehensively used after harmless disposal and other methods. Domestic garbage is all disposed of by professional institutions; oil-based rock cuttings are disposed of by the owner's organization according to the owner's requirements, or comprehensively used after deep treatment by thermal analysis. In 2020, the Company disposed a total of 1,347,500 cubic meters of drilling operation wastewater and 598,000 cubic meters of domestic sewage. It has disposed 1.637 million tons of general solid waste and 169,700 tons of oil-based waste rock cuttings.

In 2020, the Company continued to promote clean production, focusing on the application of new technologies and new devices, and actively promoted advanced technologies and devices such as network power modules, gas engines, electric fracturing skids, energy-saving variable-frequency motors and dynamic reactive power compensation devices around the goal of "energy conservation, consumption reduction, pollution reduction, and efficiency enhancement" to reduce energy consumption and pollutant emissions. In addition, by implementing the responsibilities of various departments, the Company established a long-term mechanism to conduct clean production audits on schedule.

The Company earnestly implements the Implementation Plan on Green Enterprise Action Plan of Sinopec Oilfield Service Corporation and disposes of general solid waste, hazardous waste, drilling operation wastewater, and domestic sewage in accordance with laws and regulations, to improve the comprehensive utilization of resources under premise of emission reduction and harmlessness. In 2020, three subsidiaries were awarded "green enterprises" by China Petrochemical Corporation and 489 teams, including drilling teams, operation teams, geophysical teams and construction sites, completed the creating activities of green grassroots.

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

Section VII Report of the Supervisory Committee

Dear shareholders,

In 2020, all supervisors of the Company followed the relevant provisions of the Company Law, the Articles of Association, the Rules of Procedures on Meetings of the Supervisory Committee and other requirements, prudently and diligently performed their duties under the principle of being responsible for all shareholders. The Supervisory Committee independently performed their duties according to laws, supervised the production and operating activities, financial conditions, and the performance of duties by directors and senior management during the year. It actively and effectively carried out work to promote normal operation of the Company and safeguard the legitimate rights and interests of the Company, shareholders and employees, displaying the functions of supervision, guarantee and service in a satisfactory manner. Now the 2020 work report of the Supervisory Committee is as follows:

I. Meetings of the Supervisory Committee

The Supervisory Committee convened four meetings in 2020 and reviewed and approved 14 resolutions in total. In line with a responsible attitude for all shareholders, the Supervisory Committee had serious discussion and careful analysis on every resolution to make sure its legal compliance. The details are as follows,

1. The Company's 13th meeting of the ninth session of the Supervisory Committee was held on 24 March 2020. This meeting deliberated and approved 7 resolutions, including 2019 Supervisory Committee Work Report; 2019 Financial Report; 2019 Annual Report; Resolution on 2019 Connected Transactions of the Company; 2019 Profit Distribution Plan; 2019 Internal Control Evaluation Report; and Special Report of Raised Funds on Deposit and its Actual Use in 2019.

2. The Company's 14th meeting of the ninth session of the Supervisory Committee was held by written resolution on 27 April 2020. This meeting deliberated and approved the 2020 First Quarterly Report and the Resolution on Provision of Guarantee for wholly-owned Subsidiaries and Joint Venture.

3. The Company's 15th meeting of the ninth session of the Supervisory Committee was held on 25 August 2020. This meeting deliberated and approved 4 resolutions, including 2020 Interim Report and Highlights; 2020 Interim Financial Report; the Resolution to Undistributed 2020 Interim Dividend; and the Resolution on Entering into the Equipment Leasing Framework Agreement with China Petrochemical Corporation and the Maximum Caps for the Relevant Continuing Connected Transactions Contemplated thereunder for Two Years Ending 31 December 2020 and 2021.

4. The Company's 16th meeting of the ninth session of the Supervisory Committee was held by written resolution on 29 October 2020. This meeting considered and approved the 2020 Third Quarterly Report.

II. Key matters of concern to the Supervisory Committee

1. Information on the operations in accordance with the law

In 2020, the Board and management standardized the operation of the Company in strict accordance with the Company Law, the Articles of Association and related regulations in the place of listing, diligently fulfilled their duties, and earnestly implemented resolutions of general meetings and the Board. Decisions and production activities of the Company complied with laws, regulations and the Articles of Association. During the year, we didn't find any violation of laws, regulations, the Articles of Association or behaviors that would damage the interests of the Company or shareholders.

2. Check the Company's financial situation

The financial report the Company prepared in 2020 reflected the operation results on the Company's financial situation truly and just which conforms to relevant regulations of domestic and foreign securities regulatory authorities. The disclosed information of the report was true and fair. We didn't find any violation of secret protection requirements in report preparation and review personnel.

3. Check the actual use of the Company's raising fund

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

4. Information of connected transactions

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

5. Establishment of the internal control system

In 2020, the Company has continuously promoted the construction of internal control system, carried out business process optimization and strengthened system operation supervision to ensure that the internal control system design is complete and effective and business operation efficiency is improved. No major defects or omissions in internal control were found.

III. Opinions of the Supervisory Committee on the Company's work

In 2020, the Company convened five meetings of the Board and four general meetings (including two class general meetings). The Supervisory Committee performed its duties of supervision in law, supervised the decision-making process of the general meetings and meetings of the Board in legal compliance by attending the general meetings and meetings of the Board. The Supervisory Committee attended the internal meetings of the Company on time, strengthened communications with the management and the related functional departments and paid close attention to the Company's significant decision about operating situation and internal reform. It arranged supervisors to conduct on-site inspections on Shengli and Zhongyuan industrial zones. The Supervisory Committee is of opinion that: Facing the outbreak of the COVID-19 epidemic, the unexpected low oil prices and other significant challenges in 2020, the Company coordinated epidemic prevention and control, production and operation as well as reform and innovation. With targeted and effective epidemic prevention, strong guarantees to exploration and development services, solid progress in reform and innovation and remarkable results in overcoming difficulties and improving efficiency, the Company achieved newly signed contracts with an amount of RMB69.8 billion and recorded revenue and net profit of RMB68.07 billion and RMB79 million, respectively. It has achieved profits for three consecutive years. The Company coordinated market layouts and optimized resources allocation, achieving remarkable progress in internal professional reorganization and periodical results in structural adjustment and laying a solid foundation for high-quality development. The Supervisory Committee has no objection on supervision affairs in 2020.

In 2021, the Supervisory Committee and all members will continue to uphold the principle of good faith and diligence, conscientiously perform supervisory duties, actively participate in the process supervision of significant decision-making matters and enhance the supervision and inspection to protect interests of shareholders and the Company.

Chairman of the supervisory committee

Ma Xiang

Beijing, China

24 March 2021

1. Changes in Share Capital of Ordinary Shares

(1). Changes in Ordinary Shares

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

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

On 25 January 2021, the 1,503,568,702 shares and 23,148,854 A-shares held by China Petrochemical Corporation and Qi Xin Gong Ying Scheme have ended their limited sales period and were listed for trading. For details, please refer to the "Announcement on the Listing and Circulation of Non-public A-Share Restricted Shares" disclosed in China Securities Journal, Shanghai Securities News, Securities Times, and on www.sse.com.cn on 19 January 2021. (P.2021-001). The lock-up period for 2,595,786,987 new H shares held by Century Bright Company expired on 23 January 2021. For details, please refer to the the announcement "End of the Lock-up Period for Shares issued under the Non-public Placement" disclosed on www.hkexnews.hk on 18 January 2021.

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

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

(2). Changes in Shares with Selling Restrictions

☐ Applicable √ Not applicable

2. Share issue and listings

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

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

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

☐ Applicable √ Not applicable

(3). Internal employee shares

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

3. Information on Shareholders and the actual Controller

(1). Number of shareholders

As at 31 December 2020, the number of shareholders of the Company was 121,568, including 121,225 holders of A shares and 343 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

As at 28 February 2021, the number of shareholders of the Company was 119,173, including 118,835 holders of A shares and 338 registered holders of H shares.

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

Shareholdings of the top ten shareholders Names of shareholders	Nature of shareholders	Number of shares held increased/ decreased[1] by (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation[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	28,950	5,401,972,694	28.45	0	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
Donghai Fund – Industrial Bank-Huaxin Trust – Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.35	0	0
Donghai Fund – Industrial Bank – Huaxin Trust – Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.35	0	0
China Minsheng Bank Corp., Ltd. 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
Hong Kong Securities Clearing Company Limited[5]	Others	551,216	20,358,368	0.11	0	0
Huaan Fund – Industrial Bank – China Foreign Economy and Trade Trust Co., Ltd.	Others	0	13,333,300	0.07	0	0
Shanghai Tongneng Investment Holdings Co., Ltd.	Others	11,516,200	11,516,200	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")	5,401,972,694	H Share
CITIC Limited	1,035,000,000	A Share
Donghai Fund – Industrial Bank-Huaxin Trust – Huizhi Investment No.49 Trust Plan	66,666,666	A Share
Donghai Fund – Industrial Bank-Huaxin Trust – Huizhi Investment No.47 Trust Plan	66,666,666	A Share
China Minsheng Bank Corp., Ltd. Hohhot Branch	40,145,899	A Share
Hong Kong Securities Clearing Company Limited	20,358,368	A Share
Huaan Fund – Industrial Bank – China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share
Shanghai Tongneng Investment Holdings Co., Ltd.	11,516,200	A Share
Vanguard Investment Australia Limited – Vanguard Emerging Market Stock Index Fund	9,515,800	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that "Donghai Fund-Industrial Bank – Huaxin Trust – Huizhi Investment No.49 Trust Plan" and "Donghai Fund-Industrial Bank – Huaxin Trust – Huizhi Investment No.47 Trust Plan" belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

Note 1: As compared with the number of shares held as of 31 December 2019.

Note 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 ("Century Bright Company"). Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares of the Company; According to the H-share subscription agreement of Century Bright Company, Century Bright Company undertook that the 2,595,786,987 H shares of the Company it subscribed would not be transferred within 36 months from 24 January 2018. On 23 January 2021, the lock-up period for 2,595,786,987 H shares subscribed by Century Bright Company has expired.

Note 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.

Note 4: Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

Note 5: Hong Kong Securities Clearing Company Limited ("HKSCC Limited") is a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold A shares of the Company on behalf of investors of the Hong Kong Stock Exchange.

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

Unit: share

Names of shareholders with selling restrictions	Number of shares with selling restrictions	Date when the shares could be traded through listing	Number of additional shares could be traded through listing	Selling restriction
China Petrochemical Corporation	1,503,568,702	25 January 2021	1,503,568,702	3 years
Changjiang Pension Insurance Co., Ltd. – Changjiang Shengshi Huazhang No.2 Community Pension Management Fund	23,148,854	25 January 2021	23,148,854	3 years
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	There is no associated relationship or concerted action among the above shareholders.			

4. Information on Controlling Shareholders and Actual Controller of the Company

(1). Information on controlling shareholder

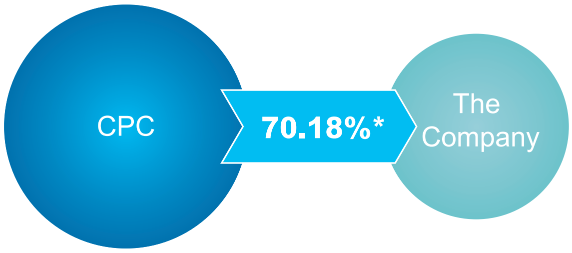
A. Legal Representative

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

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

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

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



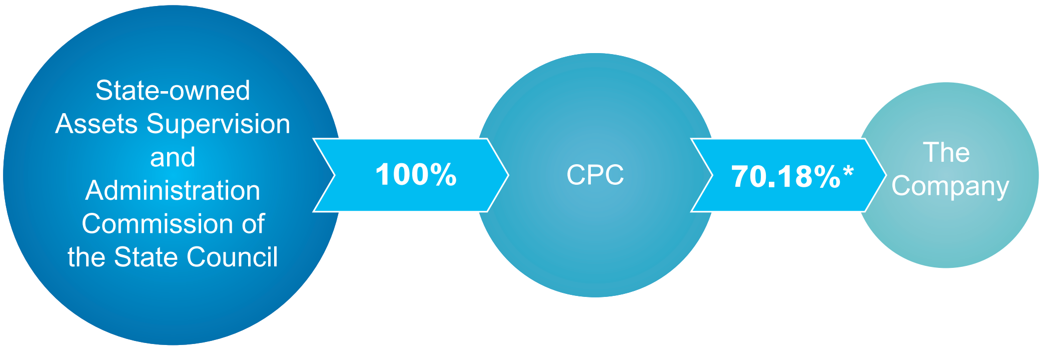
Note: Apart from directly holding 10,727,896,364 A-shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H-shares through Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18%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

(2) The actual controller of the Company

A. Legal Representative

The actual controller of the Company is still China Petrochemical Corporation. See more information in this section relating to controlling shareholder.

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



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

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

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

As at 31 December 2020, so far as the Directors, Supervisors and senior management of the Company are aware of, each of the following persons, not being a Director, Supervisor or senior management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO").

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

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

Save as disclosed above and so far as the Directors, Supervisors and senior management of the Company are aware of, as at 31 December 2020, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Hong Kong Listing Rules) of the Company.

7. Management contract

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

8. Pre-emptive rights

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

9. Share repurchase, sale and redemption

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed shares during the twelve months ended 31 December 2020.

Section IX Directors, Supervisors, Senior Management and Employees

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

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

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether get payment from related party of the Company
Chen Xikun	Chairman	male	56	19 December 2019	1 February 2024	0	0	No Change	860,112	No
	Executive Director			8 February 2018						
Yuan Jianqiang	General Manager	male	57	20 May 2019	1 February 2024	0	0	No Change	838,875	No
	Executive Director			26 June 2019						
Lu Baoping	Non-Executive Director	male	59	8 February 2018	1 February 2024	0	0	No Change	–	Yes
Fan Zhonghai	Non-Executive Director	male	55	8 February 2018	1 February 2024	0	0	No Change	–	Yes
Wei Ran	Non-Executive Director	male	53	20 June 2018	1 February 2024	0	0	No Change	–	No
Zhou Meiyun	Non-Executive Director	male	51	2 February 2021	1 February 2024	0	0	No Change	–	Yes
Chen Weidong	Independent Non-Executive Director	male	65	20 June 2018	1 February 2024	0	0	No Change	200,000	No
Dong Xiucheng	Independent Non-Executive Director	male	59	20 June 2018	1 February 2024	0	0	No Change	200,000	No
Zheng Weijun	Independent Non-Executive Director	male	53	2 February 2021	1 February 2024	0	0	No Change	–	No
Ma Xiang	Chairman of the Supervisory Committee	male	59	19 December 2019	1 February 2024	0	0	No Change	818,025	No
Du Jiangbo	Supervisor	male	56	16 June 2015	1 February 2024	0	0	No Change	–	Yes
Zhang Jianbo	Supervisor	male	58	8 February 2018	1 February 2024	0	0	No Change	–	Yes
Zhang Qin	Supervisor	female	58	9 February 2015	1 February 2024	0	0	No Change	–	Yes
Sun Yongzhuang	Employee Representative Supervisor	male	55	2 February 2021	1 February 2024	0	0	No Change	–	No
Zhang Bailing	Employee Representative Supervisor	male	55	2 February 2021	1 February 2024	0	0	No Change	–	No
Du Guangyi	Employee Representative Supervisor	male	57	2 February 2021	1 February 2024	0	0	No Change	–	No
Zhang Yongjie	Deputy General Manager	male	57	9 February 2015	1 February 2024	0	0	No Change	828,621	No
Zuo Yaojiu	Deputy General Manager	male	58	27 June 2017	1 February 2024	0	0	No Change	825,852	No
Zhang Jinhong	Deputy General Manager	male	57	28 April 2015	1 February 2024	0	0	No Change	773,826	No
Xiao Yi	Chief Financial Officer	male	51	19 December 2019	1 February 2024	0	0	No Change	835,173	No
Zhang Jiankuo	Deputy General Manager	male	46	29 October 2020	1 February 2024	0	0	No Change	93,388	No

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether get payment from related party of the Company
Li Honghai	Secretary to the Board	male	57	9 February 2015	1 February 2024	0	0	No Change	641,093	No
Jiang Bo	Former Independent Non-Executive Director	female	65	9 February 2015	2 February 2021	0	0	No Change	200,000	No
Pan Ying	Former Independent Non-Executive Director	male	51	16 December 2015	2 April 2020	0	0	No Change	50,000	No
Zhai Yalin	Former Supervisor	male	57	26 June 2019	2 February 2021	0	0	No Change	–	Yes
Zhang Hongshan	Former Employee Representative Supervisor	male	60	23 February 2017	2 February 2021	0	0	No Change	720,798	No
Chen Weiguo	Former Employee Representative Supervisor	male	57	30 May 2019	6 August 2020	0	0	No Change	565,679	No

Note:

1. Mr. Chen Xikun, Mr. Yuan Jianqiang, Mr. Ma Xiang, Mr. Zhang Hongshan, Mr. Zhang Yongjie, Mr. Zuo Yaojiu, Mr. Zhang Jinhong, Mr. Xiao Yi and Mr. Li Honghai all received 12 months of salary in 2020. Mr. Chen Weiguo resigned as the employee representative supervisor on 6 August 2020 and received 8 months of salary in 2020. Mr. Sun Yongzhuang, Mr. Zhang Bailing and Mr. Du Guangyi started to serve as employee representative supervisors on 2 February 2021 and did not receive salary in 2020. Mr. Zhang Jiankuo started his position of deputy general manager of the Company on 29 October 2020 and received two months of of salary in 2020.
2. Ms. Jiang Bo, Mr. Chen Weidong and Mr. Dong Xiucheng received 12 months of director's fee in 2020; Mr. Pan Ying resigned as the independent non-executive director on 2 April 2020 and received 3 months of director's fee in 2020.

2. Information about current directors, supervisors and senior management

(1) Director

Mr. CHEN Xikun#, aged 56, Chairman, Party Secretary of the Company. Mr. Chen is a professor-level senior accountant with a master's degree. He served successively as deputy head and head of the finance department, and deputy chief accountant of Sinopec Jiangsu Oilfield Branch Company. In January 2003, he was appointed as the chief accountant of Sinopec Jiangsu Oilfield Branch Company; in April 2006, he was appointed as deputy manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2008, he was appointed as deputy general manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2011, he was appointed as chief accountant of Sinopec Exploration & Production Department; since March 2015, he acted concurrently as deputy general director of Sinopec Exploration & Production Department; from June 2015 to June 2018, he acted as director of Sinopec Oilfield Equipment Corporation; from June 2017 to February 2018, he was appointed as executive deputy general manager of the Company; in January 2018, he was appointed as the Secretary of CPC Committee of the Company. Since February 2018, he has been appointed as the Director of the Company. From February 2018 to May 2019, he has been appointed as Deputy General Manager of the Company. Since May 2019, he has been appointed as the Vice Chairman of the Board of the Company. Since December 2019, he has been appointed as the Chairman of the Board of the Company.

Mr. YUAN Jianqiang#, aged 57, general manager and executive director of the Company. Mr. Yuan is a professor-level senior engineer with a Ph.D. degree. He has been working for Henan Petroleum Exploration Administration of China Petrochemical Corporation as the deputy general manager and general manager of Drilling Company; in January 2008, he was appointed as deputy director of Henan Petroleum Exploration Administration of China Petrochemical Corporation; since December 2012, he acted as the executive director and general manager of Sinopec Henan Oil Engineering Company Limited; since June 2016, he acted as the executive director and general manager of Sinopec Huadong Oil Engineering Company Limited; from July 2017, he acted as the chairman and the secretary of CPC Committee of Sinopec Oilfield Equipment Corporation. Since May 2019, he has been appointed as the general manager of the Company. Since June 2019, he has been appointed as the executive director of the Company.

Mr. LU Baoping*, aged 59, non-executive director of the Company. Mr. Lu is a professor-level senior engineer with a Ph.D. degree. In September 2001, he was appointed as Deputy General Manager of Sinopec Star Petroleum Co., Ltd. In June 2003, he was appointed as Deputy Manager of Sinopec International Petroleum Exploration and Production Corporation. Since April 2009, he has been served as the President of Sinopec Petroleum Engineering Technology Research Institute. From December 2012 to September 2014, he was appointed as Deputy Manager of Sinopec Oilfield Service Co., Ltd. From August 2016 to December 2017, he was served as Deputy Manager of the Company. Since February 2018, he has been appointed as the non-executive director of the Company.

Mr. FAN Zhonghai*, aged 55, non-executive director of the Company. Mr. Fan is a professor-level senior engineer with a master's degree. Mr. Fan joined the Henan Petroleum Exploration Bureau in 1989 and was appointed as Deputy Chief Geologist, Chief Geologist and Vice Dean of Research Institute of Petroleum Exploration and Development of Henan Petroleum Exploration Bureau consecutively. In September 2000, he was appointed as Deputy Chief Geologist of Henan Petroleum Exploration Bureau of China Petrochemical Corporation. In November 2001, he was appointed as Deputy General Manager of Henan Oilfield Branch Company of Sinopec. In June 2016, he was appointed as Deputy Director of Petroleum Exploration & Development Research Department of Sinopec Corp. Since December 2019, he has been appointed as the Deputy General Manager of Petroleum Exploration & Development Research Department of Sinopec. Since February 2018, he has been appointed as the non-executive director of the Company.

Mr. WEI Ran*, aged 53, non-executive director of the Company. Mr. Wei is a Senior Economist and obtained a master's degree in Finance from Maastricht School of Management. Mr. Wei has successively served as the Deputy Head and the Deputy General Manager of Credit Department, Vice President of Hunan Branch, General Manager of Investment Management Department and General Manager of Business Development and Innovation Department of the Export-Import Bank of China. Since April 2016, he has served as General Manager of China Chengtong Fund Management Co., Ltd., and since September 2016, he has served concurrently as Secretary to the Board of Directors of China Structural Reform Fund Co., Ltd. Since June 2018, he has been appointed as the non-executive director of the Company.

Mr. ZHOU Meiyun*, aged 51, non-executive director of the Company. Mr. Zhou is a senior accountant with a master's degree. Mr. Zhou joined the Shanghai Petrochemical Complex in 1991 and has held various positions, including Officer, Assistant to Manager, Deputy Manager and Manager of the Finance Department of Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical"). He served as Manager of the Finance Department of Shanghai SECCO Petrochemical Company Limited from May 2011, and was appointed as Vice President and Chief Financial Officer of Shanghai Petrochemical in February 2017. He has served as Executive Director of Shanghai Petrochemical since June 2017 and Chairman of China Jinshan Associated Trading Corporation since July 2017. In May 2019, Mr. Zhou served as General Counsel of Shanghai Petrochemical. He served as Deputy General Manager of the Finance Department of China Petrochemical Corporation from September 2020. Since February 2021, he has been appointed as the non-executive director of the Company.

Mr. CHEN Weidong+, aged 65, independent non-executive Director. Mr. Chen obtained a master's degree in Economic Law from China University of Political Science and Law. In 1982, Mr. Chen joined China National Offshore Oil Corporation ("CNOOC") and successively served as Deputy Manager of Exploration Department of CNOOC, General Manager of China Offshore Geophysical Company Limited under CNOOC, as well as Executive Vice President and Secretary to the Board, Chief Strategy Officer of China Oilfield Services Limited, etc. Since May 2017, he has served as the Dean of Beijing Zhongguancun Smart Energy Technology Innovation Institute. Since June 2018, he has been appointed as the independent non-executive Director of the Company.

Mr. DONG Xiucheng+, aged 59, independent non-executive Director. Mr. Dong currently is a Professor and Ph.D. Supervisor of International Trade and Economics School of University of International Business and Economics, and concurrently serves as Vice President of China Petroleum Circulation Association, Vice Chairman of Energy Resources System Engineering Branch of Systems Engineering Society of China, member of the Price Expert Advisory Committee of National Development and Reform Commission and Distinguished Expert of National Energy Administration, etc. In 1985, Mr. Dong joined the Business Administration School of China University of Petroleum (Beijing) and he has been successively promoted as a Lecturer, Associate Professor and Professor, during which period he also served as Assistant Dean and Secretary of the Party Committee and other administrative positions. Since October 2017, he has served as a Professor and Ph.D. Supervisor in the International Trade and Economics School of University of International Business and Economics. Since June 2018, he has been appointed as the independent non-executive Director of the Company.

Mr. ZHENG Weijun+, aged 53, independent non-executive Director. Mr. Zheng is a certified public accountant, certified tax agent, certified appraiser, senior accountant, and a leading talent in the national certified public accountant industry of the Ministry of Finance with bachelor's degree. Mr. Zheng served as a full-time member of the 13th, 14th and 15th session of the Main Board Issuance Review Committee of the China Securities Regulatory Commission, and a member of the Professional Ethics Standards Committee and Professional Technical Steering Committee of the Chinese Institute of Certified Public Accountants. Since November 2001, he has been a partner of ShineWing Certified Public Accountants. From November 2014 to December 2020, he has also served as an independent director of China Dongfanghong Satellite Co., Ltd., and since September 2017, he has also served as an independent director of Beijing Ctrowell Technology Corporation Limited, concurrently served as an independent director of Shanghai Fudan Fuhua Technology Co., Ltd. from December 2017 to December 2020. Since February 2021, he has been appointed as the independent non-executive director of the Company.

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

(2) Supervisor

Mr. MA Xiang, aged 59, chairman of the Supervisory Committee. Mr. Ma is a senior political engineer with bachelor's degree. Since September 1999, he worked in Supervisory Bureau of China Petrochemical Corporation. Since December 2012, he served as Deputy Secretary of the Communist Party Committee, Secretary of the Commission for Discipline Inspection and Chairman of the Labour Union of China Petrochemical Corporation Wuhan Petrochemical Plant. Since December 2014, he was appointed as Chief of Beijing Group of Discipline Inspection Group of the Communist Party Committee of China Petrochemical Corporation and Director of the Beijing Branch of Supervisory Bureau of China Petrochemical Corporation. Since January 2018, he was appointed as Chief of China Petrochemical Corporation Party Committee Discipline Inspection Group of Sinopec International Petroleum Exploration and Production Corporation. Since October 2019, he has been working as Deputy Secretary of the Communist Party Committee, Secretary of the Commission for Discipline Inspection and Chairman of the Labour Union of Sinopec Oilfield Service Corporation. Since December 2019, he has been appointed as employee representative supervisor and chairman of the Supervisory Committee of the Company. Since February 2021, he has been re-appointed as the chairman of the Supervisory Committee of the Company.

Mr. DU Jiangbo, aged 56, Supervisor of the Company. Mr. Du is a professor-level Senior Economist with a M.A. degree. In September 2006, he was appointed as Head of the Legal Affairs Division of Headquarters of Sichuan-East China Gas Transmission Construction project. In November 2010, he was appointed as Deputy Director of the Legal Affairs Division of China Petrochemical Corporation; and in March 2015, he was appointed as Director of the Legal Affairs Department of China Petrochemical Corporation. In December 2019, he was appointed as Deputy General Manager of Business Reform and Legal Affairs Department of China Petrochemical Corporation. Since June 2015, he has been appointed as Supervisor of the Company.

Mr. ZHANG Jianbo, aged 58, Supervisor of the Company. Mr. Zhang is a professor-level senior engineer with a bachelor's degree. He joined Shengli Petroleum Administrative Bureau in 1985. Since 1999, Mr. Zhang has served as Deputy Director and Director of the Human Resources Department of China Petrochemical Corporation. Mr. Zhang was appointed Deputy Secretary of the Communist Party Committee of Shanghai Petrochemical since August 2013 and concurrently, he successively held several positions such as the Secretary of the Communist Party Discipline Supervisory Committee, Chairman of the Labor Union and Chairman of the Supervisory Committee of Shanghai Petrochemical. In June 2017, Mr. Zhang was appointed as Deputy Director of Supervision Bureau of China Petrochemical Corporation. In May 2019, he was appointed as Deputy Director of the Supervisory Administration of China Petrochemical Corporation. In May 2020, he was appointed as the Deputy Director of the Office of the Supervision Administration of China Petrochemical Corporation. Since February 2018, he has been appointed as the Supervisor of the company.

Ms. ZHANG Qin, aged 58, Supervisor of the Company. Ms. Zhang is a professor-level senior administration engineer with a master's degree. In December 1998, she was appointed as Head of the Political Work Department, Propaganda Office of China Petrochemical Corporation; in December 2008, she was appointed as Deputy Director of the Political Work Department of China Petrochemical Corporation; in January 2009, she was appointed as the Direct Deputy Secretary of CPC Committee, and the Direct Secretary of Discipline Inspection Committee of China Petrochemical Corporation; and from March 2015, she was appointed as the Deputy Director of the Political Work Department (administrative office of CPC Committee) of China Petrochemical Corporation. In December 2019, she was appointed as Deputy Director of Political Work Department of China Petrochemical Corporation. Since September 2014, she has been serving as a supervisor of SOSC. Since February 2015, she has been appointed as Supervisor of the Company.

Mr. SUN Yongzhuang, aged 55, Employee Representative Supervisor. Mr. Sun is a professor-level senior engineer with a doctor degree. In June 2004, he was appointed as the Manager of No.2 Downhole Operation Company of Sinopec Shengli Petroleum Administration Bureau of China Petrochemical Corporation. In June 2008, he was appointed as the General Manager of Dongsheng Jinggong Petroleum Development Group Co., Ltd. of Sinopec Shengli Oilfield Co., Ltd. of Sinopec; In January 2013, he served as the Deputy General Manager of Sinopec Shengli Oil Engineering Co., Ltd. In December 2018, he was appointed as the General Manager of Sinopec Shengli Oil Engineering Co., Ltd. Since December 2020, he served as Executive Director, Secretary of CPC Committee and General Manager of Sinopec Shengli Oil Engineering Co., Ltd. Since February 2021, he served as the employee representative supervisor of the Company.

Mr. ZHANG Bailing, aged 55, Employee Representative Supervisor. Mr. Zhang is a professor-level senior engineer with a doctor degree. Since December 2003, he successively served as Director of Dispatching Department, Director of Production and Operation Department and Director of West Sichuan Gas Production Plant of Sinopec Southwest Oil and Gas Branch Company. In July 2011, he was appointed as Vice Chief Engineer and Deputy Manager of Yuanba Project Department of Sinopec Southwest Oil and Gas Branch Company. From August 2012 to November 2020, he served as Deputy General Manager of Sinopec Southwest Oil and Gas Branch Company. In March 2017, he was appointed as Secretary of CPC Committee of Sinopec Southwest Oil Engineering Co., Ltd. In August 2017, he served as Secretary of CPC Committee and Deputy General Manager of Sinopec Southwest Oil Engineering Co., Ltd. In May 2020, he was appointed as Executive Director and Secretary of CPC Committee of Sinopec Southwest Oil Engineering Co., Ltd. Since November 2020, he was appointed as Executive Director and Secretary of CPC Committee of Sinopec Zhongyuan Oil Engineering Co., Ltd. Since February 2021, he was appointed as employee representative supervisor of the Company.

Mr. DU Guangyi, aged 57, Employee Representative Supervisor. Mr. Du is a professor-level senior engineer with a doctor degree. From December 2001 to June 2017, he served as Deputy Director of Zhongyuan Petroleum Exploration Bureau of China Petrochemical Corporation. In January 2013, he served as Secretary of CPC Committee of Sinopec Zhongyuan Oil Engineering Co., Ltd. In March 2016, he served as Executive Director and General Manager of Sinopec Zhongyuan Oil Engineering Co., Ltd. In June 2017, he served as Executive Director and General Manager of Sinopec Oil Engineering and Construction Corporation. In June 2019, he was appointed as Chairman and Secretary of CPC Committee of Sinopec Oilfield Equipment Corporation. In November 2020, he served as Executive Director and Secretary of CPC Committee of Sinopec Oil Engineering and Construction Corporation. From September 2014 to June 2017, he served as the employee representative supervisor of the Company. From February 2021, he was appointed as the employee representative supervisor of the Company again.

(3) Senior management

Mr. ZHANG Yongjie, aged 57, Deputy General Manager. Mr. Zhang is a senior engineer with a master's degree. In April 2002, he was appointed as Deputy General Manager and General Manger of the Foreign Trade and Economic Corporation under Zhongyuan Petroleum Exploration Administration of China Petrochemical Corporation; in December 2003, he was appointed as Deputy General Manager of Sinopec International Petroleum Service Corporation; and in November 2010, he was appointed as Director and General Manager of Sinopec International Petroleum Service Corporation. In August 2013, he was appointed as Executive Director and General Manager of Sinopec International Petroleum Service Corporation. In March 2018, he was appointed concurrently as secretary of CPC Committee of Sinopec International Petroleum Service Corporation. Since January 2021, he served as the secretary of the CPC Committee and Executive Director of Sinopec International Petroleum Service Corporation; Since June 2012, Mr. Zhang has acted as Deputy General Manager of SOSC. Since February 2015, he has been appointed as Deputy General Manager of the Company.

Mr. ZUO Yaojiu, aged 58, Deputy General Manager. Mr. Zuo is a Professor-level Senior Engineer with a bachelor's degree. In December 2003, he was appointed as deputy general manager of Sinopec International Petroleum Service Corporation; since November 2011, he also acted as General Manager of Sinopec (Brazil) Co., Ltd. and chief representative of China Petrochemical Corporation's South America Representative Office; in August 2012, he was appointed as secretary of CPC Committee and deputy general manager of Sinopec Engineering & Construction Co., Ltd.; in September 2014, he was appointed as executive director and general manager of Sinopec Engineering & Construction Co., Ltd. From September 2014 to February 2015, he acted as deputy general manager of SOSC. Since June 2017, he has been appointed as Deputy General Manager of the Company.

Mr. ZHANG Jinhong, aged 57, Deputy General Manager. Mr. Zhang is a Professor-level Senior Accountant with a master's degree. In October 2000, he was appointed as the vice chief accountant and manager of drilling department of Jiangsu Petroleum Exploration Bureau of Sinopec Group; in July 2004, he was appointed as the vice chief accountant and manager of the engineering technology management department of Jiangsu Petroleum Exploration Bureau of Sinopec Group; in June 2008, he was appointed as the vice director of Huadong Bureau of Sinopec Group; in December 2012, he was appointed as the Executive Director, General Manager and Party Secretary of Sinopec Huadong Oilfield Service Corporation. In June 2018, he was appointed as director of Sinopec Oilfield Equipment Corporation. Since April 2015, he has been appointed as Deputy General Manager of the Company. Since September 2020, he has appointed as the Chief Expert of China Petrochemical Corporation in the field of petroleum engineering (efficient drilling technology).

Mr. XIAO Yi, aged 51, Chief Financial Officer. Mr. Xiao is a senior accountant with an MBA degree. He has successively served as the deputy head and head of financial division under the Finance Department of Sinopec. In October 2006, he was appointed as Chief Financial Manager of SINOPEC Zhanjiang Dongxing Petroleum Enterprise Company Limited. In July 2009, he was appointed as Chief Financial Manager of SINOPEC Zhanjiang Dongxing Petrochemical Company Limited. Since December 2016, he has served as the deputy director of Finance Department of China Petrochemical Corporation. From June 2019 to December 2019, he has been appointed as non-executive Director of the Company. In December 2019, he was appointed as Chief Financial Officer of the Company.

Mr. ZHANG Jiankuo, aged 46, Deputy General Manager. Mr. Zhang is a Professor-level Senior Engineer with a master's degree. In May 2013, he served as the deputy manager of Sinopec Shengli Petroleum Engineering Co., Ltd. Huanghe Drilling Corporation; in November 2015, he served as the manager and deputy secretary of the Party Committee of Sinopec Shengli Petroleum Engineering Co., Ltd. Huanghe Drilling Corporation; in December 2018, he served as deputy general manager of Sinopec Shengli Petroleum Engineering Co., Ltd. Since October 2020, he has been appointed as the Deputy General Manager of the Company.

Mr. LI Honghai, aged 57, Secretary to the Board. Mr. Li is a professor-level senior economist with a Ph.D. degree. Since June 2000, he had held the position of Deputy Manager, Secretary to the Board, and Assistant to the Chairman of Sinopec Zhongyuan Petroleum Company Limited; in December 2004, he was appointed as Manager of Sinopec Zhongyuan Petroleum Company Limited; in May 2007, he was appointed as Head of the General Administration under the Enterprise Reform Department of China Petrochemical Corporation, and also as Head of the Assets Operation Division in August the same year; in June 2008, he was appointed as Head of the Assets Operation Division under the Enterprise Reform Department of China Petrochemical Corporation; and in July 2010, he was appointed as Head of the Assets Operation Division under the Capital Operations Department of China Petrochemical Corporation. Since September 2014, he has been serving as Secretary to the Board of SOSC. Since February 2015, he was appointed as Secretary to the Board of the Company. Since January 2019, he has served as the senior expert of China Petrochemical Corporation in capital operation.

(2). Information on share option held by current directors, supervisors and senior management

☐ Applicable √ Not Applicable

Information on share option held by current directors, supervisors and senior management

Unit: shares

Name	Position	Number of share options held at the beginning of 2020	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (RMB/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period (RMB/share)
Sun Yongzhuang	Employee Representative Supervisor	60,000	0	0	0	5.63	60,000	1.96
Zhang Yongjie	Deputy General Manager	76,000	0	0	0	5.63	76,000	1.96
Liu Rushan	Deputy Secretary of Party Committee	76,000	0	0	0	5.63	76,000	1.96
Zuo Yaojiu	Deputy General Manager	72,000	0	0	0	5.63	72,000	1.96
Zhang Jinhong	Deputy General Manager	72,000	0	0	0	5.63	72,000	1.96
Zhang Jiankuo	Deputy General Manager	40,000	0	0	0	5.63	40,000	1.96
Li Honghai	Secretary to the Board	56,000	0	0	0	5.63	56,000	1.96
Total	/	452,000	0	0	0	/	452,000	/

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers shall not exceed 198, and the subscription amount is RMB60.65 million in total. 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, and 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, the Company's directors, supervisors and senior management subscribed for a total of 4.85 million, accounting for approximately 8.0% of the total share of the scheme. The total number of directors, supervisors and senior management of the Company who subscribed for the Qi Xin Gong Ying Scheme was 14 persons. For details of the participation of the directors, supervisors and senior management of the Company in the Qi Xin Gong Ying Scheme, see the following table.

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme	Subscription scheme shares under Qi Xin Gong Ying Scheme	Subscription Price	Subscription of A share
		(RMB)	(share)	(RMB/A Share)	(share)
Chen Xikun	Chairman, Secretary of Party Committee	400,000	400,000	2.62	152,671
Sun Yongzhuang	Employee Representative Supervisor	300,000	300,000	2.62	114,503
Zhang Bailing	Employee Representative Supervisor	350,000	350,000	2.62	133,587
Du Guangyi	Employee Representative 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
Zhang Jiankuo	Deputy General Manager	300,000	300,000	2.62	114,503
Li Honghai	Secretary to the Board	300,000	300,000	2.62	114,503
Sun Qingde	Former Deputy Chairman, General Manager	400,000	400,000	2.62	152,671
Li Wei	Former Chairman of the Supervisory Committee	350,000	350,000	2.62	133,587
Li Tian	Former Chief Financial Officer	350,000	350,000	2.62	133,587
Huang Songwei	Former Supervisor	350,000	350,000	2.62	133,587
Zhang Hongshan	Former Supervisor	350,000	350,000	2.62	133,587
Total	/	4,850,000	4,850,000	–	1,851,134

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

(1). Information on holding positions

Name	Name of corporate shareholders	Position held in corporate shareholders	The starting date of term in office	The termination date of term in office
Zhou Meiyun	China Petrochemical Corporation	Deputy general manager of Finance Department	September 2020	–
Du Jiangbo	China Petrochemical Corporation	Deputy general manager of Business Reform and Legal Affairs Department	December 2019	–
Zhang Qin	China Petrochemical Corporation	Deputy Director of the Political Work Department	March 2015	–
Zhang Jianbo	China Petrochemical Corporation	Deputy Director of the Office of the Supervision Administration	May 2020	–

(2). Information on holding positions in other enterprises

Name	Name of other enterprises	Position held in other enterprises	Beginning date of term	End date of term
Lu Baoping	Sinopec Petroleum Engineering Technology Research Institute	President	April 2009	–
Fan Zhonghai	Sinopec	Deputy Manager of Petroleum Exploration & Development Research Department	December 2019	–
Zhang Jinghong	Sinopec Oilfield Equipment Corporation	Director	June 2018	June 2021
Xiao Yi	Pecinternational Leasing Co., LTD	Vice Chairman	June 2019	–
	Taiping Petrochemical Financial Leasing Co. LTD	Director	June 2019	–
	Shanghai Zheshi Futures Brokerage Co., Ltd.	Director	June 2019	–

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

Decision procedure of the remuneration of directors, supervisors and senior management.	The remuneration of directors and supervisors is approved by the General Meeting of shareholders, the remuneration of senior management is approved by the Board.
The basis of remuneration determination of directors, supervisors and senior management.	Decided by the duties and responsibilities of directors, supervisors and senior management, and by the performance of the Company.
The information of payable remuneration of directors, supervisors and senior management.	RMB8,451,442
As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management.	RMB8,451,442

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

Name	Position	Change	Reasons for change
Pan Ying	Independent Non-Executive Director	Resigned	Personal Health
Chen Weiguo	Employee Representative Supervisor	Resigned	Change of work
Zhang Jiankuo	Deputy General Manager	Appointed as the Deputy General Manager	Appointed by the Board

Mr. Pan Ying, an independent non-executive director of the Company, was unable to perform his duties normally due to personal health and ceased to serve as an independent non-executive director the ninth session of the Board of the Company, chief officer of the remuneration committee and member of the audit committee from 2 April 2020. The Company expresses its heartfelt thanks to Mr. Pan Ying for his hard work and important contributions during his tenure.

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

On 29 October 2020, the Company held the 22nd meeting of the ninth session of the Board. According to the nomination of the general manager, the Board appointed Mr. Zhang Jiankuo as the deputy general manager of the Company for a term commencing from 29 October 2020 to the date when the term of the ninth session of the Board expires (February 2021).

After the election at the Company's first extraordinary general meeting for 2021 on 2 February 2021, Mr. Chen Xikun, Mr. Yuan Jianqiang, Mr. Lu Baoping, Mr. Fan Zhonghai, Mr. Wei Ran, Mr. Zhou Meiyun, Mr. Chen Weidong, Mr. Dong Xiucheng and Mr. Zheng Weijun were appointed or re-elected as directors of the tenth session of the Board, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Board expires (February 2024); Mr. Ma Xiang, Mr. Du Jiangbo, Mr. Zhang Jianbo and Ms. Zhang Qin were appointed or re-elected as supervisors of the tenth session of the Supervisory Committee, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Supervisory Committee expires (February 2024). The employee's representative meeting of the Company was held on 2 February 2021, at which Mr. Sun Yongzhuang, Mr. Zhang Bailing and Mr. Du Guangyi were elected as the employee representative supervisors of the tenth session of the Supervisory Committee of the Company, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Supervisory Committee expires (February 2024).

On 2 February 2021, the Company held the first meeting of the tenth session of the Board and elected Mr. Chen Xikun as the chairman of the tenth session of the Board. According to the nomination of the chairman, the Board continued to appoint Mr. Yuan Jianqiang as the general manager of the Company, and his term of office shall commence from 2 February 2021 to the date when the term of the tenth session of the Board expires (February 2024); according to the nomination of the general manager, the Board continued to appoint Mr. Zhang Yongjie, Mr. Zuo Yaojiu, Mr. Zhang Jinhong, and Mr. Zhang Jiankuo as deputy general managers of the Company and continued to appoint Mr. Xiao Yi as the Chief Financial Officer of the Company, and their terms of office shall commence from 2 February 2021 to the date when the term of the tenth session of the Board expires (February 2024). According to the nomination of the chairman, the Board continued to appoint Mr. Li Honghai as the secretary to the Board of the Company, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Board expires (February 2024).

On 2 February 2021, the Company held the first meeting of the tenth session of the Supervisory Committee and Mr. Ma Xiang was elected as the chairman of the tenth session of the Supervisory Committee.

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

☐ Applicable √ Not Applicable

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

(1) Personnel information

The number of the Company's serving staff	126
The number of the Company's subsidiaries' serving staff	71,610
The total number of the serving staff	71,736
The number of retired staff whose expense should be born by the Company and its subsidiaries	13,377
Professional composition	
Type of Professional	**Number of the staff**
Production Staff	39,282
Technical Staff	22,113
Researcher	3,356
Financial Staff	1,855
Market and Administrative Staff	3,942
Others	1,188
Total	71,736
Education	
Type	**Number of the staff**
Master or above	3,656
Bachelor	22,253
Junior college	14,200
Others	31,627
Total	71,736

(2) Remuneration Policies

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

(3) Training plan

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

7. Directors', Supervisors' and Chief Executive's rights to acquire shares and debentures and short position

As at 31 December 2020, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors, Supervisors or chief executive of the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Hong Kong Listing Rules.

8. Directors' and Supervisors' service contracts

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

1. More details about the expiration date of the terms of office of Directors in the tenth session of the Board and the Supervisors in tenth session of Supervisory Committee, please see the section in "Directors, Supervisors, Senior Management and Employees" of this annual report.
2. The remuneration for the tenth session of executive directors, supervisor Mr. Ma Xiang and the employee representative supervisors under the service contract shall be determined in accordance with relevant national regulations and the Company's senior management remuneration implementation measures. It is provided in the measures for implementation of remuneration packages for senior management of the Company that the remuneration consists of a basic salary, performance bonus and mid- and long term incentives, with specific functions and responsibilities of the management members and performance of the Company as a whole being taken into account. An independent non-executive Director entitled to a director's fee of RMB200,000 per annum (pre-tax). Non-executive Directors of the Company, and Mr. Du Jiangbo, Mr. Zhang Jianbo and Ms. Zhang Qin, who are non-employee representative supervisors, shall not receive any remuneration from the Company.

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

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

9. Directors' interests in competing businesses

Some directors of the Company hold positions in China Petrochemical Corporation and its subsidiaries. For details, please refer to Section 9 "Information on Directors, Supervisors, Senior Management and Employees" of this report.

10. Directors' and Supervisors' interests in contracts

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

11. Special treatment to Directors, Supervisors and Senior Management

There has been no special treatment granted to the directors, supervisors or senior management of the Company during the reporting period.

Section X Corporate Governance

1. Information on Corporate Governance

During the reporting period, the Company strictly complied with domestic and overseas regulatory requirements and regularly continued to operations. In accordance with the "Articles of Association", relevant laws, regulations, and securities regulatory rules in the place listed, and combined with the actual situation of the Company, continuously improve and effectively implement the work system and related work processes of the Board and its professional committees. The Company's board of supervisors operates in accordance with the law, committed to its duties, is diligent and dedicated, and strictly follows the regulatory requirements. The board of supervisors held meetings as scheduled to review and pass relevant proposals and expressed opinions and suggestions of the board of supervisors in a timely manner. At the same time, the board of supervisors actively organized and carried out supervisory inspection activities, strengthened on-site supervision and inspection, and promoted and improved the Company's various operations and management tasks.

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

In 2020, the Company kept managing the insider registration, and enhanced the confidentiality of insider information such as annual reports before official disclosure, etc. During the reporting period, the Information Disclosure System, and Insider Registration Management System were effectively executed by the management of the Company, and there were no insider dealing of company stock or significant mistakes of annual reports.

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

2. Summary of Shareholders' Meetings

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

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

3. Performance of the Directors

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

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

The Board meetings held during the year (No. of times)	5
Including: meetings held on site (No. of times)	2
Meetings held by correspondence (No. of times)	3
Meetings held by correspondence on site and by correspondence (No. of times)	0

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

During the reporting period, the Company's independent directors did not raise objections against the proposals of the meetings of board of directors or the proposals which does not require the review on the board meetings. The detail information related to the performance of the independent directors is published in the report of the Company's independent directors 2020 on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange.

4. Important comments and suggestions from the special committee under the Board during the reporting period

The audit committee made significant suggestions as follows:

(1) To actively assess the impact of the COVID-19 epidemic and the large fluctuations in oil prices on the Company's production and operation and financial status in 2020, the Company shall actively focus on the adjustment of oil companies' investment expenditure plans in the case of large fluctuations in oil prices, communicate and stabilize the internal market of China Petrochemical Corporation, and increase market expansion.

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

(3) To strengthen overseas risk prevention and control, coordinate overseas business layout, and achieve high-quality development. Under the premise of prevention and control the epidemic, the Company must not only fully cooperate with the government and owners to resume work and resume production, but also carefully consider project performance risks and adopt necessary preservation measures; at the same time, carefully study and promote market layout optimization, which is appropriate in accordance with actual conditions. The Company shall adjust the focus of market layout, optimize resource allocation, and balance overseas risks.

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

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

The Supervisory Committee has no objection on the supervised matters during the reporting period.

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

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

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

☐ Applicable √ Not Applicable

7. Regarding the performance evaluation, stimulating and binding mechanism

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

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

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

Whether disclose the internal control self-evaluation report: yes

In 2020, the Company kept improving the internal control system and risk management system, and made the operation of the Company more normalized, scientific and systematic by way of strengthening control and enhancing supervision. The Board will take responsibility for establishing and maintaining sufficient internal control of financial report, and the annual review of the Company's risk management and internal control system. The supervisory committee conduct supervision on the Board about establishment and implement of internal control. Managers take charge of organizing routine operation of internal control. In 2020, the Board assessed internal control of the Company during the past year, in accordance with "basic norms of enterprise internal control", "application guidelines of enterprises internal control", "evaluation guidelines of enterprises internal control" and concluded that there is no important deficiency or significant deficiencies till 31 December 2020. The internal control system of the Company's financial report is sound and effective.

The Board approved the Company's 2020 annual self-assessment of internal control on 24 March 2021. Please visit the website of the Hong Kong stock exchange or the website of the Shanghai Stock Exchange for details of the report. All members of the Board ensure that this report is true, accurate and complete and there is no false records, misleading statements or major omissions.

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

☐ Applicable √ Not Applicable

9. Information about the audit report of internal control

Whether disclose the audit report of internal control: yes

Grant Thornton (Special General Partnership) audited the Company's internal control till 31 December 2020 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2020 annual internal control audit report disclosed on 25 March 2021.

10. Compliance with Code of Corporate Governance Practices of HKSE

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

A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The Board held five meetings in 2020, including four regular meetings. The Directors' attendance of the Board meetings is set forth in item 3 "Performance of duties by the Directors" of this section.

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

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

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

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

A.2 Chairman and Chief Executive Officer

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

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

A.3 The Board composition

(1) The Board of the Company consists of 9 members with extensive professional and corporate governance experiences. Among the 9 members, there are 2 executive directors, 4 non-executive directors and 3 independent non-executive directors. The number of independent non-executive directors represents one third of the total number of directors of the Board. The Company's executive directors and non-executive directors have extensive management experiences in petrochemical and large-sized enterprises; Independent non-executive directors respectively have working background as well-known finance experts with rich experience in international capital management and investment and in energy research. The composition of the Board is reasonable and diversified. On the first meeting of the eighth session of the Board held on 9 February 2015, the Company has approved the boards' diversified policy. This policy specifies that the Company shall consider the diversity of board members from multiple aspects when setting the composition of board members, including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service tenure and other regulatory requirements of the listed place.

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

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

A.4 Appointment, re-election and removal

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

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

A.5 Nomination Committee

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

A.6 Responsibilities of Directors

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

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

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

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

A.7 Supply of and access to information

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

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

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

B. Remuneration of Directors and Senior Management

(1) The company has set up the Remuneration Committee. The Remuneration Committee under the tenth session of the Board consists of independent non-executive Director Mr. Chen Weidong as the Chair Officer, the non-executive director Mr. Fan Zhonghai and the independent non-executive directors Mr. Dong Xiucheng and Mr. Zheng Weijun as members, and the Company has formulated the terms of reference of the Remuneration Committee. The Terms of Reference of the Remuneration Committee can be found on the website of the Company or the Hong Kong Stock Exchange. During the reporting period, the Remuneration Committee held 1 meeting.

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

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

C. Accountability and audit

C.1 Financial reporting

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

(2) The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Company as at 31 December 2020 and of the Company's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis. The Board and all directors warranted that there were no material omissions, or misrepresentations or misleading statements contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

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

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

C.2 Risk management and internal control

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

(2) As for internal control, the Company adopts the international internal control frame structure proposed by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. Based on the Articles of Association and current management system, and combined with domestic and foreign supervisory regulations, the Company made the internal control manual and continuously improved it, and realized total-factor internal control of internal environment, risk evaluation, control activities, information & communication, and internal supervision. Meanwhile, the Company continuously supervised and evaluated its internal control, included the corporate and regional companies into the internal control and evaluation scope by comprehensive inspections such as periodic test, self-examination, audit examination, etc., and made internal control evaluation report. The Board reviews internal control evaluation report annually. For the information about the internal control during the reporting period, please refer to 2020 Internal Control Evaluation Report Prepared by the Company.

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

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

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

C.3 The Audit Committee

(1) The tenth session of the Company's Audit Committee consists of independent non-executive director Mr. Zheng Weijun as the Chief Officer, non-executive director Mr. Zhou Meiyun, and independent non-executive directors Mr. Chen Weidong and Mr. Dong Xiucheng as the members. As verified, none of them had served as a partner or former partner in current auditing firm of the Company.

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

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

(4) During the reporting period, the Audit Committee held 4 meetings and reviewed the Company's 2019 financial report, 2020 interim financial report, the 2020 first quarterly report and 2020 third quarterly report. The Audit Committee review opinions were given at the meetings and submitted to the Board after signing by the members. During the reporting period, the Board and the Audit Committee did not have any different opinion.

As recommended by the first meeting of the Audit Committee of the tenth session of the Board, the second meeting of the tenth session of the Board of Directors of the Company has resolved to appoint BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO China") and BDO Limited as the Company's domestic and international auditors for 2021, and to appoint BDO China as the internal control auditor of the Company for the year 2021. Such proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2020 annual general meeting.

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

D. Delegation by the Board

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

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

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

The Audit Committee

Name	attended in Person	attended by Proxies	Times of Absence
Zheng Weijun	Not Applicable		
Zhou Meiyun	Not Applicable		
Chen Weidong	4	–	–
Dong Xiucheng	4	–	–
Jiang Bo	4	–	–

Note: Since 2 February 2021, Mr. Zheng Weijun served as the chief officer of the tenth session of the Audit Committee, and Mr. Zhou Meiyun served as a member of the Audit Committee.

The Remuneration Committee

Name	attended in Person	attended by Proxies	Time of Absence
Chen Weidong	1	–	–
Fan Zhonghai	1	–	–
Jiang Bo	1	–	–
Dong Xiucheng	1	–	–
Zheng Weijun	Not Applicable		

Note: Since 2 February 2021, Mr. Zheng Weijun was appointed as a member of The Remuneration Committee of the tenth session of the Board.

E. Communication with shareholders

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

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

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

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

(5) Chairman attends the shareholders' general meetings as president. The members of the Board, the senior management attend the shareholders' general meetings to respond to the inquiries from the shareholders. The auditors of the Company also attend the 2019 annual general meeting.

F. Company Secretary

(1) The relevant qualifications of the Company Secretary to serve as a company secretary are acknowledged and recognized by the HKSE. Nominated by the Chairman of the Board and appointed by the Board, the Company Secretary shall report to the Board and the Company. The Company Secretary shall make recommendation to the Board in respect of corporate governance and arrange orientation training and professional development for directors. Due to the expiration of his term, Mr. Li Honghai will no longer serve as the Company Secretary and Authorized Representative of the Company from 2 February 2021. At the same time, the Board appointed Mr. Shen Zehong as the Company Secretary and Authorized Representative of the Company with effect from 2 February 2021.

(2) The Company Secretary actively participates in career development trainings. The former Company Secretary, Mr. Li Honghai has participated in the professional trainings organized by the Hong Kong Institute of Chartered Secretaries and has already been trained over 15 hours during the reporting period.

G. Investor relations

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

Section XI Financial Reports

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

Grant Thornton
致同

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Auditor's Report

GTCSZ(2021)NO.110A004933

To the Shareholders of Sinopec Oilfield Service Corporation:

I. OPINION

We have audited the accompanying Financial Statements of Sinopec Oilfield Service Corporation ("SSC"), which comprises the company and consolidated balance sheets at 31 December 2020, the company and consolidated income statement, the company and consolidated cash flow statement, the company and consolidated statement of changes in owners' equity and notes to the financial statements for the years ended 31 December 2020.

In our opinion, the accompanying financial statements are prepared in accordance with Accounting Standards for Business Enterprises. The financial position of SSC for the year ended 31 December 2020, and the results of its operations and cash flows for the year ended 31 December 2020 are fairly presented in all material respects.

II. BASIS FOR OPINION

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

III. KEY AUDIT MATTERS

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

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

(I) The recognition of revenue and cost

a. Descriptions of the matter

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

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

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

Refer to Notes III. 25 (Revenue), Notes III. 33(6) (Critical accounting judgment and estimates) for related disclosures of accounting policy, significant accounting judgment and estimate about revenue recognition, other detailed information are set out in Notes V. 37 and Note XIV. 5.

b. How our audit addressed the Key Audit Matter

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

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

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

Through reviewing business contracts and interviews with management, we understood and assessed the reasonableness of the basis and assumptions of estimated total revenue and estimated total cost. We checked the consistency of the preparation and assumptions of various types of projects. We compared the cumulative cost as of December 31, 2020 to the estimated total cost, and checked the large cost recorded after the balance sheet date to analyze and evaluate the management's reasonableness of future workload and estimated residual cost of the contract.

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

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

a. Descriptions of the matter

The accounts receivable and contract assets of the Group (hereinafter referred to as "receivables") mainly come from related parties and other PRC and overseas petroleum exploration and development companies. On December 31, 2020, the book value of accounts receivable of the Group was RMB11.833 billion, and the book value of contract assets was RMB11.715 billion, which aggregated to 34.32% of total assets. As at 31 December 2020, the accumulated expected credit losses for account receivables and impairment on contract assets amounted to RMB2.579 billion.

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

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

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

b. How our audit addressed the Key Audit Matter

Our audit procedures for measurement of expected credit losses include:

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

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

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

We have obtained ageing analysis of receivables as at 31 December 2020. We checked the supporting documents such as accounting vouchers and invoices. We also reviewed the key information such as aging analysis, overdue days, and relationship by sampling basis in order to ascertain the accuracy and classification on receivables.

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

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

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

Based on the audit procedures we have performed, we believe that the management's judgments and estimates of the expected credit loss measurement of receivables are acceptable.

IV. OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information in the 2020 annual report of the Company, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, further events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Grant Thornton China

Certified Public Accountants: Zhang Yaxu

Certified Public Accountants: Hao Jianwei

Beijing, China

March 24, 2021

CONSOLIDATED AND COMPANY BALANCE SHEET

Prepared by: Sinopec Oilfield Service Corporation

As at 31 December 2020 | Expressed in RMB thousand

Item	Note	As at 31 December 2020		As at 31 December 2019	
		Consolidated	Company	Consolidated	Company
Current assets:					
Cash at bank and on hand	V.1	1,551,458	159	1,668,837	170
Held-for-trading financial assets					
Bills receivable	V.2			500	
Accounts receivable	V.3	9,358,385		11,996,355	
Receivables at FVTOCI	V.4	1,323,425		1,446,389	
Prepayments	V.5	441,654		553,726	
Other receivables	V.6 XV.1	2,464,362	4,396,431	2,365,418	4,399,759
Including: Interest receivables					
Dividend receivables	V.6	502			
Inventories	V.7	1,033,678		1,185,504	
Contract assets	V.8	11,610,888		9,570,249	
Non-current assets due within one year					
Other current assets	V.9	1,995,808	167	1,742,338	83
Total current assets		29,779,658	4,396,757	30,529,316	4,400,012
Non-current assets:					
Long-term equity investments	V.10 XV.2	43,046	27,891,662	39,718	27,891,662
Other equity instrument investments	V.11	22,835		32,847	
Other non-current financial assets					
Fixed assets	V.12	22,939,838		23,516,427	
Construction in progress	V.13	284,292		213,819	
Right-of-use assets	V.14	1,265,583		1,547,822	
Intangible assets	V.15	504,966		392,947	
Research and development expenditure					
Goodwill					
Long-term deferred expenses	V.16	5,855,143		5,379,478	
Deferred tax assets	V.17	395,834		417,004	
Other non-current assets					
Total non-current assets		31,311,537	27,891,662	31,540,062	27,891,662
Total assets		61,091,195	32,288,419	62,069,378	32,291,674

CONSOLIDATED AND COMPANY BALANCE SHEET (Continued)

Prepared by: Sinopec Oilfield Service Corporation

As at 31 December 2020

Expressed in RMB thousand

Item	Note	As at 31 December 2020		As at 31 December 2019	
		Consolidated	Company	Consolidated	Company
Current liabilities:					
Short-term loans	V.18	19,370,520		20,403,075	
Bills payable	V.19	6,305,228		4,733,932	
Accounts payable	V.20	20,497,509	11,800	20,068,294	11,800
Advances from customers					
Contract liabilities	V.21	3,024,461		3,575,654	
Employee benefits payable	V.22	498,071		421,938	
Taxes payable	V.23	724,389	26,661	843,715	26,531
Other payables	V.24	1,675,104	13,306	1,770,597	8
Including: Interest payable		17,458			
Dividend payable					
Non-current liabilities due within one year	V.25	356,747		535,475	
Total current liabilities		52,452,029	51,767	52,352,680	38,339
Non-current liabilities:					
Long-term loans	V.26	580,716		474,382	
Lease liabilities	V.27	898,469		1,134,746	
Long-term payables	V.28	26,812		784,377	
Provisions	V.29	382,646		449,256	
Deferred income	V.30	14,186		92,211	
Deferred tax liabilities	V.17	13,471		17,854	
Total non-current liabilities		1,916,300		2,952,826	
Total liabilities		54,368,329	51,767	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	11,717,773	14,568,016	11,714,581	14,564,824
Other comprehensive income	V.33	-2,014		6,447	
Special reserve	V.34	258,523		373,238	
Surplus reserve	V.35	200,383	200,383	200,383	200,383
Retained earnings	V.36	-24,436,139	-1,516,087	-24,515,117	-1,496,212
Equity attributable to owners of the Company		6,722,866	32,236,652	6,763,872	32,253,335
Non-controlling interests					
Total equity		6,722,866	32,236,652	6,763,872	32,253,335
Total liabilities and equity		61,091,195	32,288,419	62,069,378	32,291,674

The accompanying notes form part of the financial statements.

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

Section XI Financial Reports

CONSOLIDATED AND COMPANY INCOME STATEMENT

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020

Expressed in RMB thousand

Item	Note	For the year ended 31 December 2020		For the year ended 31 December 2019	
		Consolidated	Company	Consolidated	Company
I. Revenue	V.37	68,073,394		69,870,147	
Less: Cost of sales	V.37	62,605,007		63,695,235	
Taxes and surcharges	V.38	238,128		286,062	
Selling and distribution expenses	V.39	72,604		63,787	
General and administrative expenses	V.40	2,781,058	19,874	2,965,864	34,359
Research and development expenses	V.41	1,369,501		1,194,198	
Finance costs	V.42	1,196,670	1	945,344	-4,211
Including: Interest expenses		906,693		980,463	
Interest income		59,576	1	103,499	4,211
Add: Other income	V.43	516,114		370,829	
Investment income (“-” for losses)	V.44	59,927		204,951	
Including: Income from investment in associates and joint ventures		5,467		13,899	
Gains from derecognition of financial assets measured at amortized cost		53,960		154,539	
Impairment of credit losses (“-” for losses)	V.45	-38,350		-98,582	
Impairment losses on assets (“-” for losses)	V.46	-70,743		-12,657	
Gains on disposal of assets (“-” for losses)	V.47	5,961		67,044	
II. Operating profit (“-” for losses)		283,335	-19,875	1,251,242	-30,148
Add: Non-operating income	V.48	108,405		162,862	
Less: Non-operating expenses	V.49	43,686		58,336	
III. Profit before tax (“-” for losses)		348,054	-19,875	1,355,768	-30,148
Less: Income tax expenses	V.50	269,076		441,524	
IV. Net profit for the year (“-” for losses)		78,978	-19,875	914,244	-30,148
(1) Classification according to operation continuity					
Including: Net profit from continuing operations		78,978	-19,875	914,244	-30,148
Net profit from discontinued operations					
(2) Classification according to attribute					
Including: Owners of the Company		78,978	-19,875	914,244	-30,148
Non-controlling interests					
V. Other comprehensive income, net of tax		-8,461		-5,229	
Other comprehensive income attributable to owners of the Company, net of tax		-8,461		-5,229	
A. Items that will not be reclassified to profit or loss		-8,461		-5,229	
a. Changes in fair value of other equity instruments	V.33	-8,461		-5,229	
B. Items that may be reclassified to profit or loss					
Other comprehensive income attributable to non-controlling interests, net of tax					
VI. Total comprehensive income		70,517	-19,875	909,015	-30,148
Attributable to: Owners of the Company		70,517	-19,875	909,015	-30,148
Non-controlling interests					
VII. Earnings per share:					
(1) Basic earnings per share	XVI.2	0.004		0.048	
(2) Diluted earnings per share	XVI.2	0.004		0.048	

The accompanying notes form part of the financial statements.

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

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020

Expressed in RMB thousand

Item	Note	For the year ended 31 December 2020		For the year ended 31 December 2019	
		Consolidated	Company	Consolidated	Company
I. Cash flows from operating activities:					
Cash received from the sales of goods or rendering of services		63,737,397		65,122,758	
Refunds of tax		351,304		331,262	
Cash received from other operating activities	V.51	3,263,701	777	3,661,508	1,015,471
Subtotal of cash inflow from operating activities		67,352,402	777	69,115,528	1,015,471
Cash paid for goods and services		42,039,015		47,732,202	
Cash paid to and on behalf of employees		15,484,300		15,638,635	
Taxes paid		1,470,849		1,860,359	
Cash paid for other operating activities	V.51	3,886,418	788	2,507,279	1,078,191
Subtotal of cash outflow from operating activities		62,880,582	788	67,738,475	1,078,191
Net cash flow from operating activities	V.52	4,471,820	-11	1,377,053	-62,720
II. Cash flows from investing activities:					
Cash received from disposal of investments					
Cash received from investment income		2,146		2,368	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		140,655		167,338	
Cash received from other investing activities					
Subtotal of cash inflow from investing activities		142,801		169,706	
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		1,742,664		3,208,997	
Cash paid for acquisition of investments		9			
Net cash paid for acquisition of subsidiaries and other business units				139,466	
Cash paid for other investing activities					
Subtotal of cash outflow from investing activities		1,742,673		3,348,463	
Net cash flow from investing activities		-1,599,872		-3,178,757	
III. Cash flows from financing activities:					
Cash received as capital contributions					
Cash received from borrowings		53,601,812		38,367,042	
Cash received from other financing activities	V.51			4,211	4,211
Subtotal of cash inflow from financing activities		53,601,812		38,371,253	4,211
Cash repayments for borrowings		54,391,017		35,715,939	
Cash paid for distribution of dividends or profits and for interest expenses		827,362		855,364	
Cash paid for other financing activities	V.51	1,263,535		550,324	
Subtotal of cash outflow from financing activities		56,481,914		37,121,627	
Net cash flow from financing activities		-2,880,102		1,249,626	4,211
IV. Effect of changes in exchange rates on cash and cash equivalents		-119,226		29,230	
V. Net decrease in cash and cash equivalents	V.52	-127,380	-11	-522,848	-58,509
Add: Cash and cash equivalents at beginning of the year	V.52	1,650,732	170	2,173,580	58,679
VI. Cash and cash equivalents at the end of the year	V.52	1,523,352	159	1,650,732	170

The accompanying notes form part of the financial statements.

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

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020 — Expressed in RMB thousand

Items	For the year ended 31 December 2020								
	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Non-controlling 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									
Others									
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)		3,192		-8,461	-114,715		78,978		-41,006
(I) Total comprehensive income				-8,461			78,978		70,517
(II) Shareholders' contributions and decrease of capital		3,192							3,192
1. Contribution by ordinary shareholders									
2. Share payments recognised in equity		3,192							3,192
3. Others									
(III) Appropriation of profits									
1. Appropriation for surplus reserves									
2. Distributions to shareholders									
(IV) Transfer within equity									
(V) Specific Reserve					-114,715				-114,715
1. Appropriation during the year					1,163,262				1,163,262
2. Utilisation during the year (expressed in "-")					-1,277,977				-1,277,977
IV. Balance at 31/12/2020	18,984,340	11,717,773		-2,014	258,523	200,383	-24,436,139		6,722,866

The accompanying notes form part of the financial statements.

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 (Continued)

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020 | Expressed in RMB thousand

Items	For the year ended 31 December 2019								
	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Non-controlling interests	Total equity
I. Balance at 31/12/2018	18,984,340	11,710,763		11,676	300,609	200,383	-25,429,361		5,778,410
Add: Changes in accounting policies									
Correction of prior period errors									
Others									
II. Balance at 01/01/2019	18,984,340	11,710,763		11,676	300,609	200,383	-25,429,361		5,778,410
III. Changes in equity during the year ("- "for decrease)		3,818		-5,229	72,629		914,244		985,462
(I) Total comprehensive income				-5,229			914,244		909,015
(II) Shareholders' contributions and decrease of capital		3,818							3,818
1. Contribution by ordinary shareholders									
2. Share payments recognised in equity		3,818							3,818
3. Others									
(III) Appropriation of profits									
1. Appropriation for surplus reserves									
2. Distributions to shareholders									
(IV) Transfer within equity									
(V) Specific Reserve					72,629				72,629
1. Appropriation during the year					1,437,814				1,437,814
2. Utilisation during the year (expressed in "-")					-1,365,185				-1,365,185
IV. Balance at 31/12/2019	18,984,340	11,714,581		6,447	373,238	200,383	-24,515,117		6,763,872

The accompanying notes form part of the financial statements.

Chairman: *Chen Xikun*

General Manager: *Yuan Jianqiang*

Chief Financial Officer: *Xiao Yi*

Manager of accounting department: *Pei Defang*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020 Expressed in RMB thousand

Items	For the year ended 31 December 2020							
	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)		3,192					-19,875	-16,683
(I) Total comprehensive income							-19,875	-19,875
(II) Shareholders' contributions and decrease of capital		3,192						3,192
1. Contribution by ordinary shareholders								
2. Share payments recognised in equity		3,192						3,192
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 "-")								
IV. Balance at 31/12/2020	18,984,340	14,568,016				200,383	-1,516,087	32,236,652

The accompanying notes form part of the financial statements.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

Prepared by: Sinopec Oilfield Service Corporation

For the year ended 31 December 2020

Expressed in RMB thousand

Items	For the year ended 31 December 2019							
	Share capital	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total equity
I. Balance at 31/12/2018	18,984,340	14,561,006				200,383	-1,466,064	32,279,665
Add: Changes in accounting policies								
Correction of prior period errors								
Others								
II. Balance at 01/01/2019	18,984,340	14,561,006				200,383	-1,466,064	32,279,665
III. Changes in equity during the year ("- "for decrease)		3,818					-30,148	-26,330
(I) Total comprehensive income							-30,148	-30,148
(II) Shareholders' contributions and decrease of capital		3,818						3,818
1. Contribution by ordinary shareholders								
2. Share payments recognised in equity		3,818						3,818
3. Others								
(III) Appropriation of profits								
1. Appropriation for surplus reserves								
2. Distributions to shareholders								
(IV) Transfer within equity								
(V) Specific Reserve								
1. Appropriation during the year								
2. Utilisation during the year (expressed in "-")								
IV. Balance at 31/12/2019	18,984,340	14,564,824				200,383	-1,496,212	32,253,335

The accompanying notes form part of the financial statements.

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

NOTES TO THE FINANCIAL INFORMATION

I. COMPANY GENERAL INFORMATION

1. Company Profile

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

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

These financial statements and financial information notes have been approved for issue by the nineteenth meeting of the ninth term Board of Directors of the Company on 24 March 2021.

I. COMPANY GENERAL INFORMATION (Continued)

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 RMB24,436,139 thousand, current liabilities exceed current assets of approximately RMB22,672,371 thousand as at 31 December 2020 (Current liabilities exceed current assets of RMB21,823,364 thousand in 2019), committed capital expenditures are approximately RMB180,023 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 2020, the company obtained a credit line of RMB16 billion and an equivalent value of USD0.6 billion from subsidiaries of Sinopec Group, and line of credit promissory note of RMB10 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. If assets are impaired, provision for impairment shall be made in accordance with the relevant policies.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE, which gives a true view of the entire company's and consolidated financial position at 31 December 2020 and the Company's and the consolidated operating results during at 31 December 2020.

2. Accounting period

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

3. Operating cycle

The operating cycle of the Group is 12 months.

4. Functional currency

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

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

5. Business combinations

(1) Business combination involving entities under common control

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

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

5. Business combinations (Continued)

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

Business combinations involving enterprises under common control and achieved in stages

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

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

(2) Business combination involving entities not under common control

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

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

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

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

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

(3) Transaction fees attribution during the combination

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

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

6. Method of preparing consolidated financial statements

(1) Scope of consolidation

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

(2) Method of preparing of consolidated financial statements

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

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

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

The portion of a subsidiary's equity that is not attributable to the parent is treated as 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 earnings. The difference between the disposal of the equity investment without losing control over its subsidiary and the disposal of the long-term equity investment corresponding to the share of the net assets of the subsidiaries from the date of purchase or the date of consolidation is as well.

(4) Treatment of loss of control of subsidiaries

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

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

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

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

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

② These transactions can only achieve one complete business results;

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

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

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

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

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

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

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

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.

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.

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

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.

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.

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

10. Financial instruments (Continued)

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

Financial assets at fair value through profit or loss (Continued)

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.

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 arising from the sale of products or the provision of labor services that do not contain or consider significant financing components, the amount of consideration that the Group is expected to be entitled to receive shall be the initial recognised amount.

(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.

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

10. Financial instruments (Continued)

(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.

(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.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Measurement of expected credit losses (Continued)

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.

Other receivables

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

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

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

Long-term receivables

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

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

A. Long-term receivables

- Long-term receivables 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 installment 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 installment 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.

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

10. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Assessment of Significant Increase in Credit Risk

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.

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.

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

10. Financial instruments (Continued)

(7) Transfer of financial assets

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

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

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

(8) Offsetting financial assets and financial liabilities

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

11. Fair value measurement

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

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

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

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

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

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

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

12. 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.

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

12. Inventories (Continued)

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortization methods of low-value consumables

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

13. Assets Held for sale and discontinued operations

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

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

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

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

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

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

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

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

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

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

B. its recoverable amount

(2) Discontinued operation

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

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

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

is a subsidiary acquired exclusively with a view to resale.

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

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

(3) Disclosure

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

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

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

14. Long-term equity investment

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

(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.

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

14. Long-term equity investment (Continued)

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

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

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

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

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

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

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

(4) Held-for-sale equity investment

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

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

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

(5) Impairment test and Impairment provision

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

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.

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

15. Fixed asset (Continued)

(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	24.25-3.23

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

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

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

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

(5) Overhaul costs

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

16. Construction in progress

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

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

For provision for impairment of construction in progress, refer to note III, 20.

17. Borrowing costs

(1) Recognition principle of capitalization of borrowing costs

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

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

② Borrowing costs incurred;

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

(2) Capitalization period of borrowing costs

The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current period.

Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

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

For interest expense actually incurred on specific borrowings, the eligible capitalised amount is the net amount of the borrowing costs after deducting any investment income earned before some or all of the funds are used for expenditures on the qualifying asset. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset, the capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings specifically for the purpose of obtaining a qualifying asset.

In the capitalisation period, exchange differences of specific borrowings in foreign currency shall be capitalised; exchange differences of general borrowings in foreign currency is recognised in profit or loss for the current period.

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

18. Intangible assets

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

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

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

Category	Useful life	Amortization	Notes
Land use rights	50 years	Straight-line basis	
Software	5 years	Straight-line basis	
Patent rights	10 years	Straight-line basis	
Technology rights	10 years	Straight-line basis	
Contract revenue right		Units-of-production method	

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.

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.

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

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) Scope of employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits provided to the Company's spouse, children, dependents, family members of deceased employees or other beneficiaries are also part of the employee benefits.

According to liquidity, employee benefits are presented as "employee benefits payable" and "long-term employee benefits payable" on the balance sheet.

(2) Short-term employee benefits

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

(3) Post-employment benefits

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

The basic pension insurance

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

Pension plan

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

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

(4) Termination benefits

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

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

(5) Other long-term employee benefits

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

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

23. Provisions

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

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

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

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

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

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

24. Share-based payment and equity instruments

(1) Category of share-based payment

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

(2) Fair value of equity instrument

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

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

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

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

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

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.

(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.

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

25. Revenue (Continued)

(2) The specific methods (Continued)

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.

27. Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value. If fair value cannot be reliably determined, it is measured at a nominal amount of RMB1.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets.

For government grants with unspecified purpose, the amount of grants used to form a long-term asset is regarded as government grants related to an asset, the remaining amount of grants is regarded as government grants related to income. If it is not possible to distinguish, the amount of grants is treated as government grants related to income.

A government grant related to an asset is offset against the carrying amount of the related asset, or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for expenses or losses already incurred is recognised in profit or loss or offset against related expenses directly. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in profit or loss or offset against related expenses in the periods in which the expenses or losses are recognised.

A grant related to ordinary activities is recognised as other income or offset against related expenses based on the economic substance. A grant not related to ordinary activities is recognised as non-operating income.

When a recognised government grant is reversed, carrying amount of the related asset is adjusted if the grant was initially recognized as offset against the carrying amount of the related asset. If there is balance of relevant deferred income, it is offset against the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income is recognised in profit or loss for the current period. For other circumstances, reversal is directly recognized in profit or loss for the current period.

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

28. Deferred tax assets and deferred tax liabilities

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

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

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

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

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

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

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

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

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

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

29. Leases

(1) Identification of leases

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

(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.

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

29. Leases (Continued)

(2) As a lessee (Continued)

Leases of low-value assets

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

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

During the lease term, the relevant cost shall be included in asset cost or current profit and loss on straight-line basis. The contingent rents shall be recognized in profit or loss when occurred.

(3) As a lessor

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

Finance leases

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

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

Operating leases

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

(4) Sublease

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

(5) Sale and leaseback transactions

The Group shall apply the requirements for determining when a performance obligation is satisfied in Accounting Standards for Business Enterprises No. 14 – Revenue to determine whether the transfer of an asset is accounted for as a sale of that asset.

If the transfer of assets in the sale and leaseback transactions is a sale, the Group, as the lessee, shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Group shall recognize only the amount of any gain or loss that relates to the rights transferred to the lessor. The lessor accounts for asset purchases in accordance with other applicable CASBE and performs accounting for asset leases in accordance with this standard.

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.

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.

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

33. Significant accounting judgments and estimates (Continued)

(2) Measurement of Expected Credit Loss of Receivables

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

(3) Provision for diminution in value of inventories

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

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

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

(5) Development costs

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

(6) Revenue recognition

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

(7) Pending claims

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

(8) Deferred 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.

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

34. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

① Interpretation No.13 to Accounting Standards for Business Enterprises

The Ministry of Finance have issued Interpretation No.13 to Accounting Standards for Business Enterprises (Cai Kuai [2019] No.21) in December 2019 (the "Interpretation 13").

The Interpretation No.13 revised three elements that constitute business and specified judgement conditions to business. It also introduced "degree of concentration test" when making judgement on whether the operating activities or asset group, acquired by the purchaser in a business combination involving entities not under common control, constitutes a business.

The Interpretation No.13 clarified that the related party of an enterprise shall include joint venture and associates of other common members (including parent company and subsidiaries) that belong to the same enterprise group, and joint venture and associates of the investor that exerts common control over the enterprise.

The Interpretation No.13 was taken effective since 1 January 2020. The Group adopts prospective application to accounting for above accounting policy changes.

The adoption of Interpretation No.13 had no significant impact to the Group's financial position, operation performance and related party disclosure.

(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	Sales revenue in accordance with relevant tax law	3, 6, 9, 10 or 13, 16
Urban maintenance and construction tax	The actual VAT and circulation tax payment	1, 5, 7
Educational surcharge	The actual VAT and circulation tax payment	5
Enterprise income tax	Taxable income	25

Enterprise 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 South West Petroleum Engineering Company Limited	15, 25
Sinopec Zhongyuan Oil Engineering Design Company Limited	15
Sinopec Henan Oil Engineering Design Company Limited	15
Sinopec Oil Engineering geophysical Company Limited	15

2. Tax preferential

(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) Enterprise income tax

In accordance to "Notification of tax policy issues on in-depth 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 South West 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 Oil Engineering geophysical Company Limited, Sinopec Zhongyuan Oil Engineering Design Company Limited and Sinopec Henan Oil Engineering Design Company Limited have obtained High-tech enterprise accreditation and enjoy a preferential income tax rate at 15%.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

Items	As at 31 December 2020	As at 31 December 2019
Cash on hand	8,517	6,792
Cash at banks	774,312	853,636
Cash in finance companies	757,540	805,456
Other monetary funds	11,089	2,953
Total	1,551,458	1,668,837
Amount deposited abroad:	1,245,493	1,379,650

At 31 December 2020, the Group's restricted cash such as margin deposit is RMB28,106 thousand (At 31 December 2019: RMB18,105 thousand), the Group held restricted deposit amounted to RMB7,238 thousand (At 31 December 2019: RMB15,267 thousand), there is no deposits pledged to banks for issuing bankers' acceptances.

2. Bills receivable

Type	As at 31 December 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 31 December 2020	As at 31 December 2019
Within 1 year	8,296,681	10,645,810
Including: Not overdue	7,147,826	9,386,890
Overdue within 1 year	1,148,855	1,258,920
Subtotal of within 1 year	8,296,681	10,645,810
1 – 2 years	832,651	1,416,599
2 – 3 years	737,894	563,666
3 – 4 years	339,558	736,767
4 – 5 years	638,449	716,238
Over 5 years	987,690	431,265
Subtotal:	11,832,923	14,510,345
Less: provision for bad debts	2,474,538	2,513,990
Total:	9,358,385	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 31 December 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	983,589	8.32	983,589	100.00	–	1,082,918	7.46	1,082,918	100.00	–
Provision for bad and doubtful debts collectively:	10,849,334	91.68	1,490,949	13.74	9,358,385	13,427,427	92.54	1,431,072	10.66	11,996,355
Including: Related party grouping	3,282,821	27.74	71,948	2.19	3,210,873	4,885,648	33.67	99,509	2.04	4,786,140
Third party grouping	7,566,513	63.94	1,419,001	18.75	6,147,512	8,541,779	58.87	1,331,563	15.59	7,210,215
Total	11,832,923	100.00	2,474,538	20.91	9,358,385	14,510,345	100.00	2,513,990	17.33	11,996,355

Provision made on an individual basis

Name	As at 31 December 2020			
	Amount	Bad debt provision	Expected credit loss (%)	Provision reason
Entity A	894,297	894,297	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity B	43,463	43,463	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity C	27,266	27,266	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Others	18,563	18,563	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Total	983,589	983,589	100.00	/

Provision for bad and doubtful debts collectively:

Provision for bad and doubtful debts due from related party grouping

	As at 31 December 2020			As at 31 December 2019		
	Amount	Bad debt provision	Expected credit loss (%)	Amount	Bad debt provision	Expected credit loss (%)
Within 1 year	2,841,134	10,041	0.35	4,232,756	15,005	0.35
Including: Not overdue	2,624,432	7,874	0.30	3,903,164	11,709	0.30
Overdue within 1 year	216,702	2,167	1.00	329,592	3,296	1.00
1 – 2 years	237,034	12,449	5.25	416,992	21,308	5.11
2 – 3 years	115,193	11,865	10.30	121,794	12,507	10.27
3 – 4 years	52,495	13,077	24.91	58,920	14,491	24.59
4 – 5 years	17,980	9,328	51.88	27,248	13,848	50.82
Over 5 years	18,985	15,188	80.00	27,938	22,350	80.00
Total	3,282,821	71,948	2.19	4,885,648	99,509	2.04

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

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

Provision for bad and doubtful debts due from third party grouping

	As at 31 December 2020			As at 31 December 2019		
	Amount	Bad debt provision	Amount	Bad debt provision	Amount	Bad debt provision
Within 1 year	5,531,474	60,406	1.09	6,357,594	85,950	0.95
Including: Not overdue	4,599,324	13,798	0.30	5,483,724	16,452	0.30
Overdue within 1 year	932,150	46,608	5.00	873,870	43,693	5.00
1 – 2 years	532,550	139,574	26.21	814,767	207,480	25.46
2 – 3 years	435,280	229,215	52.66	435,209	221,626	50.92
3 – 4 years	280,400	227,155	81.01	232,752	186,583	80.16
4 – 5 years	177,970	153,812	86.43	298,129	252,401	84.66
Over 5 years	608,839	608,839	100.00	403,328	403,328	100.00
Total	7,566,513	1,419,001	18.75	8,541,779	1,331,563	15.59

(3) Provision, recovery or reversal of bad debt

	Bad debt provision
As at 1 January 2020	2,513,990
Provision	363,655
Recovery or reversal	399,397
Written-off	1,734
Other deduction	1,976
As at 31 December 2020	2,474,538

(4) Accounts receivable written off during this year

Item	Amount
Accounts receivable written off	1,734

The amount of accounts receivable actually written off during the period was RMB1,734 thousand. There were no no accounts receivable form related parties, and the individual amount was not significant.

(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	1,864,428	15.76	25,769
Entity B	1,016,170	8.59	65,421
Entity C	894,297	7.56	894,297
Entity D	784,987	6.63	10,604
Entity E	544,294	4.60	1,681
Total	5,104,176	43.14	997,772

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Receivables at FVTOCI

Item	As at 31 December 2020	As at 31 December 2019
Bills receivable	1,323,425	1,446,389
Accounts receivable	–	–
Subtotal:	1,323,425	1,446,389
Less: Other comprehensive income from changes in fair values	–	–
Total	1,323,425	1,446,389

Some subsidiaries of the Group discount and endorse part of bank acceptance bills and trade acceptance bills according to their daily fund management needs, and derecognize the discounted or endorsed bills receivable based on the fact that almost all risks and rewards have been transferred to the relevant counterparty. As at 31 December 2020, the bills receivables that had been endorsed or discounted but not yet due were RMB8,659,126 thousand (At 31 December 2019: RMB4,226,882 thousand). The business model of the relevant subsidiary's management of bills receivable is to both collect contractual cash flows and sell the financial asset. Therefore, the bank acceptance bills and trade acceptance bills of this subsidiary are classified as measured financial assets which changes included in other comprehensive income at fair value.

The Group does not have a single bank acceptance bill or trade acceptance bill for impairment provision. As at 31 December 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 impairment of credit losses for accounts receivables financing.

5. Prepayments

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

Ageing	As at 31 December 2020		As at 31 December 2019	
	Amount	Proportion %	Amount	Proportion %
Within 1 year	359,258	81.34	517,085	93.38
1 – 2 years	78,464	17.77	14,955	2.70
2 – 3 years	2,165	0.49	11,889	2.15
Over 3 years	1,767	0.40	9,797	1.77
Total	441,654	100.00	553,726	100.00

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

The total amount of the five largest prepayments is 241,792 thousand, which contributed 54.26% of the total ending balance amount of prepayments.

6. Other receivables

Items	As at 31 December 2020	As at 31 December 2019
Dividends receivable	502	
Other receivables	2,463,860	2,365,418
Total	2,464,362	2,365,418

(1) Dividends receivable

Items	As at 31 December 2020	As at 31 December 2019
Entity A	502	
Subtotal	502	
Less: Bad debts		
Total	502	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

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

① The ageing analysis is as follows:

Category	As at 31 December 2020	As at 31 December 2019
Within 1 year	1,739,781	1,994,210
1 – 2 years	690,443	328,161
2 – 3 years	118,067	155,985
3 – 4 years	111,146	212,106
4 – 5 years	197,912	116,053
Over 5 years	363,660	269,588
Subtotal:	3,221,009	3,076,103
Less: provision for bad debts	757,149	710,685
Total:	2,463,860	2,365,418

② Other receivables disclosed by nature:

Items	As at 31 December 2020			As at 31 December 2019		
	Ending balance	Provision for diminution in value	Carrying amount	Ending balance	Provision for diminution in value	Carrying amount
Imprest	11,907	338	11,569	12,249	838	11,411
Guarantee	1,326,522	173,435	1,153,087	1,412,018	191,575	1,220,443
Amount paid on behalf	833,797	151,599	682,198	732,671	140,267	592,404
Temporary payment	622,405	394,479	227,926	623,580	338,308	285,272
Escrow funds	4,688	2,975	1,713	39,529	6,502	33,027
Deposits	44,539	8,540	35,999	46,742	5,659	41,083
Export tax refund receivable	22,213	3,305	18,908	8,663	457	8,206
Others	354,938	22,478	332,460	200,651	27,079	173,572
Total	3,221,009	757,149	2,463,860	3,076,103	710,685	2,365,418

③ Provision for bad debts

As at 31 December 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	2,440,720	4.63	113,020	2,327,700
Imprest	11,907	2.84	33,624	803,491
Guarantee and deposits	825,208	4.03	338	11,569
Others	1,603,605	4.95	33,286	791,922
Total	2,440,720	4.63	113,020	2,327,700

As at 31 December 2020, the company did not have interests receivable, dividends receivable and other receivables in the second stage.

As at 31 December 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	780,289	82.55	644,129	136,160
Imprest				
Guarantee and deposits	183,896	70.68	129,983	53,913
Others	596,393	86.21	514,146	82,247
Total	780,289	82.55	644,129	136,160

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other receivables (Continued)

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

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
The balance on 1 January 2020 transferred in the current period				
– Transferred to the third stage				
– Transferred to the first stage				
Provision	64,911		85,135	150,046
Recovery	52,722		27,096	79,818
Reversal				
Others			-23,764	-23,764
As at 31 December 2020	113,020		644,129	757,149

⑤ Other receivables written off during this year

There are no other receivables that have been written off in the current period.

⑥ The five largest other receivable are analyzed as follows:

Company Name	Nature of payment	Amount	Ageing	Percentage of total other receivable %	Ending balance of bad debt provision
Entity A	Amount paid on behalf	472,124	Within 1 year	14.66	15,817
Entity B	Temporary payment	311,539	1 – 5 years	9.67	217,369
Entity C	Guarantee, deposits	239,453	1 – 5 years	7.43	4,991
Entity D	Temporary payment	166,339	Over 5 years	5.16	166,339
Entity E	Amount paid on behalf	113,173	1– 5 years and over 5 years	3.51	108,588
Total		1,302,628		40.43	513,104

7. Inventories

(1) Inventories by categories

Items	As at 31 December 2020			As at 31 December 2019		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	916,767	38,826	877,941	1,030,568	52,489	978,079
Work in progress	66,577	1,671	64,906	8,781	1,671	7,110
Finished goods	68,039		68,039	53,875	615	53,260
Turnover materials	15,079		15,079	10,016		10,016
Costs to fulfil a contract	7,713		7,713	137,039		137,039
Total	1,074,175	40,497	1,033,678	1,240,279	54,775	1,185,504

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories (Continued)

(2) Provision for decline in value of inventories

Category	As at 1 January 2020	Increase during the period		Written back during the period		As at 31 December 2020
		Provision	Others	Reversal or Write-off	Others	
Raw materials	52,489	4,846		17,504	1,005	38,826
Work in progress	1,671					1,671
Finished goods	615			615		
Total	54,775	4,846		18,119	1,005	40,497

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

(3) As at 31 December 2020 and 31 December 2019, the Group had no capitalized borrowing costs included in the year end balance of inventories. The inventories were not used for collateral or guarantee.

8. Contract assets

Items	As at 31 December 2020	As at 31 December 2019
Contract assets	**11,715,335**	9,609,431
Less: Impairment of contract assets	**104,447**	39,182
Subtotal	**11,610,888**	9,570,249
Less: Contract assets listed in other non-current assets		
Total	**11,610,888**	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

Type	As at 31 December 2020					As at 31 December 2019				
	Cost		Provision for impairment			Cost		Provision for impairment		
	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount	Amount	Proportion (%)	Amount	Expected credit loss (%)	Net carrying amount
Provision for bad and doubtful debts collectively	**11,715,335**	**100.00**	**104,447**	**0.89**	**11,610,888**	9,609,431	100.00	39,182	0.41	9,570,249
Including:										
Petroleum Engineering	**5,996,377**	**51.18**	**87,600**	**1.46**	**5,908,777**	4,199,541	43.70	22,900	0.55	4,176,641
Construction and Engineering	**5,718,958**	**48.82**	**16,847**	**0.30**	**5,702,111**	5,409,890	56.30	16,282	0.30	5,393,608
Total	**11,715,335**	**100.00**	**104,447**	**0.89**	**11,610,888**	9,609,431	100.00	39,182	0.41	9,570,249

9. Other current assets

Items	As at 31 December 2020	As at 31 December 2019
Prepaid VAT	**761,948**	571,886
Value-added tax to be certified	**247,610**	10,285
Excess value-added tax paid	**981,684**	1,135,967
Prepaid enterprise income tax	**4,566**	24,200
Total	**1,995,808**	1,742,338

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-term equity investments

Name of company	As at 1 January 2020	The fluctuation of this period			As at 31 December 2020	The ending balance of impairment
		Additional investment	Investment gains and losses confirmed by the equity method	The issuance of profit		
① Joint venture						
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	8,303		13		8,316	
Sinopec Gulf Petroleum Engineering Services, LLC	13,383		-308		13,075	
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	2,105		10	502	1,613	
EBAPAN, S.A.DEC.V		9	191		200	
Subtotal	23,791	9	-94	502	23,204	
② Associates						
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	5,090		2,264	700	6,654	
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	2,970		931	700	3,201	
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,198		228	246	2,180	
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	2,409		827		3,236	
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	3,260		1,311		4,571	
Subtotal	15,927		5,561	1,646	19,842	
Total	39,718	9	5,467	2,148	43,046	

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 31 December 2020	As at 31 December 2019
Sinopec & Tharwa Drilling Company	**14,229**	23,699
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd	**8,491**	9,010
Dongying Kewei Intelligent Technology Co., Ltd	**115**	138
Total	**22,835**	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.

Item	Dividend income recognized during the period	Accumulated gains	Accumulated losses	The amount of other comprehensive income transferred to retained earning	Reason
Sinopec & Tharwa Drilling Company		6,490			
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd	500		7,744		
Dongying Kewei Intelligent Technology Co., Ltd			300		

12. Fixed assets

Category	As at 31 December 2020	As at 1 January 2020
Fixed assets	**22,917,438**	23,502,540
Disposal of fixed assets	**22,400**	13,887
Total	**22,939,838**	23,516,427

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fixed assets (Continued)

(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	7,162	2,511,067	2,518,229
(1) Purchase	7,162	1,481,792	1,488,954
(2) Transferred from construction in progress		1,029,275	1,029,275
3. Written back during the year	11,578	1,227,767	1,239,345
(1) Disposal or retirement	11,578	1,227,767	1,239,345
4. At 31 December 2020	1,633,344	62,186,310	63,819,654
Accumulated depreciation:			
1. At 1 January 2020	545,647	37,130,827	37,676,474
2. Increase in the year	60,185	2,902,490	2,962,675
(1) Depreciation	60,185	2,902,490	2,962,675
3. Written back during the year	6,970	1,058,329	1,065,299
(1) Disposal or retirement	6,970	1,058,329	1,065,299
4. At 31 December 2020	598,862	38,974,988	39,573,850
Provision for impairment			
1. At 1 January 2020	8,436	1,353,320	1,361,756
2 Increase in the year			
3. Written back during the year	–	33,390	33,390
(1) Disposal or retirement	–	33,390	33,390
4. At 31 December 2020	8,436	1,319,930	1,328,366
Net carrying amount			
1. At 31 December 2020	1,026,046	21,891,392	22,917,438
2. At 1 January 2020	1,083,677	22,418,863	23,502,540

Notes:
A. At 31 December 2020, the net amount of the Group's fixed assets were pledged is RMB20,715 thousand.

② The situation of premises without qualified ownership certificates

There had been a total amount of 29 premises without qualified ownership certificates up to 31 December 2020, totaling amount in cost of 223,693 thousand, in accumulated depreciation of 39,638 thousand and net book value of 194,055 thousand.

(2) Disposal of fixed assets

Items	As at 31 December 2020	As at 31 December 2019	Reasons for moving to disposal
Equipment	**22,400**	13,887	Written off

As at 31 December 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 31 December 2020	As at 31 December 2019
Construction in progress	284,292	213,819

(1) Construction in progress

① *Details of construction in progress*

Items	As at 31 December 2020			As at 31 December 2019		
	Cost	Impairment	Net carrying amount	Cost	Impairment	Net carrying amount
Infrastructure improvement expenditure	15,101	3,502	11,599	5,631	3,502	2,129
Major Materials and equipment procurement projects	303,273	68,232	235,041	273,086	68,232	204,854
Other construction projects	37,652		37,652	6,836		6,836
Total	356,026	71,734	284,292	285,553	71,734	213,819

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

Project name	As at 1 January 2020	Additions	Transfer to fixed assets	Other deduction	Accumulated capitalized interest	As at 31 December 2020
	A	B	C	D		E=A+B-C-D
Geophysical construction project of Pneumatic gun Focus Vessel in Paralic Zone	9,418	8,760				18,178
Purchase project of seismic node acquisition equipment		102,588	51,294			51,294
Desert blasting equipment transport vehicle update project		11,886				11,886
Fracturing equipment update		110,971	107,079			3,892
Top drive purchase project		24,358				24,358
High-pressure mud pump unit purchase project		27,536	129			27,407
Modification of ZJ90DB Drilling Rig		38,897	38,897			
Electric fracturing equipment purchase project		137,760	137,760			
Modification of SP260 drilling rig		48,033	48,033			
Modification of SP259 drilling rig		39,568	39,568			
Total	9,418	550,357	422,760			137,015

Project name	Budget	Percentage of current input over budget (%)	Progress (%)	Sources of funds
Geophysical construction project of Pneumatic gun Focus Vessel in Paralic Zone	19,180	49	49	Selfraised
Purchase project of seismic node acquisition equipment	115,300	89	89	Selfraised
Desert blasting equipment transport vehicle update project	12,660	94	94	Selfraised
Fracturing equipment update	116,150	95	95	Selfraised
Top drive purchase project	24,850	98	98	Selfraised
High-pressure mud pump unit purchase project	27,600	99	99	Selfraised
Modification of ZJ90DB Drilling Rig	38,900	100	100	Selfraised
Electric fracturing equipment purchase project	137,760	100	100	Selfraised
Modification of SP260 drilling rig	48,100	100	100	Selfraised
Modification of SP259 drilling rig	39,730	100	100	Selfraised
Total	580,230			

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	21,675	225,278	56,110	303,063
(1) Lease	20,700	207,984	54,817	283,501
(2) Adjustment of lease liability	975	17,294	1,293	19,562
3. Written back during the year	3,437	57,035	40,100	102,572
(1) Reclassification	1,337	17,013	30,068	48,418
(2) Write-off or early termination	2,100	40,022	10,032	52,154
4. At 31 December 2020	229,773	940,784	960,589	2,131,146
Accumulated depreciation:				
1. At 1 January 2020	46,447	178,350	156,036	380,833
2. Increase in the year	54,787	228,078	237,687	520,552
(1) Depreciation	54,787	228,078	237,687	520,552
(2) Others				
3. Written back during the year	2,100	26,819	6,903	35,822
(1) Write-off or early termination	2,100	26,819	6,903	35,822
(2) Others				
4. At 31 December 2020	99,134	379,609	386,820	865,563
Provision for impairment				
1. At 1 January 2020				
2. At 31 December 2020				
Net carrying amount				
1. At 31 December 2020	130,639	561,175	573,769	1,265,583
2. At 1 January 2020	165,088	594,191	788,543	1,547,822

Notes:
At 31 December 2020, the lease expense of the Group's short-term leases and leases of low-value assets is RMB996,480 thousand.

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		11,011	219,891	436	231,338
(1) Purchase		11,011		436	11,447
(2) Construction completed			219,891		219,891
(3) Additions due to business combinations					
3. Written back during the year		3,448			3,448
(1) Disposal		3,448			3,448
4. At 31 December 2020	136,660	178,160	618,962	77,364	1,011,146
Accumulated amortization:					
1. At 1 January 2020	25,210	131,437	210,984	22,678	390,309
2. Increase in the year	3,095	10,610	104,820	794	119,319
(1) Provision	3,095	10,610	104,820	794	119,319
(2) Additions due to business combinations					
3. Written back during the year		3,448			3,448
(1) Disposal		3,448			3,448
4. At 31 December 2020	28,305	138,599	315,804	23,472	506,180
Provision for impairment					
Carrying amount					
1. At 31 December 2020	108,355	39,561	303,158	53,892	504,966
2. At 1 January 2020	111,450	39,160	188,087	54,250	392,947

Notes:
At 31 December 2020, no internal research form intangible assets.
At 31 December 2020, the above intangible assets were not pledged.

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

16. Long-term deferred expenses

Items	As at 1 January 2020	Increase in the year	Decrease in the year		As at 31 December 2020
			Amortization in the year	Other decreases	
Special tools of petroleum engineering	4,163,931	2,138,381	1,527,914		4,774,398
Other tools of Petroleum engineering	723,059	264,596	478,434		509,221
Camping house	472,621	248,761	170,834		550,548
Other long-term deferred expenses	19,867	9,266	5,759	2,398	20,976
Total	5,379,478	2,661,004	2,182,941	2,398	5,855,143

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Deferred tax assets and deferred tax liabilities

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

Items	As at 31 December 2020		As at 31 December 2019	
	Deductible/ taxable temporary differences	Deferred tax assets/ liabilities	Deductible/ taxable temporary differences	Deferred tax assets/ liabilities
Deferred tax assets				
Provision for assets impairment and influence on depreciation	1,423,786	230,850	1,466,534	245,249
Provision for bad debts	934,484	163,328	880,471	162,393
Deferred income	3,284	493	59,936	9,362
Others	7,744	1,163		
Subtotal	2,369,298	395,834	2,406,941	417,004
Deferred tax liabilities				
Revaluation of assets	59,459	11,519	62,810	15,359
Depreciation of fixed assets	2,194	329	3,123	484
Changes in fair value through other comprehensive income	6,490	1,623	8,737	2,011
Subtotal	68,143	13,471	73,484	17,854

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

Items	As at 31 December 2020	As at 31 December 2019
Deductible temporary differences	2,366,618	2,290,907
Deductible tax losses	15,801,608	17,746,849
Total	18,168,226	20,037,756

Due to the uncertainty of whether sufficient taxable income can be obtained in the future, the Group does not recognise deductible temporary difference, and deductible tax losses as deferred tax asset.

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

Years	As at 31 December 2020	As at 31 December 2019
year 2020	–	388,082
year 2021	2,205,450	3,148,039
year 2022	1,486,858	1,530,886
year 2023	264,513	309,550
year 2024	156,593	156,593
year 2025 and beyond	11,688,194	12,213,699
Total	15,801,608	17,748,869

18. Short-term loans

Items	Currency	As at 31 December 2020	As at 31 December 2019
Credit loans from related parties	RMB	17,400,000	18,080,000
	USD	1,970,520	2,323,075
Total		19,370,520	20,403,075

As at 31 December 2020, no assets of the Group were pledged.

As at 31 December 2020, the Group has no overdue short-term borrowings.

As at 31 December 2020, the interest rate range of short-term borrowings is 1.42%-3.92% (31 December 2019: 3.09%-3.92%).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Bills payable

Category	As at 31 December 2020	As at 31 December 2019
Bank acceptance bills	6,305,228	4,733,932

Notes: There is no unpaid bills and bank deposit pledged for bills payable at 31 December 2020.

20. Accounts payable

Items	As at 31 December 2020	As at 31 December 2019
Payables for materials	5,287,323	5,155,319
Payables for construction	5,029,663	5,252,570
Payable for labour cost	6,316,880	5,969,634
Payables for equipment	3,200,662	2,967,070
Others	662,981	723,701
Total	20,497,509	20,068,294

Important accounts payable aged over one year:

Items	As at 31 December 2020	Overdue reasons
Entity A	52,316	Retention money, Unsettled
Entity B	42,697	Retention money, Unsettled
Entity C	29,310	Retention money, Unsettled
Entity D	17,190	Retention money, Unsettled
Entity E	12,682	Retention money, Unsettled
Total	154,195	

21. Contract liabilities

Items	As at 31 December 2020	As at 31 December 2019
Petroleum Engineering	1,163,124	1,628,189
Construction Engineering	1,861,337	1,947,465
Total	3,024,461	3,575,654

The balance of contract liabilities as at 1 January 2020 is RMB3,575,654 thousand, in which RMB2,721,655 thousand was recognized as revenue during the period.

22. Employee benefits payable

Items	As at 1 January 2020	Increase in the year	Decrease in the year	As at 31 December 2020
Short term employee benefits	421,679	14,134,407	14,058,339	497,747
Post-employment benefits	259	1,583,739	1,583,674	324
Termination benefits		29,311	29,311	
Total	421,938	15,747,457	15,671,324	498,071

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Employee benefits payable (Continued)

(1) Short-term employee benefits

Items	As at 1 January 2020	Increase in the year	Decrease in the year	As at 31 December 2020
Wages or salaries, bonuses, allowances and subsidies	262,904	9,658,195	9,594,997	326,102
Staff welfare	–	1,136,356	1,136,356	–
Social security contributions	544	816,864	816,760	648
Including: 1. Basic medical insurance	178	587,560	587,336	402
2. Supplementary medical insurance	–	102,753	102,753	–
3. Work-related injury insurance	22	37,312	37,321	13
4. Birth insurance	13	41,391	41,385	19
5. Other insurance	331	47,848	47,965	214
Housing funds	2,545	981,485	981,999	2,031
Labor union and employee education funds	147,566	272,948	257,940	162,574
Others	8,120	1,268,559	1,270,287	6,392
Total	421,679	14,134,407	14,058,339	497,747

(2) Defined contribution plans

Items	As at 1 January 2020	Increase in the year	Decrease in the year	As at 31 December 2020
Post-employment benefits	259	1,583,739	1,583,674	324
Including: Basic pension insurance	227	899,699	899,730	196
Unemployment insurance	13	38,095	38,098	10
Annuity	19	645,945	645,846	118
Total	259	1,583,739	1,583,674	324

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 29,311 thousand compensation to the resigning employee for terminating labor relation.

23. Taxes payable

Items	**As at 31 December 2020**	As at 31 December 2019
VAT	**187,632**	259,488
Urban maintenance and construction tax	**31,800**	33,433
Education surtax	**18,386**	20,613
Corporate income tax	**266,628**	324,190
Individual income tax	**127,584**	89,876
Withholding tax	**6,453**	28,009
Others	**85,906**	88,106
Total	**724,389**	843,715

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Other payables

Items	As at 31 December 2020	As at 31 December 2019
Interest payable	17,458	19,158
Other payables	1,657,646	1,751,439
Total	1,675,104	1,770,597

(1) Interest payable

Items	As at 31 December 2020	As at 31 December 2019
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	864	1,849
Interest payable of short term loan	16,594	17,309
Total	17,458	19,158

The Group have no overdue interest to pay at 31 December 2020.

(2) Other payables

Items	As at 31 December 2020	As at 31 December 2019
Guarantee	489,083	385,596
Deposits	126,570	112,746
Amount paid on behalf	558,073	688,996
Temporary receipts	117,080	237,657
Escrow payments	43,776	51,789
Withheld payments	54,411	65,867
Others	268,653	208,788
Total	1,657,646	1,751,439

As at 31 December 2020, other payables with aging over 1 year with a carrying amount of 401,514 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.

25. Non-current liabilities due within one year

Items	As at 31 December 2020	As at 31 December 2019
Long-term payables within one year	5,700	141,147
Lease liabilities within one year	351,047	394,328
Total	356,747	535,475

(1) Long-term payables within one year

Items	As at 31 December 2020	As at 31 December 2019
Loans of sale-leaseback	5,700	141,047
Other long-term payables		100
Total	5,700	141,147

26. Long-term loans

Items	As at 31 December 2020	Range of interest rate	As at 31 December 2019	Range of interest rate
Loans on credit	580,716	2.37%-2.92%	474,382	7.89%-8.80%
Less: Long-term loans within one year				
Total	580,716		474,382	

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Lease liabilities

Item	As at 31 December 2020	As at 1 January 2019
Land and buildings	676,252	755,689
Equipment and others	573,264	773,385
Subtotal	1,249,516	1,529,074
Less: Lease liabilities within one year	351,047	394,328
Total	898,469	1,134,746

Notes: The amount of interest expenses for lease liabilities accrued in 2020 is RMB70,843 thousand, which is included in interest expenses of financial expenses.

28. Long-term payables

Item	As at 31 December 2020	As at 1 January 2019
Long-term payables	26,812	784,377

(1) Long-term payables

Item	As at 31 December 2020	As at 1 January 2019
Loans payable	11,200	839,747
Others	21,312	85,777
Subtotal	32,512	925,524
Less: Long-term payables within one year	5,700	141,147
Total	26,812	784,377

29. Provisions

Items	As at 31 December 2020	As at 31 December 2019	Reasons
Outstanding litigation	889	1,915	
Executory onerous contracts	51,081	82,736	Expected loss of construction contract
Expected loss of judicial restructuring	330,676	364,605	Estimated payment of judicial restructuring
Total	382,646	449,256	

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

30. Deferred income

Items	As at 1 January 2020	Increase for the period	Decrease for the period	As at 31 December 2020	Reason for deferral
Government grants	92,211	433,185	511,210	14,186	Received government grants

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 31 December 2020:

Items	As at 1 January 2020	Issued shares	Others	Subtotal	As at 31 December 2020
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 1 January 2019	Issued shares	Others	Subtotal	As at 31 December 2019
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 31 December 2020:

Items	As at 1 January 2020	Increase for the period	Decrease for the period	As at 31 December 2020
Share premium	11,629,142			11,629,142
Other capital reserve	85,439	3,192		88,631
Total	11,714,581	3,192		11,717,773

At 31 December 2019:

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

Notes: The increase in other capital reserve is share payment.

V. Notes to the consolidated financial statements (Continued)

33. Other comprehensive income

Items		For the year ended 31 December 2020					
	As at 1 January 2020 (1)	Pre-tax income for the period	Less: previously recognized amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Company (2)	Net-of-tax amount attributable to non-controlling interests	As at 31 December 2020 (3)=(1)+(2)
I. Items that will not be reclassified to profit or loss	6,447	-10,012		-1,551	-8,461		-2,014
1. Changes in fair value through other equity instrument investments	6,447	-10,012		-1,551	-8,461		-2,014
II. Items that may be reclassified to profit or loss							
Total	6,447	-10,012		-1,551	-8,461		-2,014

Note: Net-of-tax amount of other comprehensive income during the year is RMB -8,461 thousand, in which net-of-tax amount of other comprehensive income attributable to shareholders of the Company is RMB -8,461 thousand.

34. Special reserve

Items	As at 1 January 2020	Increase for the period	Decrease for the period	As at 31 December 2020
Safety costs	373,238	1,163,262	1,277,977	258,523

Notes: In accordance with PRC regulations, the Group appropriated production safety fund of RMB1,163,262 thousand to specific reserve for the year ended 31 December 2020, which was recognised in the cost of related products and the Specific reserve. For the year ended 31 December 2020, the Group utilised production safety fund amounting to RMB1,277,977 thousand which was of expenditure nature.

35. Surplus reserve

Items	As at 1 January 2020	Increase for the period	Decrease for the period	As at 31 December 2020
Statutory surplus reserve	200,383			200,383

36. Retained earnings

Items	For the year ended 31 December 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 1 January 2020 after adjustment	-24,515,117	-25,429,361	
Add: Net profit attributable to parent company	78,978	914,244	
Less: Withdrawal of statutory surplus reserves			10%
Retained earnings at 31 December 2020	-24,436,139	-24,515,117	
Including: Surplus reserve attributable to parent company extracted by subsidiaries	20,950	39,616	

V. Notes to the consolidated financial statements (Continued)

37. Revenue and cost of sales

Items	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Revenue	Cost	Revenue	Cost
Major business	67,057,480	62,074,623	68,787,225	63,237,610
Other business	1,015,914	530,384	1,082,922	457,625

(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							
Mainland China	3,762,257	25,988,028	2,650,732	7,883,901	14,191,247	1,250,272	55,726,437
Other countries or regions	837,114	8,211,629	78,028	712,454	1,491,818	–	11,331,043
Total	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	1,250,272	67,057,480
Customer types							
Related party	3,433,486	20,239,926	2,277,097	6,551,029	10,162,345	518,415	43,182,298
Third party	1,165,885	13,959,731	451,663	2,045,326	5,520,720	731,857	23,875,182
Total	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	1,250,272	67,057,480
Time of revenue recognition							
Goods (Recognised at a certain time)	–	23,259	6,670	–	24,252	141,715	195,896
Services (Recognised over time)	4,599,371	34,176,398	2,722,090	8,596,355	15,658,813	1,108,557	66,861,584
Total	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	1,250,272	67,057,480

(2) Statement of performance obligations

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

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

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

(3) Information related to residual performance obligations

The Group signs engineering service contracts with several customers to provide petroleum engineering technical services and construction engineering contracting services, and will perform them in a certain period of time. These contracts usually constitute an individual performance obligation. As at 31 December 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 21.527 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 year ended 31 December 2020	For the year ended 31 December 2019
Urban maintenance and construction tax	34,134	43,591
Education surtax	26,749	34,964
Overseas tax	53,437	70,468
Property tax	9,310	10,337
Land use tax	60,186	67,771
Vehicle and vessel usage tax	7,619	7,966
Vehicle usage tax	41,956	45,629
Others	4,737	5,336
Total	238,128	286,062

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

39. Selling and distribution expenses

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Freight	1,557	2,497
Staff costs	51,572	45,982
Depreciation	305	272
Travel expenses	3,976	5,483
Business promotion fee	117	144
Rental expenses	3,069	1,358
Office expense	2,863	3,155
Others	9,145	4,896
Total	72,604	63,787

40. General and administrative expenses

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Repair and maintenance	505,693	701,193
Staff costs	1,298,800	1,216,341
Integrated service	389,047	392,571
The information system runs maintenance fees	49,584	123,258
Business entertainment	19,464	30,989
Travel expenses	37,409	63,909
Rental expenses	13,075	39,717
Depreciation and amortization	96,691	87,284
Consultation	24,174	24,775
Property insurance	2,260	3,050
Others	344,861	282,777
Total	2,781,058	2,965,864

V. Notes to the consolidated financial statements (Continued)

41. Research and development expenses

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Staff costs	**523,710**	411,157
Material cost	**525,895**	539,038
Technical collaboration fee	**180,004**	97,419
Experimental expenses	**23,128**	23,391
Depreciation	**33,865**	25,925
Others	**82,899**	97,268
Total	**1,369,501**	1,194,198

42. Finance costs

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest expenses on borrowings	**835,850**	904,260
Interest expenses on lease liabilities	**70,843**	76,203
Less: Interest capitalized	**835,850**	904,260
Interest income	**-59,576**	-103,499
Exchange losses/(gains)	**289,068**	7,444
Bank charges and others	**60,485**	60,936
Total	**1,196,670**	945,344

43. Other income

Items	For the year ended 31 December 2020	For the year ended 31 December 2019	Related to assets/ income
National research grants	**104,862**	101,530	Related to income
Subsidies of enterprise development	**30,598**	5,789	Related to income
Subsidies of stable post	**131,283**	44,677	Related to income
Government incentives	**1,994**	300	Related to income
Subsidies of assets replacement	**896**	2	Related to income
Self-use consumption tax refund	**217,526**	196,634	Related to income
Others	**159**		Related to asset
National research grants	**1,267**	1,188	Related to asset
Additional input VAT credit	**22,625**	16,960	Related to income
Return of individual income tax fee	**4,904**	3,749	Related to income
Total	**516,114**	370,829	

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

44. Investment income

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Investment income from long-term equity	**5,467**	13,899
Dividend income from other equity instrument investments	**500**	600
Gains from remeasurement of remaining equity interests to fair value upon the acquired of control		27,474
The amount of the cost of the business combination involving entities not under common control less than the fair value of the identifiable net assets obtained		8,439
Gains from derecognition of financial assets measured at amortised cost	**53,960**	154,539
Total	**59,927**	204,951

V. Notes to the consolidated financial statements (Continued)

45. Impairment of credit losses ("-" for losses)

Item	For the year ended 31 December 2020	For the year ended 31 December 2019
Losses form impairment of accounts receivable	**-38,350**	-98,582

46. Impairment of assets ("-" for losses)

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Losses from impairment of contract assets	**-65,897**	-12,657
Losses from decline in value of inventories	**-4,846**	
Total	**-70,743**	-12,657

47. Disposal income on assets

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Gains from disposal of fixed assets (loss in "-")	**935**	61,442
Others	**5,026**	5,602
Total	**5,961**	67,044

48. Non-operating income

Items	For the year ended 31 December 2020	For the year ended 31 December 2019	Recognised as non-recurring income
Waived payables	**81,208**	122,414	81,208
Compensation received	**3,059**	11,724	3,059
Penalty income	**2,779**	2,636	2,779
Gains from assets counts	**4,327**	470	4,327
Insurance compensation	**8,215**	15,221	8,215
Others	**8,817**	10,397	8,817
Total	**108,405**	162,862	108,405

49. Non-operating expenses

Items	For the year ended 31 December 2020	For the year ended 31 December 2019	Recognised as non-recurring income
Donation	**5,623**	1,197	5,623
Expected loss of pending claims	**-2,424**	286	-2,424
Compensation	**12,844**	8,354	12,844
Penalty	**8,220**	9,418	8,220
Non-current assets written off	**7,147**	1,976	7,147
Others	**12,276**	37,105	12,276
Total	**43,686**	58,336	43,686

V. Notes to the consolidated financial statements (Continued)

50. Income tax expense

(1) Details of income taxes expenses

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Current tax in accordance with tax laws and related regulations	250,738	369,959
Deferred income tax	18,338	71,565
Total	269,076	441,524

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

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Profit before income tax	348,054	1,355,768
Taxation calculated at the statutory tax rate	87,014	338,942
Effect of other tax rates used by certain subsidiaries	204,580	111,699
Adjustments of current tax in previous years	-21,353	16,643
Equity method accounting for the joint venture and associates’ profit or loss	-766	-3,442
Non-deductible costs, expenses and losses	68,654	76,651
Effect on the change in statutory tax rate on opening balance of deferred tax	15,013	65,659
Effect of utilization of unrecognised tax losses and deductible temporary differences (expressed in “-”)	-112,838	-122,189
Effect of unrecognised tax losses and deductible temporary differences	193,158	60,717
Tax effect on research and development expenses (expressed in “-”)	-164,386	-103,156
Income tax expense	269,076	441,524

51. Notes to Cash Flow Statement

(1) Cash received from other operating activities

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Amount paid on behalf	845,914	898,937
Government grants	215,659	126,732
Temporary receipt and payment	741,798	721,422
Guarantee	1,010,101	1,138,059
Compensation	32,542	30,730
Deposits	99,337	67,217
Others	318,350	678,411
Total	3,263,701	3,661,508

(2) Cash paid for other operating activities

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Temporary receipt and payment	220,287	141,772
Guarantee	1,368,614	784,560
Integrated service	505,707	701,223
Repair and maintenance expenses	389,047	392,571
Other period expenses	1,323,465	415,560
Others	79,298	71,593
Total	3,886,418	2,507,279

V. Notes to the consolidated financial statements (Continued)

51. Notes to Cash Flow Statement (Continued)

(3) Cash received from other financing activities

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Temporary loans		
Interest received from selfraised funds special deposit		4,211
Total		4,211

(4) Cash paid for other financing activities

Items	For the year ended 31 December 2020	For the year ended 31 December 2019
Finance lease expense	**1,227,045**	518,657
Notes acceptance fees	**129**	139
Payment of guarantee and commitment fees	**36,361**	31,528
Total	**1,263,535**	550,324

52. Supplement information to Cash Flow Statement

(1) Supplement information to Cash Flow Statement:

Supplement information	For the year ended 31 December 2020	For the year ended 31 December 2019
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	**78,978**	914,244
Add: Impairment of credit losses	**38,350**	98,582
Impairment losses on assets	**70,743**	12,657
Depreciation of fixed assets and right-of-use assets	**3,483,227**	3,407,719
Amortization of intangible assets	**119,319**	92,926
Amortization of long-term deferred expenses	**2,182,941**	1,847,550
Losses on disposal of fixed assets, intangible assets and other long-term assets (Gain as in “-”)	**-5,961**	-67,044
Losses on retirement of fixed assets (Gain as in “-”)	**7,147**	1,976
Finance costs (Income as in “-”)	**1,232,251**	1,032,708
Investment losses(Income as in “-”)	**-5,967**	-50,412
Decrease in deferred tax income assets (Increase as in “-”)	**22,332**	75,434
Increase in deferred income tax liabilities (Decrease as in “-”)	**-3,995**	-3,869
Decrease in inventories (Increase as in “-”)	**146,980**	235,444
Decrease in operating receivables (Increase as in “-”)	**404,313**	558,047
Increase in operating payables (Decrease as in “-”)	**-3,187,316**	-6,855,356
Safety costs	**-114,714**	72,629
Unexercised share-based payment	**3,192**	3,818
Net cash flows from operating activities	**4,471,820**	1,377,053
2. Significant investment or finance activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	**1,523,352**	1,650,732
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	**-127,380**	-522,848

V. Notes to the consolidated financial statements (Continued)

52. Supplement information to Cash Flow Statement (Continued)

(2) Composition of cash and cash equivalents

Items	As at 31 December 2020	As at 31 December 2019
1. Cash	**1,523,352**	1,650,732
Including: Cash in hand	**8,517**	6,792
Cash at bank	**1,511,398**	1,643,824
Other monetary funds	**3,437**	116
2. Cash equivalents		
3 Closing balance of cash and cash equivalents	**1,523,352**	1,650,732
Including: Restricted cash and cash equivalents by the parent company or its subsidiary subsidiaries		

53. Assets with restrictive ownership title or right of use

Item	As at 31 December 2020	Reason for restriction
Cash at bank and on hand	**28,106**	Guarantee and funds that are blocked frozen
Fixed assets	**20,715**	Sale-leaseback assets
Total	**48,821**	

V. Notes to the consolidated financial statements (Continued)

54. Foreign currency items

Items	Original	Exchange rate	Amount (RMB)
Cash at bank and on hand			1,268,999
Including: USD	114,741	6.5249	748,671
KWD	7,400	21.4812	158,970
SAR	11,221	1.7390	19,514
DZD	1,668,799	0.0494	82,384
Others			259,460
Accounts receivable			4,407,856
Including: USD	483,004	6.5249	3,151,551
KWD	25,195	21.4812	541,213
SAR	168,279	1.7390	292,633
DZD	1,451	0.0494	29,394
Others			393,065
Other receivables			1,532,838
Including: USD	118,402	6.5249	772,559
KWD	10,256	21.4812	220,321
SAR	208,677	1.7390	362,886
DZD	2,163	0.0494	43,813
Others			133,259
Accounts payable			812,700
Including: USD	56,885	6.5249	371,169
KWD	4,572	21.4812	98,222
SAR	109,615	1.7390	190,618
DZD	295,256	0.0494	14,576
Others			138,115
Other payables			437,922
Including: USD	34,714	6.5249	226,504
KWD	3,417	21.4812	73,392
SAR	7,925	1.7390	13,782
DZD	621,092	0.0494	30,661
Others			93,583
Interest payable			864
Including: USD	132	6.5249	864
Short-term loans			1,970,520
Including: USD	302,000	6.5249	1,970,520
Long-term loans			580,716
Including: USD	89,000	6.5249	580,716

VI. Change of consolidation scope

There are no changes in scope of consolidation for the year ended 31 December 2020.

VII. Interest in other entities

1. Interests in subsidiaries

(1) Composition of enterprise groups

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

2. Equities in joint ventures and associates

(1) Principal joint ventures and associates

Name	Place of major operational activities	Place of registration	Nature of business	% of shareholding held		Method of accounting
				Directly	Indirectly	
① Joint ventures						
Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)	China	Beijing	Oilfield Service	50.00		Equity method

VII. Interest in other entities (Continued)

2. Equities in joint ventures and associates (Continued)

(2) Financial information of principal joint ventures

Items	Zhong Wei Energy Service Co. Ltd. As at 31 December 2020	Zhong Wei Energy Service Co. Ltd. As at 31 December 2019
Current assets	**24,570**	23,584
Including: Cash and cash equivalents	**7,231**	6,460
Non-current assets	**4,487**	4,656
Total assets	**29,057**	28,240
Current liabilities	**12,425**	11,623
Non-current liabilities		
Total liabilities	**12,425**	11,623
Net assets	**16,632**	16,617
Equity attributable to shareholders of the Company	**8,316**	8,308
Adjustments		-6
Including: Goodwill		
Carrying amount of equity investment in joint ventures	**8,316**	8,303
Fair value of investments in joint ventures which have quoted market price		

Continued:

Items	Zhong Wei Energy Service Co. Ltd. For the year ended 31 December 2020	Zhong Wei Energy Service Co. Ltd. For the year ended 31 December 2019
Revenue	**25,651**	15,418
Finance costs	**-33**	-67
Income tax expense		
Net profit	**26**	-1,318
Other comprehensive income		
Total comprehensive income	**26**	-1,318
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	**14,887**	15,487
Equity contributed to the Group		
Net profit	**20**	558
Other comprehensive income		
Total comprehensive income	**20**	558
Associates:		
Total investment from the Group	**19,843**	15,928
Equity contributed to the Group:		
Net profit	**21,020**	3,526
Other comprehensive income		
Total comprehensive income	**21,020**	3,526

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

(5) The Group has signed the investment contract and remains RMB129,625 thousand on 31 December 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 43.14% (2019: 51.33%); among the other receivable of the Group, the other receivable of the top five customers accounted for 40.44% (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 31 December 2020, the amount of bank loans not yet used by the Group is 12,044,420 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 31 December 2020 are analyzed by their maturity date below at their undiscounted contractual cash flows:

Items	As at 31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total amount
Financial assets:					
Cash and cash equivalents	1,551,458				1,551,458
Bills receivable					
Accounts receivable	9,358,385				9,358,385
Accounts receivable financing	1,323,425				1,323,425
Other receivables	2,464,362				2,464,362
Long-term receivables					
Other current assets	1,995,808				1,995,808
Total assets	16,693,438				16,693,438
Financial liabilities:					
Short-term loans	19,771,907				19,771,907
Bills payable	6,305,228				6,305,228
Accounts payable	20,497,509				20,497,509
Other payables	1,675,104				1,675,104
Non-current liabilities due within 1 year	372,537				372,537
Long-term loans	13,794	594,510			608,304
Lease liabilities		171,597	637,027	331,542	1,140,166
Long-term payables		27,033			27,033
Total liabilities	48,636,079	793,140	637,027	331,542	50,397,788

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:

Items	As at 31 December 2019				
	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.

VIII. Financial instruments and risk management (Continued)

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

(3) Market risk

Market risk, includes interest rate risk and foreign currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market price.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the floating rate. Interest rate risk arises from recognized interest-bearing financial instrument and unrecognized financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from long-term bank loans and other interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flows interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. At the same time, the Group monitors and maintains the combined financial instruments of fixed rate and floating rate.

The Group closely monitors the impact of changes in interest rates on the Group's interest rate risk. The Group currently does not adopt an interest rate hedging policy. However, management is responsible for monitoring interest rate risk and will consider hedging significant interest rate risk when it will be needed. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's management will make decisions with reference to the latest market conditions. The Group may enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2020 and 31 December 2019, the Company did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not principal because the fixed term deposits are short-term deposits etc.

Interest-bearing financial instruments held by the Group:

Items	31-Dec-20	31-Dec-19
Fixed interest rate financial instruments		
Financial assets	**6,210**	35,270
Including: Cash and cash equivalents	**6,210**	35,270
Long-term receivables		
Financial liabilities	**18,660,716**	19,999,123
Including: Short-term borrowings	**17,400,000**	18,080,000
Lease liabilities	**1,249,516**	1,529,074
Long-term payables	**11,200**	839,747
Floating interest rate financial instruments		
Financial assets	**1,545,248**	1,633,567
Including: Cash and cash equivalents	**1,545,248**	1,633,567
Financial liabilities	**2,551,236**	2,797,457
Including: Short-term borrowings	**1,970,520**	2,323,075
Long-term borrowings	**580,716**	474,382

As at 31 December 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 RMB9,567 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.

VIII. Financial instruments and risk management (Continued)

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

(3) Market risk (Continued)

Foreign currency risk (Continued)

The following table details the recognized assets or liabilities denominated in currencies other than RMB as at 31 December 2020:

Items	Liabilities denominated in currencies other than RMB		Assets denominated in currencies other than RMB	
	As at 2020/12/31	As at 2019/12/31	**As at 2020/12/31**	As at 2019/12/31
USD	**3,149,773**	3,876,822	**4,672,781**	5,428,317
SAR	**204,400**	577,237	**675,033**	887,666
KWD	**171,614**	128,467	**920,504**	889,554
Others	**276,935**	294,560	**941,375**	1,070,266
Net exposure in RMB	**3,802,722**	4,877,086	**7,209,693**	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 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	**2020**		2019	
Appreciation in USD	**5%**	**57,113**	5%	58,181
Depreciation in USD	**-5%**	**-57,113**	-5%	-58,181
Appreciation in SAR	**5%**	**17,649**	5%	11,641
Depreciation in SAR	**-5%**	**-17,649**	-5%	-11,641
Appreciation in KWD	**5%**	**28,083**	5%	28,541
Depreciation in KWD	**-5%**	**-28,083**	-5%	-28,541

2. Capital management

The capital management policies are made to keep the continuous operation of the Group, to enhance the return to shareholders, to benefit other related parties and to maintain the best capital structure to minimize the cost of capital.

For the maintenance or adjustment of the capital structure, the Group might adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or make an asset disposal to reduce the liabilities.

The Group monitors the performance of capital management with capital-to-debt ratio. The ratio is calculated as Net liabilities/Total capital. The Net liabilities are calculated as total borrowings – cash in Cash flow statement. Total borrowing includes short-term borrowings, long-term borrowings due within 1 year, bonds payables and long-term borrowings. Total assets equals to the sum of the shareholders' equity and net liabilities. The shareholders' equity includes non-trolling interest and equity attributed to the parent company.

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

Items	**As at 31 December 2020**	As at 31 December 2019
Short-term borrowings	**19,370,520**	20,403,075
Lease liabilities due within 1 year	**351,047**	394,328
Long-term payables due within 1 year	**5,700**	141,147
Long-term loans	**580,716**	474,382
Lease liabilities	**898,469**	1,134,746
Long-term payables	**5,500**	698,600
Less: cash and cash equivalents	**1,523,352**	1,650,732
Net debt	**19,688,600**	21,595,546
Shareholder's equity	**6,722,866**	6,763,872
Total equity	**26,411,466**	28,359,418
Debt to equity ratio	**74.55**	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 31/12/2020, 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			22,835	22,835
Receivables at FVTOCI			1,323,425	1,323,425
Total assets measured at fair value on a recurring basis			1,346,260	1,346,260

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 fair value measurement that are significant and are reasonably available.

Items	Fair value As at 31/12/2020	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instrument investments:				
Unlisted equity investments		Net assets	N/A	N/A
Receivables at FVTOCI		Asset-based valuation	N/A	N/A

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

	As at 31/12/2019	Total gains or losses for the year		As at 31/12/2020	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
		Included in profit or loss	Included in other comprehensive income		
Other equity instrument investments	32,847		-10,012	**22,835**	

Including gains or losses related to financial assets and non-financial assets included in profit or loss are as follows:

Item	Related to financial assets	Related to non-financial assets
Total gain or loss included in profit or loss		
Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year		

IX. Fair value (Continued)

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

	As at 31/12/2018	Total gains or losses for the year: Included in profit or loss	Total gains or losses for the year: Included in other comprehensive income	As at 31/12/2019	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
Other equity instrument investments	39,011		-6,164	32,847	8,458

(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 and long-term loans, etc.

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

X. Related parties and transaction

1. Particulars of parent company

Name Of parent company	Place of registration	Nature of business	Registered capital	Percentage of the Company shareholding held by parent company %	Percentage of the Company voting power held by parent company %
China Petrochemical Corporation	22 Chaoyangmen North Street, Chaoyang District Beijing	Exploring for, extracting and selling crude oil and natural gas; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information.	326.547 billion	56.51	70.18

The Company's ultimate controlling party is Sinopec Group.

China Petrochemical Corporation Co., Ltd. directly holds 56.51% equity of the Group, and holds 13.67% equity of the Group through its wholly-owned subsidiary Sinopec Century Bright Capital Investment Limited, with a total voting rights ratio of 70.18%.

2. Subsidiaries

Details of subsidiaries refer to Note VII.1.

3. Joint ventures and associates of the Group

Details of principal joint ventures and associates refer to Note VII.2

Other joint ventures and associates which have related party transactions for the current period or balances brought forward from the prior period arising with the Group are as follows:

Names of joint ventures or associates	Relationship with the Group
Sinopec Bayshore Petroleum Service Co., LTD	Joint venture
Qianjiang Hengyun Motor Vehicle Performance Testing Corporation	Joint venture
Huabei Ruida Oil Service Company Limited	Associate
Xinjiang North China Tianxiang Oil Service Company Limited	Associate
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd	Associate
Henan Zhongyuan Oil & Gas Engineering Technology Service Co., Ltd	Associate
Oil & Gas Engineering Technology Service Co., Ltd	Associate

X. Related parties and transaction (Continued)

4. Other related parties of the Group

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

5. Transactions with related parties

(1) Details of related purchase and sales

① Purchase of goods and Receiving of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**For the year ended 31 December 2020**	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	**10,364,984**	10,836,069
Joint ventures and associates of the Group	Purchases of materials and equipment	Based on normal commercial terms or relevant agreements	**201,258**	137,157

② Sales of goods and provision of services

Related party	Type of the transaction	Pricing policy and procedure for decision-making	**For the year ended 31 December 2020**	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Sales of goods	Based on normal commercial terms or relevant agreements	**110,473**	280,583

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(2) Details of related rendering of engineering services

① *Rendering of engineering services:*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	40,745,639	39,565,759
Joint ventures and associates of the Group	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	2,509,490	308,687
Joint ventures and associates	Petroleum engineering and technical services	Based on normal commercial terms or relevant agreements	5,580	6,722
Total			43,260,709	39,881,168

② *Receiving of services*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Joint ventures and associates	Services	Based on normal commercial terms or relevant agreements	1,932,918	2,133,557

(3) Details of related comprehensive services

① *Rendering of comprehensive services:*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Comprehensive services	Based on normal commercial terms or relevant agreements	95,987	139,086

② *Receiving of comprehensive services*

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Purchase of comprehensive services	Based on normal commercial terms or relevant agreements	389,047	392,571
	Purchase of other comprehensive services	Based on normal commercial terms or relevant agreements	351,306	149,848

(4) Technology research and development service

Related party	Type of the transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Research and development service	Based on normal commercial terms or relevant agreements	79,300	191,215

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(5) Details of related party leases

① *The Group as a lessor*

Lessee	Type of leasing assets	Pricing policy and procedure for decision-making	**Leasing expense for the current period**	Leasing expense for the previous period
Sinopec Group and its subsidiaries	Buildings	Based on relevant agreements	**2,225**	938

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 relevant agreements	**208,038**	205,628
	Including: Short-term leases	Based on relevant agreements	**18,620**	37,019
	Right-of-use assets	Based on relevant agreements	**189,418**	168,609
	Equipment	Based on relevant agreements	**27,461**	
	Including: Short-term leases	Based on relevant agreements	**24,099**	
	Right-of-use assets	Based on relevant agreements	**3,362**	
Joint ventures and associates of Sinopec Group	Equipment	Based on relevant agreements	**237,184**	
	Including: Short-term leases	Based on relevant agreements	**27,345**	
	Right-of-use assets	Based on relevant agreements	**209,839**	
Joint ventures and associates	Land and buildings	Based on relevant agreements	**1,000**	
	Including: Short-term leases	Based on relevant agreements	**1,000**	

(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	Counter guarantee	RMB500,000	November 2019	November 2021	Incomplete
Sinopec International Petroleum Service Corporation	Performance guarantee	USD588,000 thousand	December 2015	December 2021	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	April 2021	Incomplete
International Petroleum Service Corporation	Performance guarantee	USD4,079 thousand	April 2019	December 2021	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	January 2022	Incomplete
International Petroleum Service Corporation	Bank credit guarantee	USD8,740 thousand	August 2020	August 2021	Incomplete

X. Related parties and transaction (Continued)

5. Transactions with related parties (Continued)

(7) Related financial services

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group and its subsidiaries	Deposit interest income	Based on normal commercial terms	1,407	2,289
	Loan interest expense	Based on normal commercial terms	753,965	768,972
	Obtaining the borrowings	Based on normal commercial terms	52,974,382	38,367,042
	Payment of the loan	Based on normal commercial terms	54,391,017	35,715,939
Joint ventures and associates of the Group	Financial leasing interest expense	Based on normal commercial terms	29,099	48,015

As at 31 December 2020, the balance of borrowings from Sinopec Group and its subsidiaries was 19,370,520 thousand.

(8) Security funds

Related party	Content of related transaction	Pricing policy and procedure for decision-making	For the year ended 31 December 2020	For the year ended 31 December 2019
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	76,160	80,643
	Return on security fund	Based on normal commercial terms or relevant agreements	107,168	113,180

(9) Remuneration of key management personnel

The Group has 27 key management personnel for the year ended 31 December 2020 and 26 for the prior period. The remuneration payment is as follows:

Item	For the year ended 31 December 2020	For the year ended 31 December 2019
Remuneration	8,451	8,511
Retirement scheme contribution	443	462
Share options	85	152
Total	8,979	9,125

6. Receivables from and payables to related parties

(1) Amount receivables of related parties

Item	Related party	As at 31 December 2020 Carrying amount	As at 31 December 2019 Carrying amount
Bank deposit	Sinopec Finance Co., LTD	107,564	52,438
	Sinopec Century Bright Capital Investment Limited	649,976	753,019
	CITIC Bank	1	1
Accounts receivable	Sinopec Group and its subsidiaries	2,364,781	4,760,085
	Joint ventures of the Group	5,249	13,848
	Joint ventures and associates of Sinopec Group	912,791	111,715
Contract assets	Sinopec Group and its subsidiaries	4,798,350	4,683,457
	Joint ventures and associates of Sinopec Group	1,131,659	232,917
Prepayments	Sinopec Group and its subsidiaries	136,002	85,051
Other receivables	Sinopec Group and its subsidiaries	82,176	270,291
	Joint ventures of the Group	189	356
	Joint ventures and associates of Sinopec Group	294,411	82,678

X. Related parties and transaction (Continued)

6. Receivables from and payables to related parties (Continued)

(2) Payables to related parties

Item	Related party	As at 31 December 2020	As at 31 December 2019
Accounts payable	Sinopec Group and its subsidiaries	**1,146,343**	1,148,614
	Joint ventures and associates of the Group	**18,322**	19,723
	Joint ventures and associates of Sinopec Group	**7,204**	1,311
Contract liabilities	Sinopec Group and its subsidiaries	**2,185,979**	2,386,904
	Joint ventures and associates of Sinopec Group	**55,226**	12,304
Other payables	Sinopec Group and its subsidiaries	**26,233**	42,026
	Joint ventures and associates of the Group	**2,688**	466
Short-term loan	Sinopec Finance Co., LTD	**6,400,000**	12,080,000
	Sinopec Century Bright Capital Investment Limited	**1,970,520**	2,323,075
	Sinopec Group	**11,000,000**	6,000,000
Interest payable	Sinopec Group and its subsidiaries	**16,594**	19,158
Lease liabilities	Sinopec Group and its subsidiaries	**441,190**	590,713
	Joint ventures and associates of Sinopec Group	**547,271**	
Long-term loan	Sinopec Century Bright Capital Investment Limited	**–**	474,382
Long-term payable	Joint ventures and associates of Sinopec Group	**11,200**	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:

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

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

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

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

As at 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 year ended 31 December 2020
Number of share options at 1 January 2020	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 at 31 December 2020	17,084,000

XI. Payment of share option (Continued)

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

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

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

The fair value of share options calculated with the figures above is RMB54,229,200.

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

	Amount
The cost of equity-settled share-based payment within the period	3,192
The accumulated amount of equity-settled share-based payment in capital reserves	20,662

XII. Commitments and contingences

1. Principle commitments

(1) Capital commitments

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	**As at 31 December 2020**	As at 31 December 2019
Construction of long-term assets commitments	**180,023**	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 31 December 2020.

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. Since the arbitration commission has selected a cost consultant institution to conduct cost appraisal on the disputed expenses related to this case. As the case is still under trial, it is currently impossible to determine its impact on the current or future profits of the Group. The Group will make active response and safeguard the legitimate rights and interests of the company.

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

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

According to the relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganization plan upon the Court of Rio has approved that the Brazil Subsidiary enters into the legal reorganization procedure. Such legal reorganization is conditional upon the approval of the reorganization plan from the creditors' meeting and the Court of Rio.

For the purpose of obtaining approval from creditors' meeting and the Court of Rio in Brazil, the Brazil Subsidiary's reorganization plan shall include fully settling the amount due to employees in respect of the Project, repaying a proportion of debt due to Three Suppliers, and paying legal fees, fees on judicial authorities and other services fees in relation to the implementation of legal reorganization procedure. Such payments amount is estimated to be approximately RMB475,276 thousand. As at 31 December 2020, the amount of provisions is 330,676 thousand.

XII. Commitments and contingences (Continued)

2. Contingency (Continued)

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

As at 31 December 2020, there is no contingent liability from guarantee provided for other entities.

As at 31 December 2020, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, has provided amount of USD845,578 thousand and THB3,142,900 thousand guarantee to its subsidiaries(31 December 2019: USD836,838 thousand and THB3,142,900 thousand).

(4) Overseas tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted up to the report date. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. On 30 December 2019, the Brazilian subsidiary received an administrative second-level review notice, which approved some project expenditures, and the tax penalty has been changed to BRL 73,195,500 (approximately USD18,130,700). On 13 January 2020, the Brazilian subsidiary has filed a new administrative review. Later, because the tax administration did not implement the requirements of legal procedures and the cause of the epidemic, the time for filing a three-level administrative review was changed to 29 August 2020. Up to now, there is no latest development in the three-level 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 24 March 2021, 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 52,885 thousand. The amount of losses which cash back below the book value of the claims is RMB667 thousand. There is no individually significant debt restructuring during the period.

3. The main contents and major changes of pension plan

The main contents of pension plan refer to Note. III. 23(3).

4. Discontinued operation

There is no discontinued operation during the reporting period.

XIV. Other significant events (Continued)

5. Segment information

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

The Group's reportable segments include:

(1) Geophysics, which provides geophysical exploration, development and technical services;

(2) Drilling engineering, which provides customers with drilling construction, technical services and drilling instrumentation;

(3) Logging and mud logging, which provides logging and mud logging technology services;

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

(5) Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects.

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

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

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

(1) Segment profit or loss, assets and liabilities

For the year ended 31 December 2020 and as at 31 December 2020	Geophysics	Drilling	logging and mud logging	Down-hole operation	Engineering and construction	Others	Elimination	Total
Revenue	4,609,573	34,973,878	4,195,128	9,270,433	15,719,379	8,240,028	-8,935,025	68,073,394
Including: External revenue	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	2,266,186	–	68,073,394
Inter-segment revenue	10,202	774,221	1,466,368	674,078	36,314	5,973,842	-8,935,025	–
Including: Major business revenue	4,609,573	34,973,878	4,195,128	9,270,433	15,719,379	7,224,114	-8,935,025	67,057,480
Cost of sales	4,257,094	32,559,719	3,672,647	8,820,827	14,463,591	7,766,154	-8,935,025	62,605,007
Including: Major business cost	4,257,094	32,559,719	3,672,647	8,820,827	14,463,591	7,235,770	-8,935,025	62,074,623
Operating expenses	425,793	2,315,973	360,648	664,508	1,222,894	777,239	–	5,767,055
Operating profit/(loss)	-38,559	502,398	168,808	-180,314	77,206	-246,204	–	283,335
Total assets	4,354,278	39,531,252	2,551,384	6,437,288	20,325,162	27,486,627	-39,594,796	61,091,195
Total liabilities	3,185,765	30,373,664	1,918,995	3,634,310	20,110,692	34,739,699	-39,594,796	54,368,329
Supplementary information:								
Capital expenditure	225,413	1,796,098	112,445	498,706	267,274	174,749	–	3,074,685
Depreciation and amortization	482,748	3,597,389	287,587	889,835	262,637	265,291	–	5,785,487
Impairment loss on assets	10,445	8,518	-2,476	29,264	62,138	1,204	–	109,093

XIV. Other significant events (Continued)

5. Segment information (Continued)

(1) Segment profit or loss, assets and liabilities (Continued)

For the year ended 31 December 2019 and as at 31 December 2019	Geophysics	Drilling	logging and mud logging	Down-hole operation	Engineering and construction	Others	Elimination	Total
Revenue	4,313,105	38,463,083	3,971,812	8,193,341	16,678,288	2,740,116	-4,489,598	69,870,147
Including: External revenue	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	–	69,870,147
Inter-segment revenue	7,550	1,521,809	1,435,830	517,391	75,077	931,941	-4,489,598	–
Including: Major business revenue	4,227,271	38,009,509	3,939,092	8,174,539	16,456,807	2,469,605	-4,489,598	68,787,225
Cost of sales	4,024,878	34,987,574	3,426,302	7,720,151	15,506,626	2,519,302	-4,489,598	63,695,235
Including: Major business cost	4,010,884	34,663,628	3,419,067	7,735,031	15,417,939	2,480,659	-4,489,598	63,237,610
Operating expenses	434,856	2,132,696	376,448	324,692	1,330,527	967,274	–	5,566,493
Operating profit/(loss)	-120,744	1,598,506	171,394	171,398	57,445	-626,757	–	1,251,242
Total assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	-38,075,970	62,069,378
Total liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	-38,075,970	55,305,506
Supplementary information:								
Capital expenditure	719,255	1,580,542	108,445	618,414	246,302	533,955	–	3,806,913
Depreciation and amortization	454,444	3,318,987	220,343	795,220	257,877	301,324	–	5,348,195
Impairment loss on assets	18,212	-4,385	-6,664	32,000	73,331	-1, 255	–	111,239

(2) Other segment information

① ***External revenue of goods and services***

Item	**For the year ended 31 December 2020**	For the year ended 31 December 2019
Geophysics	**4,599,371**	4,305,555
Drilling	**34,199,657**	36,941,274
Logging and mud logging	**2,728,760**	2,535,982
Down-hole operation	**8,596,355**	7,675,950
Engineering and construction	**15,683,065**	16,603,211
Others	**2,266,186**	1,808,175
Total	**68,073,394**	69,870,147

② ***Geographical information***

For the year ended 31 December 2020 and as at 31 December 2020	Mainland China	Other countries or regions	Total
External revenue	56,742,351	11,331,043	68,073,394
Non-current assets	26,827,268	4,484,269	31,311,537

For the year ended 31 December 2019 and as at 31 December 2019	Mainland China	Other countries or regions	Total
External revenue	56,894,888	12,975,259	69,870,147
Non-current assets	27,134,461	4,405,601	31,540,062

③ ***The dependence of principle customers***

The Group obtained over 50 % of the total geophysics, drilling, logging and mud logging, down-hole operation, engineering and 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 1 January 2020	Increase in current year	Amount recognized in current profit or loss	As at 31 December 2020	Presentation item in current income statements	Related to assets/ income
Consumption tax refund of self-used refined oil	Financial appropriation		217,526	217,526		Other income	Related to income
Special funds for national scientific research	Financial appropriation	87,585	28,104	104,862	10,827	Other income	Related to income
Stabilization allowance	Financial appropriation		131,283	131,283		Other income	Related to income
Subsidies for enterprises' development	Financial appropriation		30,598	30,598		Other income	Related to income
Subsidies of assets replacement	Financial appropriation		896	896		Other income	Related to income
Government incentives	Financial appropriation		1,994	1,994		Other income	Related to income
Additional input VAT credit	Financial appropriation		22,625	22,625		Other income	Related to income
Others	Financial appropriation		159	159		Other income	Related to assets
National special research related to assets	Financial appropriation	4,626		1,267	3,359	Other income	Related to assets
Total		92,211	433,185	511,210	14,186		

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 (RMB217,526 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. RMB104,862 thousand was recognized as other income in 2020.

(2) The government subsidy of RMB511,210 thousand which was recognized in current profit and loss was counted in other income.

7. Lease

As a lessee

Additional information of lease expenses

a) The Group adopted a simplified method to measure the short-term leases, low-value assets. Under this method, the right-of-use assets and lease liabilities do not have to be recognized. Short-term leases, low-value assets and the variable lease payments that are not included in the measurement of lease liabilities are included in the current expenses as follows:

Item	2020	2019
Short-term leases	996,480	927,772
Low-value assets		
Total	996,480	927,772

XIV. Other significant events (Continued)

7. Lease (Continued)

As a lessor

Additional information of lease expenses

As a lessor under operating leases

① Lease income

Item	2020	2019
Lease income	**41,376**	40,012

② The amount of undiscounted lease receipts to be received each year for five consecutive fiscal years after the balance sheet date, and the total amount of undiscounted lease receipts to be received in the remaining years:

Years	Amounts
Year 2020	18,012
Year 2021	16,245
Year 2022	13,678
Year 2023	13,219
Year 2024	11,427
After year 2024	19,799
Total	92,380

XV. Notes to parent company's financial statements

1. Other receivables

Items	As at 31 December 2020	As at 31 December 2019
Interest receivables		
Other receivables	**4,396,431**	4,399,759
Total	**4,396,431**	4,399,759

(1) Other receivable

① ***The ageing analysis is as follows:***

Ageing	As at 31 December 2020	As at 31 December 2019
Within 1 year	**4,396,431**	4,399,759
Over 1 years		
Subtotal	**4,396,431**	4,399,759
Less: provision for bad debts		
Total	**4,396,431**	4,399,759

② ***Other receivables disclosed by nature:***

	As at 31 December 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
Amounts due from wholly-owned subsidiaries	**4,396,431**		**4,396,431**	4,399,759		4,399,759
Others						
Total	**4,396,431**		**4,396,431**	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 31 December 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	4,396,431			4,396,431	Subsidiaries within the scope of consolidation
Amounts due from wholly-owned subsidiaries	4,396,431			4,396,431	
Provision for bad and doubtful debts collectively					
Total	4,396,431			4,396,431	

As at 31 December 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	4,396,431	Within 1 year	100.00	

2. Long-term equity investment

Item	As at 31 December 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 31 December 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 Company.

XVI. Supplementary information

1. Details of non-recurring gains or losses

Items	For the year ended 31 December 2020	Notes
Gain or loss on disposal of non-current assets	5,961	
Government grants recognized in profit or loss for the year/period	293,684	
Gain or loss from debt restructuring	53,960	
Gain or loss on previously held equity interests re-measured at acquisition date		
Non-operating income/(expenses) excluding the aforesaid items	64,719	
Other gains and losses that meet the definition of non-recurring profit and loss		
Total non-recurring gains or losses	418,324	
Less: Effects of income tax on non-recurring gains or losses	72,431	
Net non-recurring gains or losses	345,893	
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	345,893	

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	1.16	0.004	0.004
Net profit attributable to the Company's ordinary equity shareholders after deduction of non-recurring profit or loss	-3.92	-0.014	-0.014

3. Differences between local and overseas accounting standards

(1) Reconciliation of differences between CASBE and IFRS financial statements

Item	Net profit attributed to parent company		Net assets attributed to parent company	
	For the year ended 31 December 2020	For the year ended 31 December 2019	**As at 31 December 2020**	As at 31 December 2019
Based on PRC ASBE	**78,978**	914,244	**6,722,866**	6,763,872
Adjusted items and amounts in accordance with IFRS:				
Special reserve	**-114,715**	72,629		
Based on IFRS	**-35,737**	986,873	**6,722,866**	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

24 March 2021

II. Prepared in accordance with International Financial Reporting Standards

Grant Thornton
致同

Independent Auditor's Report

To the Shareholders of Sinopec Oilfield Service Corporation

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

OPINION

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 150 to 215, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to note 2.22 (Revenue recognition), note 4(6) (Critical accounting judgement and estimates), note 5 (revenue and segment information) and notes 23(a) & (b) (contract assets and cost to fulfil contracts/contract liabilities) to the consolidated financial statements for related disclosures and accounting polices respectively. Revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to PRC and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services. The contract revenue would be recognised over time, and the revenue and profit recognition of related service depends on management's estimation of the total budgeted contract revenue and the progress towards satisfaction of a performance obligation. The management of the Group adopts either the expected value or most likely amount method according to the contract to estimate the total budgeted contract revenue, and evaluates the total budgeted contract costs according to historical information and construction plan, which are continuously evaluated and revised during the execution of the contract. These rely on management's critical accounting estimation. When the progress towards satisfaction of a performance obligation can be reasonably measured, the Group should recognised revenue in accordance with the progress of performance obligation being satisfied at the end of reporting period. The recognition of revenue mainly depends on the management's critical estimation and judgement, including total budgeted revenue, total budgeted costs, variable consideration, remaining contract costs, estimated progress and contract execution risk. If there is any change on the final contract billing amount or actual execution progress, actual results may differ from the management's estimates. Hence, we have identified the revenue recognition related to rendering of services and construction contracts as a key audit matter.	Our procedures in relation to the revenue recognition related to provision of petroleum engineering and technical services included: – evaluating the appropriateness of the application of accounting policies for recognising revenue associated with the rendering of services and construction contracts in light of business nature, contract terms and IFRS15 "Revenue from contracts with customers"; – understanding, assessing and testing the design and implementation of internal controls about management's determination on the total budgeted contract revenue, the total budgeted contract costs, the actual contract costs incurred, remaining contract costs and progress of performance obligation being satisfied for contract to evaluate the operating effectiveness of such internal controls; – reviewing contracts and interviewing with the management to understand and assess the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted contract costs, and checking the consistency of the preparation and assumptions of various types of projects; – performing variance analysis by comparing the accumulated costs incurred as at 31 December 2020 with the budgeted contract costs, checking the significant costs incurred subsequent to the end of the reporting period and assessing the reasonableness of the management's estimation on workload forecast and remaining contract costs; – testing, on a sample basis, the application of progress of performance obligation being satisfied by cross-checking the principal terms set out in the relevant contracts to supporting documents such as progress billing reports or acceptance certificates and progress reports being issued by customers; – evaluating the reasonableness about budgeted revenue, budgeted costs and budgeted gross profit of sub-divisional contracts by analysis and calculation; and – testing, on a sample basis, the amount and period of the aforesaid revenue recognised having regard to respective progress of performance obligation being satisfied at the end of the reporting period, and comparing, on a sample basis, the accumulated costs incurred up to the end of the reporting period with the budgeted costs to verify the existence of cost overrun. We found that the management's judgment in determining the progress of performance obligation being satisfied and, the revenue recognition are supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECL") on trade receivables and contract assets	
Refer to note 2.9 (Financial instruments), note 4(2) (Critical accounting judgement and estimates), note 21 (Notes and trade receivables) and note 23(a) (Contract assets and cost to fulfil contracts) to the consolidated financial statements for related disclosures and accounting polices respectively. During the year ended 31 December 2020, the Group's gross amount of trade receivables and contract assets are RMB11.833 billion and RMB11.715 billion respectively, representing 39% of total assets. As at 31 December 2020, the accumulated ECL allowance for trade receivables and contract assets amounted to RMB2.579 billion. We have identified ECL measurement of trade receivables and contract assets as a key audit matter because the ECL measurement of trade receivables and contract assets is inherent uncertain as it requires the management's subjective judgment and the aforesaid balance has a significant impact on the Group's consolidated financial statements.	Our procedures in relation to the ECL on trade receivables and contract assets included: – assessing and testing the related internal controls of the measurement of ECL established by the management, and testing the effectiveness of key control executions; – evaluating the management's relevant considerations and objective evidences for ECL measurement of trade receivables and contract assets (including historical records and circumstances of bad debts of trade receivables and contract assets with similar characteristics, customer credit and market environment, etc.), and assessing the appropriateness of the methods being applied in grouping of the trade receivables and contract assets and calculation for the ECL; – gathering public information about the customers whose balances of trade receivables and contract assets is material or exceeds the credit period, or their industry development status to identify any situations affecting the Group's ECL assessment results of trade receivables and contract assets; – assessing the accuracy and classification on trade receivables by obtaining ageing analysis of the trade receivables as at 31 December 2020 and reviewing, on a sample basis, key information such as aging, overdue days, and relationship by checking supporting documents such as accounting vouchers and invoices; – arranging audit confirmations to those customers with significant balance of trade receivables, and comparing the results to the returned confirmations with the Group's record; – recalculating the ECL on trade receivables and contract assets and comparing the results with the amounts recorded by the Group; and – evaluating the reasonableness of management's ECL assessment by considering the customer's settlement subsequent to the reporting period. We found that that the management's judgment in determination and estimation in the measurement of ECL on trade receivables and contract assets is supported by available evidence.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

24 March 2021

Kwok Siu Kwan Sylvia

Practising Certificate No.: P06616

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	**68,073,394**	69,870,147
Cost of sales and taxes and surcharges		**(62,957,850)**	(63,908,668)
Gross profit		**5,115,544**	5,961,479
Selling expenses		**(72,604)**	(63,787)
General and administrative expenses		**(2,781,058)**	(2,965,864)
Research and development expenses		**(1,369,501)**	(1,194,198)
Finance expenses – net	6	**(1,196,670)**	(945,344)
Expected credit loss and impairment losses on assets	7	**(109,093)**	(111,239)
Investment income	8	**500**	36,513
Share of (loss)/profit from joint ventures	19(a)	**(94)**	10,214
Share of profit from associates	19(b)	**5,561**	3,685
Operating (loss)/profit		**(407,415)**	731,459
Other income	9	**684,440**	755,274
Other expenses	10	**(43,686)**	(58,336)
Profit before income tax	11	**233,339**	1,428,397
Income tax expense	12	**(269,076)**	(441,524)
(Loss)/Profit for the year		**(35,737)**	986,873
Other comprehensive expense for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Net movement in fair value of financial assets at fair value through other comprehensive income ("FVTOCI")		**(8,461)**	(5,229)
Total comprehensive (expense)/income for the year		**(44,198)**	981,644
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company (presented in RMB per share)	13	**RMB**	RMB
Basic and diluted		**(0.002)**	0.052

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	As at 31 December 2020	As at 31 December 2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	17	**24,575,668**	25,375,631
Other non-current assets		**5,854,914**	5,374,781
Intangible assets	18	**396,611**	281,497
Interests in joint ventures	19(a)	**23,204**	23,791
Interests in associates	19(b)	**19,842**	15,927
Financial assets at FVTOCI	20	**22,835**	32,847
Deferred tax assets	35	**395,834**	417,004
Total non-current assets		**31,288,908**	31,521,478
Current assets			
Inventories	24	**1,025,965**	1,048,465
Financial assets at FVTOCI	20	**1,323,425**	1,446,389
Notes and trade receivables	21	**9,358,385**	11,996,855
Prepayments and other receivables	22	**4,924,453**	4,680,066
Contract assets and cost to fulfil contracts	23(a)	**11,618,601**	9,707,288
Restricted cash	25	**28,106**	18,105
Cash and cash equivalents	26	**1,523,352**	1,650,732
Total current assets		**29,802,287**	30,547,900
Total assets		**61,091,195**	62,069,378

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	As at 31 December 2020	As at 31 December 2019
		RMB'000	RMB'000
Equity			
Share capital	27	**18,984,340**	18,984,340
Reserves		**(12,261,474)**	(12,220,468)
Total equity		**6,722,866**	6,763,872
Liabilities			
Non-current liabilities			
Long-term borrowings	34	**1,484,785**	2,307,828
Deferred income	31	**14,186**	92,211
Deferred tax liabilities	35	**13,471**	17,854
Provisions	38	**382,646**	449,256
Total non-current liabilities		**1,895,088**	2,867,149
Current liabilities			
Notes and trade payables	32	**26,802,737**	24,802,226
Other payables	33	**2,652,248**	2,797,837
Contract liabilities	23(b)	**3,024,461**	3,575,654
Short-term borrowings	34	**19,727,167**	20,938,450
Current income tax payable		**266,628**	324,190
Total current liabilities		**52,473,241**	52,438,357
Total liabilities		**54,368,329**	55,305,506
Total equity and liabilities		**61,091,195**	62,069,378
Net current liabilities		**(22,670,954)**	(21,890,457)
Total assets less current liabilities		**8,617,954**	9,631,021

Chairman of the Board:
CHEN Xikun

Executive director, General Manager:
YUAN Jianqiang

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	Total equity
	RMB'000 (Note 27)	RMB'000 (Note 29(i))	RMB'000 (Note 29(i))	RMB'000 (Note 29(ii))	RMB'000 (Note 29(iii))	RMB'000 (Note 29(iv))	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 for the year	–	–	–	–	–	–	986,873	986,873
Other comprehensive expense for the year:	–	–	–	–	–	–	–	–
Net movement in fair value of financial assets at FVTOCI	–	–	–	–	–	(5,229)	–	(5,229)
Total comprehensive income	–	–	–	–	–	(5,229)	986,873	981,644
Transactions with owners:								
Appropriation of specific reserve	–	–	–	–	1,437,814	–	(1,437,814)	–
Utilisation of specific reserve	–	–	–	–	(1,365,185)	–	1,365,185	–
Equity-settled share-based transaction (Note 30)	–	–	3,818	–	–	–	–	3,818
Total transactions with owners	–	–	3,818	–	72,629	–	(72,629)	3,818
At 31 December 2019 and 1 January 2020	18,984,340	11,622,283	92,298	200,383	373,238	6,447	(24,515,117)	6,763,872
Profit for the year	–	–	–	–	–	–	(35,737)	(35,737)
Other comprehensive expense for the year:								
Net movement in fair value of financial assets at FVTOCI	–	–	–	–	–	(8,461)	–	(8,461)
Total comprehensive income	–	–	–	–	–	(8,461)	(35,737)	(44,198)
Transactions with owners:								
Appropriation of specific reserve	–	–	–	–	1,163,262	–	(1,163,262)	–
Utilisation of specific reserve	–	–	–	–	(1,277,977)	–	1,277,977	–
Equity-settled share-based transaction (Note 30)	–	–	3,192	–	–	–	–	3,192
Total transactions with owners	–	–	3,192	–	(114,715)	–	114,715	3,192
At 31 December 2020	18,984,340	11,622,283	95,490	200,383	258,523	(2,014)	(24,436,139)	6,722,866

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash flows generated from operations	37(a)	4,720,544	1,581,097
Interests received		59,576	103,499
Income tax paid		(308,300)	(307,543)
Net cash generated from operating activities		4,471,820	1,377,053
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,729,607)	(3,161,279)
Proceeds from disposal of property, plant and equipment		140,655	147,306
Proceeds from disposal of other non-current assets		–	20,032
Purchases of intangible assets		(13,057)	(47,718)
Payment for acquisition of a subsidiary, net of cash acquired		–	(139,466)
Increase in investments in joint ventures		(9)	–
Dividends received from associates		1,646	1,768
Investment income received from financial assets at FVTOCI		500	600
Net cash used in investing activities		(1,599,872)	(3,178,757)
Cash flows from financing activities			
Proceeds from borrowings		53,601,812	38,367,042
Repayments of borrowings		(54,391,017)	(35,715,939)
Payment of lease liabilities		(1,227,045)	(518,657)
Interests paid		(863,852)	(882,820)
Net cash generated from financing activities		(2,880,102)	1,249,626
Net decrease in cash and cash equivalents		(8,154)	(552,078)
Effect of foreign exchange rate changes on cash and cash equivalents		(119,226)	29,230
Cash and cash equivalents at beginning of year		1,650,732	2,173,580
Cash and cash equivalents at end of year	26	1,523,352	1,650,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION

1.1 General information and the Reorganisation

Sinopec Oilfield Service Corporation (the "Company") is a joint stock company with limited liability established in the People's Republic of China (the "PRC"). The registered office is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC and the headquarter address is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation with effect from 20 March 2015.

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the "Sinopec Group'') which is a state wholly-owned enterprise established in the PRC.

Originally, the Company and its subsidiaries (hereinafter referred to as the "Group'') were principally engaged in the production and sale of chemical fiber and chemical fiber raw materials in the PRC.

At the end of December 2014, the Company completed the material assets reorganisation by using of all its assets and liabilities at that time as consideration, to repurchase and then cancel the shares held by China Petroleum & Chemical Corporation. At the same time, the Company acquired 100% equity interest of 中石化石油工程技術服務有限公司 from Sinopec Group, which was satisfied by the issuance of shares to Sinopec Group (hereinafter collectively referred to as the "Reorganisation").

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

These consolidation financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 24 March 2021.

1.2 Basis of presentation

As at 31 December 2020, the Group had net current liabilities of approximately RMB22,670,954,000 (2019: RMB21,890,457,000) and capital commitments of approximately RMB180,023,000; and it had a net loss of RMB35,737,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In December 2020, the Group obtained a line of credit of RMB16 billion and USD0.6 billion (Total: approximately RMB20.9 billion), and line of credit promissory note of RMB10 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidation financial statements are set out below.

2.1 Basis of preparation

The consolidation financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). These consolidation financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

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

The preparation of consolidation financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements. Please refer to Note 4 for details.

2.2 Accounting for business combinations under common control and not under common control

(1) Business combination involving entities under common control

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

(2) Business combination involving entities not under common control

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

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and subsequently measured at costs less any accumulative impairment losses. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control through step acquisition

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

(3) Transaction fees attributed during the business combination

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements

(1) Scope of consolidation

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

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates (which includes any other unsecured receivables that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Joint Arrangements

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

(1) Joint operations

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

A joint operator shall recognise in relation to its interest in a joint operation, which is followed by relevant accounting policies:

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

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

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

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

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

(2) Joint ventures

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of preparation of the consolidated financial statements (Continued)

(2) Method of preparation of consolidated financial statements

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

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

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

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

Transactions that acquire the non-controlling interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and non-controlling interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of non-controlling interests and the fair value of consideration paid/received shall be adjusted to other capital reserve, if the other capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against accumulated losses.

(3) Treatment of loss of control of subsidiaries

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

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

2.4 Segment reporting

The Group has identified several reportable segments based on the internal structure, management requirements and internal reporting policy. The segment information is prepared based on the financial information of the Company's daily management requirements, which are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's executive management reviews reportable segments' financial information regularly for the purposes of resources allocation and performance assessment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency transactions and translation of foreign currency statements

(1) Foreign currency transactions

When foreign currency transactions occur, they are translated into the reporting currency at spot exchange rate at the dates of the transactions.

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

(2) Translation of foreign currency statements

At the reporting date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the statement of financial position are translated using the spot exchange rate at the reporting date; all items except "accumulated losses" of the shareholders' equity are translated at the spot exchange rate.

The revenue and expenses in the consolidated statement of comprehensive income are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates.

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

Differences arising from the translation of consolidated financial statements are separately reflected in the "other comprehensive income" in the shareholders' equity of the consolidated statement of financial position.

When there is a loss of control in overseas operations, the exchange reserve related to overseas operations presented in the shareholders' equity in the consolidated statement of financial position shall be transferred to profit or loss in current period wholly or based on the percentage of overseas operations.

2.6 Property, plant and equipment

(1) Recognition and initial measurement of property, plant and equipment

The Group's property, plant and equipment are tangible assets that are held for use in production, render of services, rentals, or administrative purposes and have useful lives of more than one accounting year.

Property, plant and equipment shall be recognised only when it is probable that economic benefits associated with the asset will flow into the entity and the cost of the asset can be measured reliably.

Property, plant and equipment of the Group are initially stated at cost less accumulated depreciation and accumulated impairment loss.

(2) Depreciation methods of property, plant and equipment

The Group uses the straight-line method for depreciation. Depreciation of the property, plant and equipment (other than cost of right-of-use assets as described in Note 2.23) begins when they achieved the condition for their intended use, and stop being depreciated when derecognised or classified as held for sale under non-current assets. For those property, plant and equipment without considering impairment provision, the Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Buildings	12 – 50 years
Oil engineering equipment and others	4 – 30 years

Among these, property, plant and equipment which have been impaired should deduct the cumulative amount of impairment provision to determine the depreciation rate.

The method of impairment test and impairment provision of property, plant and equipment set out in Note 2.8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

(3) Estimated useful lives, residual value and depreciation methods

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

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

(4) 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.

(5) Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditures incurred during the construction period, borrowing costs that shall be capitalised before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to property, plant and equipment when the assets are ready for their intended use.

For provision for impairment of construction in progress, refer to Note 2.8.

2.7 Intangible assets

Intangible assets include software, etc.

The Group initially measures the intangible asset at cost, and analyses and judges its useful life when it is acquired. An intangible asset with a finite useful life is amortised using the method which can reflect the expected realisation of economic benefits related to the asset over its expected useful life since the asset is available for use; an intangible asset which expected realisation cannot be reliably measured is amortised using straight-line method; an intangible asset with an indefinite useful life is not amortised.

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

Software	5 years
Others	10 years/unit of production method

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each financial year, if it is different from the previous estimate, adjustment is made at previous estimates and accounted for according to changes in accounting estimates.

The carrying amount of an intangible asset should be transferred to profit or loss in current period when it is estimated that no further economic benefits can be brought to the Group as at the reporting date.

For the impairment method of intangible assets, refer to Note 2.8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life (e.g. goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment of non-financial assets such as subsidiaries, associates, joint arrangements, property, plant and equipment (including right-of-use assets), construction in progress, intangible assets and other non-current assets are determined as follows:

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

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

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

2.9 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the financial instrument. Financial assets and financial liabilities are initially measured at fair value.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of comprehensive income. A trade receivable without a significant financing component is initially measured at the transaction price.

(1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVTOCI") – debt investment; FVTOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

(i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

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

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

(i) contingent events that would change the amount or timing of cash flows;

(ii) terms that may adjust the contractual coupon rate, including variable rate features;

(iii) prepayment and extension features; and

(iv) terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

Notes and trade receivables, other receivables, restricted cash and cash and cash equivalents are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

Financial assets at FVTOCI

They are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the other comprehensive income reserve (non-recycling); and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the other comprehensive income reserve (non-recycling).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(2) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

(3) Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECL. For notes and trade receivables, and contract assets, the Group applies the simplified approach to providing for ECL prescribed by IFRS 9. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit losses experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL

ECL are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

The Group has the following types of assets that are subject to IFRS 9's new ECL model:

- notes and trade receivables
- contract assets
- cash and cash equivalents
- restricted cash
- other receivables

While cash and cash equivalents, restricted cash are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For notes and trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the notes and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other financial assets at amortised cost are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group assesses on in particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indication of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

(3) Impairment of financial assets (Continued)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward-looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(i) significant financial difficulty of the borrower or issuer;

(ii) a breach of contract such as a default or past due event;

(iii) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(v) the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of notes and trade receivables, other receivables, contract assets, restricted cash and cash and cash equivalents etc., where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve (non-recycling) without reducing the carrying amounts of these debt instruments.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(4) Classification and measurement of financial liabilities

The Group's financial liabilities include notes and trade payables, other payables, long-term borrowings and short-term borrowings. Financial liabilities (other than lease liabilities) are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL (other than lease liabilities) are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss. Accounting policies for lease liability are set out in Note 2.23.

(5) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

(6) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

2.10 Fair value measurement

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

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The Group shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, in priority to use relevant observable inputs and only use unobservable inputs when observable inputs cannot be obtained.

The fair value measurement of the assets and liabilities measured at fair value is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

At each reporting date, the Group reassesses the assets and liabilities measured at fair value to ensure any transfer between the levels of the fair value hierarchy.

2.11 Inventories

(1) Classification

Inventories include raw materials, work in progress, consumables, finished goods and issuing goods, etc.

(2) Determination of cost

Inventories are recognised at its actual cost when acquired. Inventories are calculated by weighted average method when issued.

(3) Recognition of the net realisable value and provision for impairment of inventories

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

At the reporting date, if the cost of inventory of the Group exceeds its net realisable value, provision for impairment of inventories is recognised. The Group normally recognises provision for impairment of inventories individually, if the factors caused the inventory previously written-down have disappeared, provision for impairment of inventories in the amount originally provided is reversed.

(4) Inventory system

The Group adopts perpetual inventory system.

(5) Amortisation methods of consumables

Consumables include low-value consumables that are amortised in full when used.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Contract assets and contract liabilities

The contract asset is the Group's right to consideration in the exchange for services that the Group has transferred to customer. The contract assets transferred to trade receivables when receipt of the consideration is conditional only on the passage of time.

The Group expects that contract assets have the same risk characteristics as notes and trade receivables.

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to render to services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group recognised the related revenue.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary Shares are reclassified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.15 Borrowing costs

(1) Recognition principle of capitalisation of borrowing costs

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

(1) Capital expenditures for the asset are being incurred, which includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalisation;

(2) Borrowing costs are being incurred; and

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

(2) Capitalisation period of borrowing costs

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

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

(3) Calculation of rate and amount of borrowing costs to be capitalised

Interest expenses for specific borrowings incurred in the period, less interest income of unused specific borrowings deposited with bank or investment income arising from temporary investment are capitalised. The capitalisation rate of the general borrowing is determined by reference to the weighted average effective interest rate of general borrowings. The amount of capitalisation of general borrowings is determined by reference to the weighted average of the excess of the amount of cumulative expenditures of the asset over the amount of specific borrowings and the capitalisation rate of general borrowings.

During the capitalisation period, any exchange differences arising from specific foreign currency borrowings are capitalised; exchange differences arising from general foreign currency borrowings are recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Deferred tax assets and deferred tax liabilities

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

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

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

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

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

The Group recognised deductible temporary differences, deductible tax losses as deferred tax assets to the extent that they are available for set-off future taxable income unless such timing difference was arised from the following transactions:

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

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

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

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

2.17 Employee Benefits

(1) Scope of employee benefits

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

(2) Short-term employee benefits

Wages, bonuses, contribution to the social welfare (including medical insurance, injury insurance, birth insurance, etc.) and house funding are recognised as liability and to the profit of loss or cost of related assets in the period of relevant costs being incurred. If related liabilities in which the employees render their services are not expected to be wholly payable within twelve months after the financial period of relevant expenses being incurred and the financial impact is significant, relevant liabilities will be measured at discounted values.

(3) Post employment benefits

Post-employment comprised of defined contribution plan. The Group's obligations under the defined contribution plan are limited to the fixed amount of contribution to the independent trustee.

Defined contribution plans

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity scheme.

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group has no other significant commitments of social security of employees.

The Group recognised the contribution payable under the defined contribution plan as liabilities with corresponding amount recognised in the profit or loss of the financial period of services rendered by employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee Benefits (Continued)

(4) Termination benefits

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

For the implementation of internal retirement plan for employees, the economic compensation before the official retirement date is termination benefit. From the date when the employee stops providing the service to the normal retirement date, the amount for wages and social insurance expenses to be paid for the internal retired employee would be recognised in profit or loss when incurred.

(5) Other long-term employee benefits

Other long-term employee benefits provided by the Group to its employees who meet with the conditions of defined contribution plan were treated in accordance with the relevant provisions of defined contribution plans as set out above.

2.18 Share-based payment and equity instruments

(1) Category of share-based payment

The term “share-based payment” refers to equity-settled share-based payment and cash-settled share-based payment. The Group’s share option incentive plans are equity-settled share-based payments.

(2) Fair value of equity instrument

For the existence of an active market for options and other equity instruments granted by the group, the fair value is determined at the active market quotations. For options and other equity instruments with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. Factors as follows shall be taken into account using option pricing models: (a) the exercise price of the option (b) the validity of the option (c) the current market price of the share (d) the expected volatility of the share price (e) predicted dividend of the share (f) risk-free rate of the option within the validity period.

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Provision

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

1. The obligation is a present obligation of the Group;
2. It is probable that an outflow of economic benefits will be required to settle the obligation;
3. The amount of the obligation can be measured reliably.

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

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

2.20 Research and development expenditure

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

Expenditure on the research phase is related to theories of oil-gas exploration and development, oil-gas exploration and development experiments, pilot tests for oil-gas exploration, researches of softwares, etc; Expenditure on the development phase is related to applications of oil-gas exploration and development technology, pilot tests of oil-gas development, adaptability of technologies in a development process, software developments, etc.

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

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

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

Capitalised expenditure on the development phase is presented as “development costs” in the statement of financial position and shall be transferred to intangible assets when the project is completed to its intended use state.

2.21 Government grants

Grants from the government are recognised only when there is a reasonable assurance that the grant will be received and the Group can comply with the attached conditions.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where there is undoubted evidence that the grants can meet the relevant conditions of financial support policy and is expected that the financial support fund is receivable, they can be measured in accordance with the receivable amount, otherwise, they shall be measured according to the amount actually received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value. When fair value is not reliably determinable, the item is measured at nominal amount.

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

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

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and then recognised in profit or loss over the periods in which the costs are recognised. Government grants measured at nominal amounts are directly recognised in through profit or loss.

When recognised government grants need to be returned, the balance of deferred income is offset against book balance of deferred income and the excess is recognised in profit or loss for the current period; if there is no related deferred income, it is directly recognised in profit or loss for the current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the construction contracts and sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and returns after eliminating sales within the Group.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Cost to fulfil contracts

If the costs incurred in fulfilling a contract with a customer are not within the scope of another, the Group shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

A recognised asset shall be subsequently amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The assets shall be subjected to impairment review.

Capitalised cost to fulfil contracts is stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Further details of the Group's revenue and other income recognition policies are as follows:

(1) Sales of products

Revenue from sales of products is recognised when (i) control of the products has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products; and (ii) collectability of the related receivables is reasonably assured.

(2) Revenue from construction contracts and service contracts

Drilling engineering and geophysics

Revenues from drilling engineering and geophysics service contracts are recognised progressively over time using the output method, based on total value of contract work performed as a percentage of total contract sum, as customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

For contracts included two or more performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct service underlying each performance obligation in the contract.

Engineering construction

Revenue from engineering construction contracts is recognised progressively over time using the input method, based on the contract costs incurred to date as a percentage of total forecast costs, as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

For contracts included two or more performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct service underlying each performance obligation in the contract.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Special downhole operations and Logging and mud logging

Revenue from special downhole operation and logging and mud logging service contract is recognised when services are rendered as customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(3) Dividend income

Dividend income is recognised when the right to receive payment is established.

(4) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.23 Leases

(i) Definition of a lease and the Group as a lessee

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

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

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

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

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Measurement and recognition of leases as a lessee

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

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

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

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

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

The Group remeasures lease liabilities whenever:

– there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

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

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

The Group presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leases (Continued)

(ii) The Group as a lessor

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

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

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

(iii) Sales and leaseback transaction

The Group as a seller-lessee

For a transfer that does not satisfy requirements as a sale in accordance with IFRS 15, the Group as a seller-lessee accounts for the proceeds received as borrowings within the scope of IFRS 9.

2.24 Shares repurchase

Prior to the cancellation or transfer of repurchased shares, the repurchased shares were classified as treasury shares. Costs of treasury shares comprised of cost incurred for the repurchase of shares. Costs incurred for repurchase of shares were deducted from equity and no profit or loss will be recognise upon repurchase or cancellation of shares.

Upon transfer of treasury shares, the differences between the considerations received and the nominal value of treasury shares were deducted from other capital reserve and share premium, any differences will be deducted from surplus reserves and accumulated losses. Upon cancellation of treasury shares, share capital will be deducted by reference to number of shares and its nominal value, any difference between the nominal value of treasury shares will be deducted from the other capital reserve and share premium, any differences will be deducted from surplus reserves and accumulated losses.

2.25 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group (if the Group is itself such a plan) and the sponsoring employers are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provide key management personnel services to the Group or to the parent of the Group.

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.26 Other non-current assets

Cost of other non-current assets, such as specific drilling equipment, logging equipment and tools and cables etc., were amortised over their estimated useful life or unit of production. Non-current assets that cannot generate future benefits are recognised in the profit or loss in the period of relevant cost being incurred.

Impairment of other non-current assets is set out in Note 2.8.

3 NEW AND AMENDED IFRSs

The IASB has issued a number of amended IFRSs. The Group has adopted all these amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the accounting period beginning on or after 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 16	2019 Covid-19-Related Rent Concessions

Other than as noted below, the adoption of the amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Application of Amendments to IFRS 16 "2019 COVID-19-Related Rent Concessions"

Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

– the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

– any reduction in lease payments affects only payments originally due on or before 30 June 2021;

– and there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has early applied the amendment and the application has no impact to the opening retained profits at 1 January 2020. During the current year, there was no COVID-19-related rent concession occurred and had no impact on the disclosures or the amounts recognised in the consolidated financial statements of the Group.

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2020 which are relevant to the Group but the Group has not early adopted are set out below:

IFRS 17	Insurance Contracts and related amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[5]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020[2]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[5]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 Effective date not yet determined
5 Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors of the Company anticipate that the application of these new and amended IFRSs will have no material impact on the results and the financial position of the Group.

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Group continually evaluates the critical accounting estimates and key assumptions based on its historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that are likely to have significant risks of causing material adjustments to the carrying amounts of assets and liabilities in the next financial year are set out as below:

(1) Classification of financial assets

The Group's critical judgements on determining the classification of financial assets include business model and analysis of contractual cash flow characteristics.

The Group's assessment of the business model is performed on a financial assets portfolio basis, taking into consideration of the way for how the performance of the financial assets are evaluated and reported to the Group's key management personnel, the way for how the risks for being affected by the performance of the financial assets are evaluated and managed, and the way for how managers of are compensated and etc.

The Group's critical judgements on whether the cash flows are consistent with the loan arrangement include whether principal amount may change (including future cash flow and amount) over the life of the financial asset (for example, if there are early repayments of principal) and whether interest only consists of consideration for the time value of money, for the credit risk, and for other basic lending risks and costs, as well as a profit margin. For examples, whether the amount for early repayment solely reflects the outstanding principal and related interest and the reasonable compensation for the early termination of agreement.

(2) Provision for ECL of trade receivables and contract assets

The Group makes allowances on trade receivables (Note 21) and contract assets and cost to fulfil contracts (Note 23(a)) based on assumptions about risk of default and expected loss rates. The Group applies judgment in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. During the year ended 31 December 2020, the ECL allowance on trade receivables and contract assets is reversal of RMB35,742,000 (2019: ECL allowance: RMB1,130,000) and loss of RMB65,897,000 (2019: ECL allowance: RMB12,657,000) respectively.

(3) Provision for decline in value of inventories

The Group regularly reviews the net realisable value of inventories and the provision for decline in value of inventories is recognised at the excess of the carrying amounts of inventories over their net realisable value. When making estimation of the net realisable value of inventories, the Group considers the purpose of the inventories held on hand and other information available to form the underlying assumptions, including the market prices of inventories and the Group's historical operating costs. The actual selling price, costs of completion, selling expenses and taxes may vary according to the changes in market conditions, manufacturing technology or the actual use of the inventories, resulting in the changes in provision for decline in value of inventories. The profit or loss for the period will be affected by the adjustment of the provision for decline in value of inventories. The carrying amount of inventories is set out in Note 24.

(4) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefit. Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.

(5) Depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets

The Group takes into account of residual value before calculating the depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets. The Group regularly review the estimated useful lives of the assets to determine the depreciation and amortisation charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes, the amortisation periods for other non-current assets are determined by the Group in accordance with the expected benefit period of each assets. Depreciation and amortisation charges is revised if there is material adverse effect on the previous estimation.

Carrying amount of property, plant and equipment and intangible assets is set out in Notes 17 and 18.

(6) Revenue recognition

The contract revenue of petroleum engineering and technical services provided by the Group is recognised over time. The contract revenue and profit recognition of related service depends on the total budgeted contract revenue and the estimation of progress towards satisfaction of a performance obligation by the Group. The management of the Group adopts either the expected value or most likely amount method according to the contract to estimate the total budgeted contract revenue, and evaluates the total budgeted contract costs according to historical information and construction plan. In view of the fact that the construction service contract cycle may span multiple accounting periods, the Group will continuously and periodically review and revise the budgeted contract revenue and contract costs during the progress towards satisfaction of a performance obligation. If the total contract revenue and contract costs are actually higher or lower the management's estimated value, the Group's amount of revenue and profit recognition will be affected in the future.

4 CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(7) Provision for litigation claims

For the legal proceedings and claims, the Group derives the best estimate of committed losses to the related current obligations based on the legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change according to the progress of the legal proceedings. The related information is set out in Note 39.

(8) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses when the Group is likely to have sufficient taxable profits to offset losses. The management needs significant judgment to estimate the time in relation to the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. If the tax payable in future accounting period is lower than the expected amount or the actual tax rate is higher than the expected tax rate, the deferred tax assets recognised will be reversed and included in the statements of profit or loss. The related information is set out in Note 35.

(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 complexity of current contract, there may be adjustment to the recognised taxable income and expenses in the future due to the differences arising from actual operating results and its assumptions or estimated changes in the future. The Group has reasonably estimated the provision of taxation from the possible results of the tax authorities in the countries where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and the tax jurisdiction interpretation from taxable entity and related tax authorities. Since the Group operates in different tax regions, different interpretations may be resulted from various events. Relevant information is set out in Notes 12 and 39(c).

5 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	2020	2019
	RMB'000	RMB'000
Geophysics	**4,599,371**	4,305,555
Drilling engineering	**34,199,657**	36,941,274
Logging and mud logging	**2,728,760**	2,535,982
Special downhole operations	**8,596,355**	7,675,950
Engineering construction	**15,683,065**	16,603,211
Others	**2,266,186**	1,808,175
	68,073,394	69,870,147

Segment information

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

Five reportable operating segments are as follows:

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

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

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

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

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

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain intangible assets, certain other non-current assets, certain inventories, certain contract assets and cost to fulfil contracts, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred tax assets.

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

All liabilities are allocated to reportable segments other than certain borrowings, certain deferred income, certain deferred tax liabilities, certain notes and trade payables, certain other payables, certain contract liabilities, and certain current income tax payable.

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

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

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

(a) Segment results, assets and liabilities

For the year ended 31 December 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
During the year ended 31 December 2020								
Segment revenue and results								
Revenue from external customers	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	2,266,186	–	68,073,394
Inter-segment income	10,202	774,221	1,466,368	674,078	36,314	5,973,842	(8,935,025)	–
Segment revenue	4,609,573	34,973,878	4,195,128	9,270,433	15,719,379	8,240,028	(8,935,025)	68,073,394
Reportable segment (loss)/profit	(75,959)	12,542	161,833	(214,901)	9,107	(300,037)	–	(407,415)
Other income	58,964	456,066	7,679	35,275	67,926	58,530	–	684,440
Other expenses	(12,448)	(664)	(5,413)	(4,094)	(14,720)	(6,347)	–	(43,686)
(Loss)/Profit before income tax	(29,443)	467,944	164,099	(183,720)	62,313	(247,854)	–	233,339
Income tax expense								(269,076)
Loss for the year								(35,737)
During the year ended 31 December 2020								
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	383,106	1,826,826	202,039	570,515	244,119	259,717	–	3,486,322
– Other non-current assets	99,623	1,673,357	84,163	311,492	10,869	3,437	–	2,182,941
– Intangible assets	19	97,206	1,385	7,828	7,649	2,137	–	116,224
Capital expenditure								
– Property, plant and equipment	225,407	1,576,109	112,015	497,805	259,047	172,964	–	2,843,347
– Intangible assets	6	219,989	430	901	8,227	1,785	–	231,338
Provision/(Reversal of provision) for ECL on trade receivables, net	11,772	(55,448)	(3,203)	27,674	(15,109)	(1,428)	–	(35,742)
(Reversal of provision)/Provision for ECL on other receivables, net	(2,218)	(4,294)	437	883	76,682	2,602	–	74,092
Provision for ECL on contract assets	891	63,414	290	707	565	30	–	65,897
Write down of inventories to net realizable value	–	4,846	–	–	–	–	–	4,846
As at 31 December 2020								
Assets								
Segment assets	4,354,278	39,531,252	2,551,384	6,437,288	20,325,162	27,486,627	(39,594,796)	61,091,195
Liabilities								
Segment liabilities	3,185,765	30,373,664	1,918,995	3,634,310	20,110,692	34,739,699	(39,594,796)	54,368,329

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

For the year ended 31 December 2019 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
During the year ended 31 December 2019								
Segment revenue and results								
Revenue from external customers	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	–	69,870,147
Inter-segment income	7,550	1,521,809	1,435,830	517,391	75,077	931,941	(4,489,598)	–
Segment revenue	4,313,105	38,463,083	3,971,812	8,193,341	16,678,288	2,740,116	(4,489,598)	69,870,147
Reportable segment (loss)/profit	(148,431)	1,392,858	169,062	149,472	(137,298)	(694,204)	–	731,459
Other income	41,012	280,732	7,446	28,076	270,943	127,065	–	755,274
Other expenses	(4,426)	(19,053)	(2,731)	(4,260)	(22,331)	(5,535)	–	(58,336)
(Loss)/Profit before income tax	(111,845)	1,654,537	173,777	173,288	111,314	(572,674)	–	1,428,397
Income tax expense								(441,524)
Profit for the year								986,873
During the year ended 31 December 2019								
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	381,511	1,743,357	179,951	576,034	235,388	294,770	–	3,411,011
– Other non-current assets	72,907	1,511,365	38,751	207,394	15,066	2,067	–	1,847,550
– Intangible assets	26	64,265	1,641	11,792	7,423	4,487	–	89,634
Capital expenditure								
– Property, plant and equipment (Note)	719,255	1,393,448	108,445	611,283	239,285	531,804	–	3,603,520
– Intangible assets (Note)	–	187,094	–	55,929	7,017	2,151	–	252,191
– Other non-current assets (Note)	–	–	–	10,543	–	–	–	10,543
Provision/(Reversal of provision) for ECL on trade receivables, net	17,559	(11,992)	(6,894)	35,331	(34,704)	(430)	–	(1,130)
Provision/(Reversal of provision) for ECL on other receivables, net	1,673	(5,876)	188	(3,886)	108,503	(890)	–	99,712
(Reversal of provision)/Provision for ECL on contract assets	(1,020)	13,483	42	555	(468)	65	–	12,657
As at 31 December 2019								
Assets								
Segment assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	(38,075,970)	62,069,378
Liabilities								
Segment liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	(38,075,970)	55,305,506

Note: Capital expenditure includes additions resulting from an acquisition through business combination (Note 41).

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	2020	2019
	RMB'000	RMB'000
The PRC	**56,742,351**	56,894,888
Middle East	**8,636,854**	7,894,085
Other countries	**2,694,189**	5,081,174
	68,073,394	69,870,147

	Specified non-current assets	
	2020	2019
	RMB'000	RMB'000
The PRC	**26,420,314**	26,705,971
Other countries	**4,449,925**	4,365,656
	30,870,239	31,071,627

(c) Major customer

For the years ended 31 December 2020 and 2019, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2020	2019
	RMB'000	RMB'000
Customer A	**41,033,624**	40,177,581

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

5 REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the years ended 31 December 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, engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
During the year ended 31 December 2020							
Timing of revenue recognition:							
– At a point in time	**–**	**23,259**	**6,670**	**–**	**24,252**	**588,283**	**642,464**
– Over time	**4,599,371**	**34,176,398**	**2,722,090**	**8,596,355**	**15,658,813**	**1,677,903**	**67,430,930**
Total	**4,599,371**	**34,199,657**	**2,728,760**	**8,596,355**	**15,683,065**	**2,266,186**	**68,073,394**
During the year ended 31 December 2019							
Timing of revenue recognition:							
– At a point in time	17,708	258,233	14,761	4,736	270,573	325,965	891,976
– Over time	4,287,847	36,683,041	2,521,221	7,671,214	16,332,638	1,482,210	68,978,171
Total	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	69,870,147

(e) Performance obligation of contracts with customers

The Group enters into petroleum engineering technical service contracts or construction contracts with customers to provide geophysical exploration, drilling, logging and mud logging, special downhole operations and surface engineering construction services of which rendering of services and construction contracts is completed according to the agreed schedule. When value of the completed work is confirmed and is certified, customers pay progress payments within 30-180 days after billing. Final billing and payment is made upon the completion and acceptance of the work.

In accordance with contracts and relevant legal requirement, the Group's engineering construction business provides quality assurance for the constructed assets. This type of quality assurance is an assurance-type warranty that ensures that the constructed assets fulfil the established quality standards, which does not constitute a single performance obligation.

6 FINANCE EXPENSES – NET

	2020	2019
	RMB'000	RMB'000
Finance income		
Interest income		
– Sinopec Group's subsidiaries	**1,407**	2,289
– Third parties and other financial institutions	**58,169**	101,210
	59,576	103,499
Finance expenses		
Interest expenses on borrowings wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	**(753,965)**	(768,972)
– Third parties and other financial institutions	**(52,785)**	(87,273)
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	**(25,699)**	(32,800)
– Sinopec Group's associates and joint ventures	**(59,303)**	(76,455)
– Third parties	**(14,941)**	(14,963)
Exchange loss, net	**(289,068)**	(7,444)
Bank and other charges	**(60,485)**	(60,936)
	(1,256,246)	(1,048,843)
	(1,196,670)	(945,344)

7 EXPECTED CREDIT LOSS ("ECL") AND IMPAIRMENT LOSSES ON ASSETS

	2020	2019
	RMB'000	RMB'000
ECL on trade and other receivables, net	38,350	98,582
ECL on contract assets	65,897	12,657
Write down of inventories to net realizable value	4,846	–
	109,093	111,239

8 INVESTMENT INCOME

	2020	2019
	RMB'000	RMB'000
Investment income from financial assets at FVTOCI	500	600
Gain on remeasurement of previously held equity interests of SinoFTS Petroleum Services Limited ("SinoFTS")	–	27,474
Gain on bargain purchase	–	8,439
	500	36,513

9 OTHER INCOME

	2020	2019
	RMB'000	RMB'000
Gain on disposal of property, plant and equipment, net	935	61,442
Gain on disposal of other non-current assets, net	5,026	5,602
Gain on debt restructuring	53,960	154,539
Government grants (Note)	511,210	367,080
Waived payables	81,208	122,414
Penalty income	2,779	2,636
Compensation received	3,059	11,724
Insurance claims	8,215	15,221
Asset surplus	4,327	470
Others	13,721	14,146
	684,440	755,274

Note:

For the years ended 31 December 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.

10 OTHER EXPENSES

	2020	2019
	RMB'000	RMB'000
Loss on scraps of assets	7,147	1,976
Penalty	8,220	9,418
Donation	5,623	1,197
Compensation	12,844	8,354
(Reversal of provision)/Provision for expected loss on pending litigations	(2,424)	286
Others	12,276	37,105
	43,686	58,336

11 PROFIT BEFORE INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Staff costs, including directors and supervisors emoluments (Note 16)	**15,733,882**	15,742,653
Retirement benefit plan contribution (included in the above mentioned staff costs)		
–Municipal retirement scheme costs	**899,329**	1,259,833
–Supplementary retirement scheme costs	**645,597**	562,219
Share options granted to directors and employees (included in the above mentioned staff costs)	**3,192**	3,818
Changes in inventories of finished goods and work in progress	**72,575**	(70,540)
Raw materials and consumables used	**28,133,529**	20,802,619
Depreciation and amortisation		
–Property, plant and equipment	**3,486,322**	3,411,011
–Other non-current assets	**2,182,941**	1,847,550
–Intangible assets	**116,224**	89,634
Operating lease expenses		
–Short-term leases with lease term of 12 months or less	**996,480**	927,772
ECL, net		
–Trade and other receivables	**38,350**	98,582
–Contract assets	**65,897**	12,657
– Write down of inventories to net realizable value	**4,846**	–
Rental income from property, plant and equipment less relevant expenses	**(20,704)**	(27,684)
Gains on disposal/write-off of property, plant and equipment, net	**(935)**	(61,442)
Gains on disposal/write-off of other non-current assets, net	**(5,026)**	(5,602)
Auditors' remuneration	**9,800**	9,800
Exchange loss, net	**289,068**	7,444

12 INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax		
PRC enterprise income tax	**50,750**	86,047
Overseas enterprise income tax	**199,988**	283,912
	250,738	369,959
Deferred tax		
Origination and reversal of temporary difference (Note 35)	**18,338**	71,565
Income tax expense	**269,076**	441,524

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 period, for the years ended 31 December 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.

12 INCOME TAX EXPENSE (Continued)

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

	2020	2019
	RMB'000	RMB'000
Profit before income tax	**233,339**	1,428,397
Taxation calculated at the statutory tax rate	**58,335**	357,099
Income tax effects of:		
Difference in overseas profits tax rates	**204,580**	111,699
Non-deductible expenses	**97,333**	58,494
Effect of utilisation of unrecognised tax losses and deductible temporary differences	**(112,838)**	(122,189)
Effect of unrecognised tax losses and deductible temporary differences	**193,158**	60,717
Adjustments of current tax in previous years	**(21,353)**	16,643
Equity method accounting for the joint ventures and associates' profit or loss	**(766)**	(3,442)
Effect on opening deferred tax balances arising from change in tax rates during the year	**15,013**	65,659
Tax effect on research and development expenses	**(164,386)**	(103,156)
Income tax expense	**269,076**	441,524

13 (LOSS)/EARNINGS PER SHARE

(a) Basic

For the years ended 31 December 2020 and 2019, the basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company.

	2020	2019
(Loss)/Profit for the year attributable to owners of the Company (RMB'000)	**(35,737)**	986,873
Weighted average number of ordinary shares in issue (Shares)	**18,984,340,033**	18,984,340,033
Basic (loss)/earnings per share (RMB)	**(0.002)**	0.052

(b) Diluted

For the years ended 31 December 2020 and 2019, the diluted (loss)/earnings per share was the same as the basic (loss)/earnings per share as the exercise price of those share options is higher than the average market price for shares in the both years.

14 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

Directors', supervisors' and highest individuals' emoluments, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance is as follows:

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

(i) For the year ended 31 December 2020

	Fee	Salary, allowance and bonus	Contributions to pension plans	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
CHEN Xikun	–	860	48	–	908
YUAN Jianqiang	–	839	48	–	887
	–	1,699	96	–	1,795
Non-executive directors:					
LU Baoping	–	–	–	–	–
FAN Zhonghai	–	–	–	–	–
WEI Ran	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors:					
JIANG Bo	200	–	–	–	200
CHEN Weidong	200	–	–	–	200
DONG Xiucheng	200	–	–	–	200
PAN Ying (i)	50	–	–	–	50
	650	–	–	–	650
Supervisors:					
ZHANG Qin	–	–	–	–	–
DU Jiangbo	–	–	–	–	–
ZHANG Hongshan	–	721	32	–	753
ZHANG Jianbo	–	–	–	–	–
CHEN Weiguo (ii)	–	566	18	–	584
ZHAI Yalin	–	–	–	–	–
MA Xiang	–	818	48	–	866
	–	2,105	98	–	2,203
	650	3,804	194	–	4,648

Notes:
(i) Resigned on 2 April 2020.
(ii) Resigned on 6 August 2020.

For the year ended 31 December 2020, Mr. YUAN Jianqiang is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows: (Continued)

(ii) For the year ended 31 December 2019

	Fee	Salary, allowance and bonus	Contributions to pension plans	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
CHEN Xikun	–	889	52	–	941
SUN Qingde (i)	–	370	24	–	394
YUAN Jianqiang (ii)	–	512	27	–	539
	–	1,771	103	–	1,874
Non-executive directors:					
LU Baoping	–	–	–	–	–
FAN Zhonghai	–	–	–	–	–
LIU Zhongyun (iii)	–	–	–	–	–
WEI Ran	–	–	–	–	–
XIAO Yi (iv)	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors:					
JIANG Bo	200	–	–	–	200
CHEN Weidong	200	–	–	–	200
DONG Xiucheng	200	–	–	–	200
PAN Ying	200	–	–	–	200
	800	–	–	–	800
Supervisors:					
ZOU Huiping (v)	–	–	–	–	–
ZHANG Qin	–	–	–	–	–
DU Jiangbo	–	–	–	–	–
LI Wei (vi)	–	703	46	–	749
ZHANG Hongshan	–	852	35	–	887
ZHANG Jianbo	–	–	–	–	–
CHEN Weiguo (vii)	–	453	15	–	468
ZHAI Yalin (viii)	–	–	–	–	–
MA Xiang (ix)	–	67	4	–	71
	–	2,075	100	–	2,175
	800	3,846	203	–	4,849

Notes:
(i) Resigned on 10 May 2019.
(ii) Appointed on 26 June 2019.
(iii) Resigned on 9 December 2019.
(iv) Appointed on 26 June 2019 and resigned on 19 December 2019.
(v) Resigned on 30 May 2019.
(vi) Resigned on 19 December 2019.
(vii) Appointed on 30 May 2019.
(viii) Appointed on 26 June 2019.
(ix) Appointed on 19 December 2019.

For the year ended 31 December 2019, Mr. SUN Qingde is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

15 DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
Director or supervisor	2	2
Non-director or supervisor	3	3
	5	5

The aggregate of the emoluments in respect of the highest paid non-director or supervisor are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries, allowances and bonus	2,490	2,513
Contributions to pensions plans	144	155
Share-based payments	40	121
	2,674	2,789

The emoluments of the three (2019: three) highest paid individuals who are non-director or supervisor are within the following bands:

	2020	2019
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	2	2

16 EMPLOYMENT BENEFITS

	2020	2019
	RMB'000	RMB'000
Salaries, wages and other benefits	14,185,764	13,916,783
Contribution to pension plans (Note)		
－Municipal retirement scheme costs	899,329	1,259,833
－Supplementary retirement scheme costs	645,597	562,219
Share options granted to directors and employees (Note 30)	3,192	3,818
	15,733,882	15,742,653

Note:

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 31 December 2020, the Group and its employees pay 16% and 8% (2019: 20% and 8%) of salaries respectively to basic defined contribution plan.

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

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

17 PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 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						
At 1 January 2020	2,410,301	61,847,590	211,535	136,660	285,553	64,891,639
Additions	215,146	1,536,609	20,700	–	1,099,748	2,872,203
Remeasurement of leases	281	(28,775)	(362)	–	–	(28,856)
Expiration of or early termination of contract	(40,022)	(10,032)	(2,100)	–	–	(52,154)
Disposals/Write-off	(11,578)	(1,227,767)	–	–	–	(1,239,345)
Transferred from construction in progress	–	1,029,275	–	–	(1,029,275)	–
At 31 December 2020	2,574,128	63,146,900	229,773	136,660	356,026	66,443,487
Accumulated depreciation						
At 1 January 2020	723,997	37,286,864	46,447	25,210	–	38,082,518
Depreciation	288,263	3,140,177	54,787	3,095	–	3,486,322
Expiration of or early termination of contract	(26,819)	(6,903)	(2,100)	–	–	(35,822)
Disposals/write-off	(6,970)	(1,058,329)	–	–	–	(1,065,299)
At 31 December 2020	978,471	39,361,809	99,134	28,305	–	40,467,719
Accumulated impairment loss						
At 1 January 2020	8,436	1,353,320	–	–	71,734	1,433,490
Disposals/write-off	–	(33,390)	–	–	–	(33,390)
At 31 December 2020	8,436	1,319,930	–	–	71,734	1,400,100
Carrying amounts						
At 31 December 2020	1,587,221	22,465,161	130,639	108,355	284,292	24,575,668

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

For the year ended 31 December 2019

	Buildings	Oil engineering equipment and others	Land	Prepaid land leases	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2019	1,545,881	59,218,964	–	–	437,148	61,201,993
Adjustment under IFRS 16	439,690	388,024	116,765	144,531	–	1,089,010
Additions	299,708	2,164,243	2,733	956	790,371	3,258,011
Remeasurement of leases	39,753	–	83,210	–	–	122,963
Acquisition through business combination (Note 41)	–	301,232	–	–	–	301,232
Disposals/Write-off	(9,490)	(1,072,080)	–	–	–	(1,081,570)
Reclassification	–	–	8,827	(8,827)	–	–
Transferred from construction in progress	94,759	847,207	–	–	(941,966)	–
At 31 December 2019	2,410,301	61,847,590	211,535	136,660	285,553	64,891,639
Accumulated depreciation						
At 1 January 2019	500,517	35,042,629	–	–	–	35,543,146
Adjustment under IFRS 16	–	–	–	26,196	–	26,196
Depreciation	232,193	3,133,357	42,169	3,292	–	3,411,011
Acquisition through business combination (Note 41)	–	78,686	–	–	–	78,686
Reclassification	–	–	4,278	(4,278)	–	–
Disposals/write-off	(8,713)	(967,808)	–	–	–	(976,521)
At 31 December 2019	723,997	37,286,864	46,447	25,210	–	38,082,518
Accumulated impairment loss						
At 1 January 2019	8,436	1,372,505	–	–	71,734	1,452,675
Disposals/write-off	–	(19,185)	–	–	–	(19,185)
At 31 December 2019	8,436	1,353,320	–	–	71,734	1,433,490
Carrying amounts						
At 31 December 2019	1,677,868	23,207,406	165,088	111,450	213,819	25,375,631

Notes:

(i) Recognised depreciation is analysed as follows:

	2020	2019
	RMB'000	RMB'000
Cost of sales	**3,376,642**	3,309,151
Selling expenses	**302**	272
General and administrative expenses	**86,892**	78,767
Research and development expenses	**22,486**	22,821
	3,486,322	3,411,011

(ii) As at 31 December 2020, right-of-use assets with carrying amounts of RMB1,394,653,000 are included in property, plant and equipment (2019: right-of-use assets with carrying amounts of RMB2,539,624,000).

	Carrying amounts		**Depreciation**
	As at 31 December 2020	**As at 1 January 2020**	**During the year 31 December 2020**
	RMB'000	**RMB'000**	**RMB'000**
Buildings	**561,175**	**594,191**	**228,078**
Oil engineering equipment and others	**594,484**	**1,668,894**	**241,215**
Land	**130,639**	**165,089**	**54,787**
Prepaid land leases	**108,355**	**111,450**	**3,095**
	1,394,653	**2,539,624**	**527,175**

(iii) For the year ended 31 December 2020, the total increase in the right-of-use assets included in property, plant and equipment was RMB283,501,000.

18 INTANGIBLE ASSETS

For the year ended 31 December 2020

	Computer softwares RMB'000	Others RMB'000	Total RMB'000
Cost			
At 1 January 2020	**170,597**	**475,999**	**646,596**
Additions	**11,011**	**220,327**	**231,338**
Disposals/Write-off	**(3,448)**	**–**	**(3,448)**
At 31 December 2020	**178,160**	**696,326**	**874,486**
Accumulated amortisation			
At 1 January 2020	**131,437**	**233,662**	**365,099**
Amortisation	**10,610**	**105,614**	**116,224**
Disposals/Write-off	**(3,448)**	**–**	**(3,448)**
At 31 December 2020	**138,599**	**339,276**	**477,875**
Carrying amounts			
At 31 December 2020	**39,561**	**357,050**	**396,611**

For the year ended 31 December 2019

	Computer softwares RMB'000	Others RMB'000	Total RMB'000
Cost			
At 1 January 2019	159,914	242,725	402,639
Additions	10,706	233,274	243,980
Acquisition through business combination (Note 41)	24	9,298	9,322
Disposals/Write-off	(47)	(9,298)	(9,345)
At 31 December 2019	170,597	475,999	646,596
Accumulated amortisation			
At 1 January 2019	118,552	165,147	283,699
Acquisition through business combination (Note 41)	20	1,091	1,111
Amortisation	12,912	76,722	89,634
Disposals/Write-off	(47)	(9,298)	(9,345)
At 31 December 2019	131,437	233,662	365,099
Carrying amounts			
At 31 December 2019	39,160	242,337	281,497

Recognised amortisation is analysed as follows:

	2020 **RMB'000**	2019 RMB'000
Cost of sales	**104,269**	78,013
Selling expenses	**2**	–
General and administrative expenses	**9,795**	8,517
Research and development expenses	**2,158**	3,104
	116,224	89,634

19 INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures

	2020	2019
	RMB'000	RMB'000
At 1 January	**23,791**	218,813
Increase in investments	**9**	–
Share of total comprehensive income	**(94)**	10,214
Transferred to a subsidiary (Note 41)	**–**	(205,236)
Dividends	**(502)**	–
At 31 December	**23,204**	23,791

The interests in each joint venture are as follows:

	2020	2019
	RMB'000	RMB'000
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun")	**1,613**	2,105
Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering")	**13,075**	13,383
Zhong Wei Energy Service Co. Limited ("Zhong Wei")	**8,316**	8,303
EBAPAN, S.A. DE C.V ("EBAPAN")	**200**	–
	23,204	23,791

The details of joint ventures, unlisted and established as limited companies, of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	MXN'000		
Qianjiang HengYun	The PRC	2,100 (2019: 2,100)	–	49.10% (2019: 49.10%)	Transportation services/The PRC
Gulf Petroleum Engineering	Kuwait	27,312 (2019: 27,312)	–	49.00% (2019: 49.00%)	Oilfield service/Kuwait
Zhong Wei	The PRC	305,000 (2019: 305,000)	–	50.00% (2019: 50.00%)	Oilfield technical service/The PRC
EBAPAN	Mexico	–	50 (2019: N/A)	50.00% (2019: N/A)	Oil and gas extraction professional and auxiliary activities/Mexico

The above joint ventures are accounted for using equity method.

Notes:

(i) The decision of financial and operating strategies requires unanimous consent from the Group and other ventures as stated in the contracts signed by the both parties. The equities of joint ventures are measured by the joint ventures.

(ii) Commitments and contingent liabilities of the joint ventures

As at 31 December 2020 and 2019, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

The summarised financial information of other non-major joint ventures of the Group is as follows:

	2020	2019
	RMB'000	RMB'000
Profit/(Loss) for the year and total comprehensive income/(expense) for the year	**120**	(182)

19 INTERESTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(b) Interests in associates

	2020	2019
	RMB'000	RMB'000
At 1 January	**15,927**	14,010
Share of total comprehensive income	**5,561**	3,685
Dividend paid	**(1,646)**	(1,768)
At 31 December	**19,842**	15,927

The details of associate, unlisted and established as limited companies, of the Group are as follows:

Name	Place of incorporation/ registration	Registered capital		Actual interest held indirectly	Principal activities and place of operation
		RMB'000	USD'000		
Ordos North China Ruida Oil Service Company Limited ("Ordos North")	The PRC	10,000 (2019: 10,000)	–	35.00% (2019: 35.00%)	Oil and natural gas exploration/The PRC
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	The PRC	10,000 (2019: 10,000)	–	20.00% (2019: 20.00%)	Oil and natural gas exploration/The PRC
Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil")	The PRC	5,000 (2019: 5,000)	–	37.00% (2019: 37.00%)	Oil and natural gas exploration/The PRC
Henan Zhongyuan Petroleum Technology Service Company Limited ("Henan Zhongyuan")	The PRC	10,000 (2019: 10,000)	–	20.00% (2019: 20.00%)	Oil and natural gas exploration/The PRC
Henan Zhongyou Petroleum Technology Service Company Limited ("Henan Zhongyou")	The PRC	10,000 (2019: 10,000)	–	20.00% (2019: 20.00%)	Oil and natural gas exploration/The PRC

The above associates are accounted for using equity method.

Note:

Commitments and contingent liabilities of the associates

As at 31 December 2020 and 2019, there is no material contingent liability and commitment between the Group with its associates or associates themselves.

20 FINANCIAL ASSETS AT FVTOCI

	2020	2019
	RMB'000	RMB'000
Non-current asset:		
Financial assets at FVTOCI (non-recycling)		
Unlisted securities: Equity securities – the PRC	**22,835**	32,847
Current assets:		
Financial assets at FVTOCI		
Notes receivables	**1,323,425**	1,446,389

Note:

(i) Unlisted investments represent the Groups' equity interests in the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The Group designated its investment in unlisted investment as financial assets at FVTOCI (non-recycling), as the investment is held for strategic purpose.

(ii) As at 31 December 2020 and 2019, certain note receivables were classified as financial assets at FVTOCI, as the Group's business model is achieved both by collecting contractual cash flows and by selling of these assets.

(iii) Financial assets at FVTOCI are measured at fair value based on their asset values. Refer to Note 42.4 for details. All financial assets at FVTOCI are denominated in RMB.

21 NOTES AND TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables		
– Sinopec Group and its subsidiaries	**2,364,781**	4,760,085
– Joint ventures	**5,249**	13,848
– Sinopec Group's joint ventures and associates	**912,791**	111,715
– Third parties	**8,550,102**	9,624,697
	11,832,923	14,510,345
Less: ECL allowance	**(2,474,538)**	(2,513,990)
Trade receivables – net	**9,358,385**	11,996,355
Notes receivables	**–**	500
Notes and trade receivables – net	**9,358,385**	11,996,855

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

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

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

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

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

	2020 RMB'000	2019 RMB'000
Within 1 year	**8,302,161**	10,515,700
1 to 2 years	**617,561**	1,002,971
2 to 3 years	**309,393**	322,870
Over 3 years	**129,270**	155,314
	9,358,385	11,996,855

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

	2020 RMB'000	2019 RMB'000
Balance at the beginning of the year	**2,513,990**	2,525,191
ECL allowance	**363,655**	407,122
Reversal	**(399,397)**	(408,252)
Others	**(1,976)**	–
Receivables write-off as uncollectible	**(1,734)**	(10,071)
At 31 December	**2,474,538**	2,513,990

22 PREPAYMENTS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments (Note (i))	**445,518**	553,726
Other receivables (Note (ii))		
Petty cash funds	**11,907**	12,249
Guarantee deposits	**1,326,522**	1,412,018
Disbursement of funds	**833,797**	732,671
Temporary payment	**622,405**	623,580
Escrow payments	**4,688**	39,529
Deposits	**44,539**	46,742
Export tax refund receivables	**22,213**	8,663
Excess value-added tax paid	**981,684**	1,135,967
Value-added tax to be certified	**247,610**	10,285
Prepaid value-added tax	**761,948**	571,886
Prepaid income tax	**4,566**	24,200
Others	**378,069**	219,235
	5,685,466	5,390,751
Less: ECL allowance	**(761,013)**	(710,685)
Prepayments and other receivables – net	**4,924,453**	4,680,066

Notes:

(i) As at 31 December 2020, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB136,002,000 (2019: RMB85,051,000).

(ii) As at 31 December 2020, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB82,176,000 (2019: RMB270,291,000), the joint ventures of the Group amounting to RMB189,000 (2019: RMB356,000) and, the associates and joint ventures of Sinopec Group amounting to RMB294,411,000 (2019: RMB82,678,000).

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

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

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

	2020 RMB'000	2019 RMB'000
Balance at the beginning of the year	**710,685**	614,716
ECL allowance	**153,910**	283,271
Reversal	**(79,818)**	(183,559)
Others	**(23,764)**	–
Written off	**–**	(3,743)
At 31 December	**761,013**	710,685

23 CONTRACT ASSETS AND COST TO FULFIL CONTRACTS/CONTRACT LIABILITIES

(a) Contract assets and cost to fulfil contracts

	2020	2019
	RMB'000	RMB'000
Contract assets arising from construction and service contracts (Note (a))	**11,715,335**	9,609,431
Cost to fulfil contracts (Note (b))	**7,713**	137,039
Less: ECL allowance	**(104,447)**	(39,182)
	11,618,601	9,707,288

Notes:

(a) 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. Change of contract assets during the year ended 31 December 2020 was mainly due to changes in number of contract works that the relevant performance obligations were completed but yet been certified at the end of the reporting period.

The amount of contract assets that is expected to be recovered after more than one year is RMB185,358,000 (31 December 2019: RMB179,571,000).

(b) Cost to fulfil contracts represented costs directly related to existing contracts or expected costs specifically identified in contracts, including direct labor, direct materials, cost allocation, costs clearly payable by the customer, and costs to enter contracts. Managements consider the cost to fulfil contracts is recoverable and the cost is deferred and amortised in the profit or loss when relevant contract revenue is recognized.

(b) Contract liabilities

	2020	2019
	RMB'000	RMB'000
Contract liabilities arising from construction and service contracts	**3,024,461**	3,575,654

Note:

When the Group received the deposits in advance to the commencement of construction period/provision of services, the amount will be recognised as contract liabilities at contract inception until the amount of recognised revenue is greater than the deposits.

The balance of contract liabilities as at 1 January 2020 is RMB3,575,654,000 (2019: RMB4,390,293,000) in which RMB2,721,655,000 (2019: RMB2,694,951,000) was recognised as revenue during the year.

Unsatisfied performance obligation:

The group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 31 December 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 RMB21.53 billion (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.

24 INVENTORIES

	2020	2019
	RMB'000	RMB'000
Raw materials	**916,767**	1,030,568
Finished goods	**68,039**	53,875
Work in progress	**66,577**	8,781
Turnover materials	**15,079**	10,016
	1,066,462	1,103,240
Less: Provision for impairment/write off	**(40,497)**	(54,775)
	1,025,965	1,048,465

For the years ended 31 December 2020 and 2019, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB28,206,104,000 and RMB20,732,079,000 respectively. For the year ended 31 December 2020, the provision for inventories of RMB4,846,000 (2019: nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB19,124,000 (2019: RMB9,310,000).

25 RESTRICTED CASH

	2020 RMB'000	2019 RMB'000
Letter of credit guarantee deposits	**14,096**	2,187
Guarantee deposits	**14,010**	15,918
	28,106	18,105

As at 31 December 2020 and 2019, restricted cash represents the deposits in banks with initial maturity due for six months which are letter of credit guarantee deposits and guarantee deposits.

As at 31 December 2020 and 2019, the annual interest rates on restricted cash range from one to six months and are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash.

26 CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash on hand	**8,517**	6,792
An initial term less than three months:		
— Sinopec Finance Company Limited	**107,564**	52,438
— Sinopec Century Bright Capital Investment Company Limited	**649,976**	753,019
— China CITIC Bank	**1**	1
— Third party banks and other financial institutions	**757,294**	838,482
	1,523,352	1,650,732

As at 31 December 2020 and 2019, the annual interest rates on cash at bank are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates the carrying amounts of the Group's cash and cash equivalents.

27 SHARE CAPITAL

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

28 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

(i) The statement of financial position of the Company

	2020 RMB'000	2019 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries	27,891,662	27,891,662
Total non-current assets	27,891,662	27,891,662
Current assets		
Other receivables	4,396,431	4,399,759
Other current assets	167	83
Cash and cash equivalents	159	170
Total current assets	4,396,757	4,400,012
Total assets	32,288,419	32,291,674
Equity		
Share capital	18,984,340	18,984,340
Reserves	13,252,312	13,268,995
Total equity	32,236,652	32,253,335
Liabilities		
Current liabilities		
Tax payables	26,661	26,531
Trade payables	11,800	11,800
Other payables	13,306	8
Total current liabilities	51,767	38,339
Total liabilities	51,767	38,339
Total equity and liabilities	32,288,419	32,291,674
Net current assets	4,344,990	4,361,673
Total assets less current liabilities	32,236,652	32,253,335

Approved and authorised for issue by the board of directors on 24 March 2021.

Chairman of the Board:
CHEN Xikun

Executive director, General Manager:
YUAN Jianqiang

28 THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

(ii) The statement of changes in equity of the Company

	Share capital	Share premium	Other capital reserve	Surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 29(i))		(Note 29(ii))		
At 1 January 2019	18,984,340	13,919,394	41,991	200,383	(866,443)	32,279,665
Total comprehensive expense	–	–	–	–	(30,148)	(30,148)
Total transactions with owners:						
– Equity-settled share-based transaction (Note 30)	–	–	3,818	–	–	3,818
At 31 December 2019 and 1 January 2020	**18,984,340**	**13,919,394**	**45,809**	**200,383**	**(896,591)**	**32,253,335**
Total comprehensive expense	**–**	**–**	**–**	**–**	**(19,875)**	**(19,875)**
Total transactions with owners:						
– Equity-settled share-based transaction (Note 30)	**–**	**–**	**3,192**	**–**	**–**	**3,192**
At 31 December 2020	**18,984,340**	**13,919,394**	**49,001**	**200,383**	**(916,466)**	**32,236,652**

The distributable profits of the Company are as follows:

	2020	2019
	RMB'000	RMB'000
Distributable profits	**–**	–

29 RESERVES

(i) Share premium and other capital reserve

In accordance with the relevant laws and regulations of the PRC, on this restructuring, the surplus of related asset revaluation, transaction with Sinopec Group, issue of share capital and share repurchases are reflected in this reserves. Other capital reserve includes the fair value of recognised share options (refer to Note 2.18 to the consolidated financial statements for the accounting policies).

(ii) Surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The statutory surplus reserve can be used to offset losses, if any, and may be converted into share capital by issuing new shares.

(iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its oil construction business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

(iv) Other comprehensive income reserve (non-recycling)

Other comprehensive income reserve (non-recycling) includes net accumulated movement in fair value of equity investment at FVTOCI (refer to Note 2.9 to the consolidated financial statements for the accounting policies).

30 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.

30 SHARE-BASED PAYMENTS (Continued)

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 31 December 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
1 November 2020	**5.63**	17,084,000

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. At 31 December 2020, 17,084,000 share options with the total fair value RMB22,067,000 at the grant date of has not been exercised.

The movement of share options are as follows:

	No. of share options
Outstanding shares at 31 December 2019 and 1 January 2020 and 31 December 2020	17,084,000

The significant inputs into the model were as follows:

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

Share option expenses of RMB3,192,000 (2019: RMB3,818,000) have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2020. As at 31 December 2020, no share option had been exercised yet.

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

31 DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
At 1 January	**92,211**	139,594
Government grants received during the year	**433,185**	319,697
Recognised in the statement of comprehensive income for the year	**(511,210)**	(367,080)
At 31 December	**14,186**	92,211

Deferred income mainly related to income from the national special research government grants.

32 NOTES AND TRADE PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables		
– Sinopec Group and its subsidiaries	1,146,343	1,148,614
– Joint ventures	18,322	19,723
– Sinopec Group's joint ventures and associates	7,204	1,311
– Third parties	19,325,640	18,898,646
	20,497,509	20,068,294
Notes payables	6,305,228	4,733,932
	26,802,737	24,802,226

As at 31 December 2020 and 2019, the carrying amounts of the Group's notes and trade payables were approximately their fair value.

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

	2020 RMB'000	2019 RMB'000
Within 1 year	26,219,667	24,029,249
1 to 2 years	277,441	377,839
2 to 3 years	96,699	61,377
Over 3 years	208,930	333,761
	26,802,737	24,802,226

33 OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Salaries payables	498,071	421,938
Other tax payables	457,761	519,525
Interest payables (Note (i))	17,458	19,158
Other payables (Note (ii))		
Guarantee deposits	489,083	385,596
Deposits	126,570	112,746
Disbursement of funds	558,073	688,996
Temporary receipts	117,080	237,657
Escrow payments	43,776	51,789
Withheld payments	54,411	65,867
Others	289,965	294,565
	2,652,248	2,797,837

Notes:

(i) As at 31 December 2020 and 2019, interest payables above are related party balance with Sinopec Group and its subsidiaries amounting to RMB16,594,000 (2019: RMB19,158,000).

(ii) As at 31 December 2020, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB26,233,000 (2019: RMB42,026,000), joint ventures of the Group amounting to RMB2,688,000 (2019: RMB466,000).

(iii) Amounts due to related parties are unsecured, interest free and repayable on demand.

34 BORROWINGS

	2020 RMB'000	2019 RMB'000
Current liabilities		
Loans from Sinopec Finance Company Limited (Note (a))	**6,400,000**	12,080,000
Loans from Sinopec Century Bright Capital Investment Company Limited (Note (a))	**1,970,520**	2,323,075
Loans from Sinopec Group (Note (a))	**11,000,000**	6,000,000
Lease liabilities (Note (b))	**356,647**	535,375
	19,727,167	20,938,450
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Company Limited (Note (a))	**–**	474,382
Bank borrowings (Note (a))	**580,716**	–
Lease liabilities (Note (b))	**904,069**	1,833,446
	1,484,785	2,307,828
	21,211,952	23,246,278

Notes:

(a) The loans of the Group are repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**19,370,520**	20,403,075
1 to 2 years	**580,716**	–
2 years to 5 years	**–**	474,382
	19,951,236	20,877,457

As at 31 December 2020, annual interest rates of credit loans from related parties and bank ranged from 1.42% to 3.92% (2019: 3.09% to 8.80%).

(ii) Lease liabilities

	2020 RMB'000	2019 RMB'000
Total minimum lease payments		
– Within 1 year	**372,436**	574,873
– 1 to 2 years	**177,417**	578,535
– 2 to 5 years	**637,027**	1,224,369
– over 5 years	**331,542**	291,008
	1,518,422	2,668,785
Future finance charges on lease liabilities	**(257,706)**	(299,964)
Present value of lease liabilities	**1,260,716**	2,368,821

	2020 RMB'000	2019 RMB'000
Present value of minimum lease payments:		
– Within 1 year	**356,647**	535,375
– 1 to 2 years	**161,987**	517,746
– 2 to 5 years	**530,767**	1,057,059
– over 5 years	**211,315**	258,641
	1,260,716	2,368,821
Less: Portion due within one year included under current liabilities	**(356,647)**	(535,375)
Portion due after one year included under non-current liabilities	**904,069**	1,833,446

Notes:

(a) For the year ended 31 December 2020, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 29 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 year ended 31 December 2020, total cash outflow for the lease payment is RMB2,295,186,000.

(b) As at 31 December 2020, lease liabilities included related party balances: Sinopec Group and its subsidiaries amounting to RMB441,190,000 (2019: RMB590,713,000), the associates and joint ventures of Sinopec Group amounting to RMB558,471,000 (2019: RMB839,747,000).

35 DEFERRED TAX

Deferred tax assets and liabilities recognised:

The analysis of deferred tax assets and liabilities is as follows:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	**395,834**	417,004
Deferred tax liabilities	**(13,471)**	(17,854)
Deferred tax assets, net	**382,363**	399,150

The movement of the deferred tax account is as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**399,150**	469,780
Credited to profit or loss (Note 12)	**(18,338)**	(71,565)
Debited to other comprehensive income	**1,551**	935
At 31 December	**382,363**	399,150

The movement of deferred tax assets/(liabilities) during the years ended 31 December 2020 and 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Deferred income RMB'000	Provision for impairment on assets RMB'000	Net movement in fair value of financial assets at FVTOCI RMB'000	Total RMB'000
At 1 January 2019	15,273	477,165	–	492,438
Debited to:				
Profit or loss	(5,911)	(69,523)	–	(75,434)
At 31 December 2019 and 1 January 2020	**9,362**	**407,642**	**–**	**417,004**
(Credited)/Debited to:				
Profit or loss	**(8,869)**	**(13,464)**	**–**	**(22,333)**
Other comprehensive income	**–**	**–**	**1,163**	**1,163**
At 31 December 2020	**493**	**394,178**	**1,163**	**395,834**

Deferred tax liabilities

	Accelerated depreciation allowance RMB'000	Revaluation on assets RMB'000	Net movement in fair value of financial assets at FVTOCI RMB'000	Total RMB'000
At 1 January 2019	510	19,202	2,946	22,658
Credited to:				
Profit or loss	(26)	(3,843)	–	(3,869)
Other comprehensive income	–	–	(935)	(935)
At 31 December 2019 and 1 January 2020	**484**	**15,359**	**2,011**	**17,854**
Credited to:				
Profit or loss	**(155)**	**(3,840)**	**–**	**(3,995)**
Other comprehensive income	**–**	**–**	**(388)**	**(388)**
At 31 December 2020	**329**	**11,519**	**1,623**	**13,471**

35 DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Deferred tax assets represent the recognised tax losses carried forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax losses and deductible temporary differences not recognised as deferred in tax assets in the Group is as follow:

	2020 RMB'000	2019 RMB'000
Tax losses not recognised as deferred tax assets	**15,801,608**	17,746,849
Temporary differences not recognised as deferred tax assets	**2,366,618**	2,290,907

The Group did not recognise the above deferred tax assets as the management believes that it is less likely such deductible temporary differences and tax losses would be realised. The said tax losses not recognised as deferred tax assets would be expired within five years.

36 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2020 and 2019 not provided for in the financial statements are as follows:

	2020 RMB'000	2019 RMB'000
Contracted but not provided for	**180,023**	517,738

(b) Lease commitments

The lease commitments for short-term at 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**337,451**	150,486

As at 31 December 2020 and 2019, the Group leases various residential properties, office and equipments under non-cancellable operating leases, 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 31 December 2020, the Group has outstanding commitments of RMB129,625,000 in respect of its investment in joint ventures (2019: RMB129,625,000).

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2020.

37(a) CASH GENERATED FROM OPERATIONS

	2020 RMB'000	2019 RMB'000
Profit before income tax	**233,339**	1,428,397
Adjustments for:		
– Depreciation of property, plant and equipment	**3,486,322**	3,411,011
– Gains on write-off/disposal of property, plant and equipment	**(935)**	(61,442)
– Amortisation of other non-current assets	**2,182,941**	1,847,550
– Gains on write-off/disposal of other non-current assets	**(5,026)**	(5,602)
– Amortisation of intangible assets	**116,224**	89,634
– Interest income	**(59,576)**	(103,499)
– Interest expense	**906,693**	980,463
– Share of loss/(profit) from joint ventures	**94**	(10,214)
– Share of profit from associates	**(5,561)**	(3,685)
– Reversal of provision for ECL on trade receivables, net	**(35,742)**	(1,130)
– Provision for ECL on other receivables, net	**74,092**	99,712
– ECL allowance on contract assets	**65,897**	12,657
– Write down of inventories to net realizable value	**4,846**	–
– Investment income from financial assets at FVTOCI	**(500)**	(600)
– Equity-settled share-based payment	**3,192**	3,818
– Gain on remeasurement of previously held equity interests of SinoFTS	**–**	(27,474)
– Gain on bargain purchase	**–**	(8,439)
Cash flows generated from operating activities before changes in working capital	**6,966,300**	7,651,157
Changes in working capital:		
– Other non-current assets	**(2,664,016)**	(3,571,705)
– Inventories	**17,654**	192,919
– Notes and trade receivables	**2,797,176**	2,802,389
– Prepayments and other receivables	**(499,754)**	(1,294,503)
– Restricted cash	**(10,001)**	11,756
– Provisions	**(66,610)**	(146,486)
– Contract assets and cost to fulfil contracts	**(1,977,210)**	(653,926)
– Contract liabilities	**(551,193)**	(822,173)
– Deferred income	**(78,025)**	(47,383)
– Notes and trade payables	**946,371**	(1,763,122)
– Other payables	**(160,148)**	(777,826)
Cash generated from operations	**4,720,544**	1,581,097

37(b) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

As at 31 December 2020, the details changes in the Group's liabilities arising from financing activities are as below:

	Borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2020	20,877,457	2,368,821	23,246,278
Changes from financing cash flows:			
Proceeds from borrowings	53,601,812	–	53,601,812
Repayments of borrowings	(54,391,017)	–	(54,391,017)
Capital element of lease rentals paid	–	(1,227,045)	(1,227,045)
Interest element of lease rentals paid	–	(71,661)	(71,661)
Total changes from financing cash flows	(789,205)	(1,298,706)	(2,087,911)
Other changes:			
Addition of lease liabilities	–	283,501	283,501
Remeasurement of leases	–	(28,856)	(28,856)
Interest expenses on lease liabilities	–	99,943	99,943
Exchange difference	(137,016)	(163,987)	(301,003)
Total other changes	(137,016)	190,601	53,585
At 31 December 2020	19,951,236	1,260,716	21,211,952

As at 31 December 2019, the details changes in the Group's liabilities arising from financing activities are as below:

	Borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2019	18,142,373	990,640	19,133,013
Adjustment under IFRS 16	–	944,479	944,479
At 1 January 2019 (Adjusted)	18,142,373	1,935,119	20,077,492
Changes from financing cash flows:			
Proceeds from borrowings	38,367,042	–	38,367,042
Repayments of borrowings	(35,715,939)	–	(35,715,939)
Capital element of lease rentals paid	–	(518,657)	(518,657)
Interest element of lease rentals paid	–	(78,284)	(78,284)
Total changes from financing cash flows	2,651,103	(596,941)	2,054,162
Other changes:			
Addition of lease liabilities	–	826,226	826,226
Remeasurement of leases	–	122,963	122,963
Interest expenses on lease liabilities	–	124,218	124,218
Exchange difference	83,981	(42,764)	41,217
Total other changes	83,981	1,030,643	1,114,624
At 31 December 2019	20,877,457	2,368,821	23,246,278

38 PROVISIONS

	Provision for the pending litigations	Provision for onerous contracts	Provision for loss on judicial reorganisation	Total
	RMB'000 (Note (a))	RMB'000 (Note (b))	RMB'000 (Note (c))	RMB'000
At January 2019	–	120,466	475,276	595,742
Provision during the year	1,915	–	–	1,915
Realisation during the year	–	(37,730)	(110,671)	(148,401)
At 31 December 2019 and 1 January 2020	**1,915**	**82,736**	**364,605**	**449,256**
Realisation during the year	**(1,026)**	**(31,655)**	**(33,929)**	**(66,610)**
At 31 December 2020	**889**	**51,081**	**330,676**	**382,646**

Notes:

(a) The Group recognised provision amounting to RMB889,000 based on the estimated claim amount.

(b) As at 31 December 2020, the Group had a provision of approximately RMB51,081,000 (2019: RMB82,736,000) for onerous contracts, of which the expected unavoidable costs of meeting the performance obligation as stated in construction contracts have exceeded the economic benefits expected to be received. The provision was recognised for the contract based on the estimated minimum net cost of completing the contract.

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

According to relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganisation plan upon the court of Rio has approved that the Brazil Subsidiary is allowed to implement the legal reorganisation procedure. Such legal reorganisation is conditional upon the approval of the reorganisation plan from the creditors' meeting and the court of Rio.

For the purpose of obtaining approval from creditors' meeting and the court of Rio in Brazil, the Brazil Subsidiary's reorganisation plan shall include fully settlement of the amount due to employees in respect of the project, repayment of a proportion of debts due to suppliers, service providers and subcontractors, and payment of legal fees, fees on judicial authorities and other service fees in relation to the implementation of the legal reorganisation procedure. The management assessed that provision for loss on judicial reorganisation amounting to approximately RMB475,276,000 was made. At 31 December 2020, the balance for the provision was approximately RMB330,676,000.

39 CONTINGENCIES

(a) Contingent liabilities and financial impacts due to pending litigation

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group. Therefore, the management does not make provision for the foresaid matters.

China National Chemical Engineering No. 11 Construction Co., Ltd. (the "Applicant") and Sinopec International Petroleum Services Corporation ("International services Corporation" or the "Respondent"), a wholly-owned subsidiary of the Group, has entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay approximately RMB456,810,000 for the project fee and the accrued interest, approximately RMB145,968,000 for the loss due to stoppage of work and the accrued interest, approximately RMB38,018,000 for the advance payment under the letter of guarantee and the accrued interest, and approximately RMB500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018. At the report date, the arbitration tribunal has selected a professional to conduct cost confirmation on the disputed costs in this case.

As the case is still under trial, the Group does not make provision for the pending litigation since the management considered that the outcome of the litigation cannot be reasonably estimated and cannot determine its impact on the Group's financial position and operation result.

(b) Contingent liabilities and financial impacts from guarantee provided for other entities

As at 31 December 2020, there is no material contingency from guarantee provided for other entities (2019: none).

39 CONTINGENCIES (Continued)

(c) Foreign tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering. On 11 February 2014, the Brazilian subsidiary of International Engineering received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian subsidiary of International Engineering, on 10 March 2014, the Brazilian subsidiary of International Engineering has administratively replied to such tax penalties and no final results can be predicted. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary of International Engineering, the Brazilian subsidiary of International Engineering still has the right for the administrative legal proceedings to the local court. On 30 December 2019, the Brazilian subsidiary received a notice of administrative second level review and approved some expenditures, and the tax penalty has been revised to BRL73,195,000 (approximately US$18,130,700). The Brazilian subsidiary has filed a new administrative review on 13 January 2020. Subsequent to the tax bureau's failure to implement legal procedures and the consideration of COVID-19, the time for filing administrative third level review was changed to 29 August 2020. In addition, there is no further development of abovesaid administrative third level review up to the report date. At the report date, since the tax penalties are unpredictable, the Group did not provide the provision on such case.

(d) Other contingent liabilities

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular [2007] No.664) issued by the State Administrative of Taxation in June 2007, the Group has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33%. Up to date, the Group has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter as at 31 December 2020. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, which might exist.

40 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related party disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2020 and 2019.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	2020	2019
	RMB'000	RMB'000
Purchases of materials		
– Sinopec Group and its subsidiaries	**10,364,984**	10,836,069
Sales of products		
– Sinopec Group and its subsidiaries	**110,473**	280,583
Rendering of engineering services		
– Sinopec Group and its subsidiaries	**40,745,639**	39,565,759
Receiving of community services		
– Sinopec Group and its subsidiaries	**389,047**	392,571
Rendering of integrated services		
– Sinopec Group and its subsidiaries	**95,987**	139,086
Receiving of integrated services		
– Sinopec Group and its subsidiaries	**351,306**	149,848
Rendering of technology development services		
– Sinopec Group and its subsidiaries	**79,300**	191,215

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

	2020 RMB'000	2019 RMB'000
Rental income – buildings		
– Sinopec Group and its subsidiaries	2,225	938
Lease payment – land and buildings – short-term leases		
– Sinopec Group and its subsidiaries	18,620	37,019
Lease payment – land and buildings – right-of-use assets		
– Sinopec Group and its subsidiaries	189,418	168,609
Lease payment – equipment and vehicles – short-term leases		
– Sinopec Group's subsidiaries	24,099	48,744
Lease payment – equipment and vehicles – right-of-use assets		
– Sinopec Group's subsidiaries	3,362	1,935
Deposits interest income		
– Sinopec Group's subsidiaries	1,407	2,289
Loans interest expenses		
– Sinopec Group and its subsidiaries	753,965	768,972
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	25,699	32,800
Borrowings obtained		
– Sinopec Group and its subsidiaries	52,974,382	38,367,042
Borrowings repaid		
– Sinopec Group and its subsidiaries	54,391,017	35,715,939
Safety and insurance fund expenses		
– Sinopec Group	76,160	80,643
Safety and insurance fund refund		
– Sinopec Group	107,168	113,180

(b) Significant related party transactions arising with the associates and joint ventures of the Group:

	2020 RMB'000	2019 RMB'000
Rendering of engineering services		
– Associates and joint ventures of the Group	5,580	6,722
Receiving of engineering services		
– Associates and joint ventures of the Group	1,932,918	2,133,557
Lease payment – land and buildings – short-term leases		
– Associates and joint ventures of the Group	1,000	1,123

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Significant related party transactions arising with Sinopec Group's associates and joint ventures:

	2020 RMB'000	2019 RMB'000
Purchases of materials		
– Sinopec Group's associates and joint ventures	**201,258**	137,157
Rendering of engineering services		
– Sinopec Group's associates and joint ventures	**2,509,490**	308,687
Lease payment – equipment and vehicles – short-term leases		
– Sinopec Group's associates and joint ventures	**27,345**	5,062
Lease payment – equipment and vehicles – right-of-use assets		
– Sinopec Group's associates and joint ventures	**209,839**	142,383
Interest expenses on lease liabilities		
– Sinopec Group's associates and joint ventures	**59,303**	76,455

(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:

	2020 RMB'000	2019 RMB'000
Fee	**650**	800
Salaries, allowances and bonus	**7,801**	7,711
Contributions to pension plans	**443**	462
Share-based payments	**85**	152
	8,979	9,125

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2020 Number of individuals	2019 Number of individuals
RMB0 to RMB500,000	**2**	4
RMB500,001 to RMB1,000,000	**5**	4
RMB1,000,001 to RMB2,000,000	**–**	1
	7	9

(e) Provision for counter guarantee

As 31 December 2020, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB500,000,000 (2019: RMB500,000,000). The counter guarantee will be ended in November 2021.

41 BUSINESS COMBINATION

On 13 August 2019 ("Acquisition Date"), the Company's wholly-owned subsidiary, Sinopec Oilfield Service Co., Ltd. ("SOSC"), completed an acquisition of 45% equity interest in SinoFTS from FTS Netherlands International Company Limited for purchase consideration of RMB181,959,000. Before the transaction, SOSC held 55% equity interest in SinoFTS. After the transaction, SOSC hold 100% equity interest in SinoFTS. Therewith, SinoFTS became a wholly-owned subsidiary of SOSC.

SinoFTS is principally engaged in the provision of petroleum service and is allocated to special downhole operations segment.

Based on the purchase price allocation performed, details of the purchase consideration, the net assets and gain on bargain purchase acquired are as follows:

	RMB'000
Purchase consideration:	
Acquisition Date	
– Cash consideration for the purchase of 45% equity interest acquired	181,959
– Acquisition-date fair value of the 55% equity interest held before the acquisition	232,710
Total purchase consideration	**414,669**

	Fair value
	RMB'000
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash and cash equivalents	50,486
Trade receivables	113,324
Prepayments and other receivables	40,774
Inventories	24,061
Total current assets	**228,645**
Property, plant and equipment	222,546
Intangible assets	8,211
Other non-current assets	10,543
Total non-current assets	**241,300**
Total assets	**469,945**
Trade payables	39,076
Contract liabilities	7,534
Other payables	227
Total current liabilities	**46,837**
Net assets acquired	**423,108**
Gain on bargain purchase	**(8,439)**

SinoFTS contributed revenue of RMB110,763,000 and net profit of RMB23,365,000 to the Group for the period from the Acquisition Date to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and profit for the year ended 31 December 2019 would have been RMB69,982,698,000 and RMB995,312,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group established certain risk management policies to recognise and analyse the potential risk of the Group. The Group designed an internal control procedure according to proper acceptable risk level in order to monitor the risk position of the Group. Both risk management policies and related internal control system will be reviewed regularly to adapt the market condition or changes in operating activities of the Group. The implementation of internal control system will be reviewed regularly or randomly by the internal audit department in accordance to the risk management policies.

42.1 Category of financial assets and liabilities

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at FVTOCI (non-recycling)		
– Unlisted equity investments	22,835	32,847
Financial assets at FVTOCI		
– Notes receivables	1,323,425	1,446,389
	1,346,260	1,479,236
Financial assets measured at amortised cost		
– Restricted cash and cash and cash equivalents	1,551,458	1,668,837
– Notes and trade receivables	9,358,385	11,996,855
– Other receivables	4,456,306	4,107,756
	15,366,149	17,773,448
	16,712,409	19,252,684
Financial liabilities		
Financial liabilities measured at amortised cost		
– Notes and trade payables	26,802,737	24,802,226
– Other payables	2,652,248	2,797,837
– Borrowings	21,211,952	23,246,278
	50,666,937	50,846,341

42.2 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

(i) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalents, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Group's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2020 and 2019, the Group did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not significant because the fixed term deposits are short-term deposits.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

Interest-bearing financial instruments held by the Group are as below:

	2020		2019	
	%	RMB'000	%	RMB'000
Fixed rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 25 and 26)	**2.75%-3.41%**	**6,210**	2.00%-4.00%	35,270
Borrowings (Note 34)	**1.42%-5.23%**	**18,660,716**	3.30%-8.58%	20,448,821
Floating rate financial instruments				
Restricted cash and cash and cash equivalents (Notes 25 and 26)	**0.3%-0.35%**	**1,545,248**	0.3%-0.35%	1,633,567
Borrowings (Note 34)	**1.42%-2.92%**	**2,551,236**	3.09%-8.80%	2,797,457

As at 31 December 2020, it is estimated that a general increase of 50 basis points in the borrowings with variable interest rates, with all other variables held constant, would increase the Group's net loss and decrease the shareholder's equity for the year by approximately RMB9,567,000 (2019: decrease the net profit and decrease the shareholder's equity for the year by approximately RMB10,490,000).

As at 31 December 2020, a general decrease of 50 basis points in variable interest rates would have had the same magnitude but of opposite effect on the above borrowings, on the basis that all other variables remain constant.

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at the reporting date and arised from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arised from the effect to the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for last year.

(ii) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's major operational activities are carried out in the PRC and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily denominated in US Dollars, Saudi Riyals and Kuwait Dinars.

The foreign currency assets and liabilities include restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings which are denominated in foreign currencies.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.2 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

The following table details the financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

As at 31 December 2020	USD	SAR	KWD	Others
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	748,671	19,514	158,970	341,844
Trade and other receivables	3,924,110	655,519	761,534	599,531
Trade and other payables	(598,537)	(204,400)	(171,614)	(276,935)
Borrowings	(2,551,236)	–	–	–
Net exposure in RMB	1,523,008	470,633	748,890	664,440

As at 31 December 2019	USD	SAR	KWD	Others
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash and cash and cash equivalents	723,199	83,446	266,330	316,418
Trade and other receivables	4,705,118	804,220	623,224	753,848
Trade and other payables	(1,079,366)	(577,237)	(128,467)	(294,560)
Borrowings	(2,797,456)	–	–	–
Net exposure in RMB	1,551,495	310,429	761,087	775,706

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies in order to minimise foreign exchange risk. The Group may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2020 and 2019, the Group did not enter into any forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the effect on the Group's net loss/profit in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2020 and 2019:

	2020	2019
	RMB'000	RMB'000
	Increase in net loss	Decrease in net profit
– USD	(57,113)	58,181
– SAR	(17,649)	11,641
– KWD	(28,083)	28,541

As at 31 December 2020 and 2019, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect, on the basis that all other variables remain constant.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from restricted cash, cash and cash equivalent, notes and trade receivables, contract assets and other receivables.

In order to minimise credit risk, the Group has developed and maintains the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is based on the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

For receivables, the Group has policies to limit the credit risk exposure. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, shorten or cancel credit periods, to ensure the overall credit risk is limited to a controllable extent.

The Group has certain concentration of credit risk in respect of trade receivables as 43.14% (2019: 51.33%) of the total trade receivables was due from the Group's five largest customers. The Group has certain concentration of credit risk in respect of other receivables as 40.44% (2019: 45.48%) of the total other receivables was due from the Group's five largest customers.

For financial assets at amortised cost and contract assets, the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. The Group does not hold any collateral from its debtors.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.2 Financial risk factors (Continued)

(b) Credit risk (Continued)

Impairment assessment under ECL model

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Trade receivables and contract assets

As set out in Note 2.10, the Group assesses ECL under IFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

As at 31 December 2020, the gross carrying amount of trade receivables is RMB983,589,000 (2019: RMB1,082,918,000) has been individually assessed and impaired in full. For remaining trade receivables and contract assets, based on the historical credit loss experience of the existing debtors and all available forward-looking information, the Group assessed the losses for trade receivables and contract assets based on debtors with aging for classes with different credit risk characteristics and exposures.

Other receivables

As at 31 December 2020, lifetime ECL is applied for credit impaired other receivables with gross carrying amount RMB780,289,000 (2019: RMB752,821,000). As at 31 December 2020, lifetime ECL has been measured on other receivables with credit-impaired, with gross carrying amount RMB780,289,000 (2019: RMB752,821,000).

Other than abovesaid other receivables, the Group measures the loss allowance equal to 12-month ECL of remaining other receivables. There is no significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on aging for classes with different credit risk characteristics and exposures.

Restricted cash and cash and cash equivalents

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks, and the Group considers the credit risk to be insignificant that the losses due to the breach of contract is minimal.

The Group's financial assets at FVTOCI issued by banks and other financial institutions with high credit ratings, and the Group considers the credit risk to be insignificant that the losses due to the breach of contract is minimal.

The Group's maximum exposure to credit risk is the carrying amount of each financial asset in the statement of financial position as stated in Note 42.1. The Group did not provide any other guarantees that may pose credit risk to the Group.

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.2 Financial risk factors (Continued)

(c) Liquidity risk

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

Regarding to the management of liquidity risk, the Group's management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The Group's management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient commitment on reserve fund from major financial institute to meet needs of short-term and long-term liquidity. Besides, to improve the cash flow position, the Group also considers to negotiate with suppliers with a view to lower the amount due.

The Group raised working capital through its operations, bank and other borrowings. As at 31 December 2020, the Group's unused line of credit was RMB12,044,420,000 (2019: RMB6,308,264,000).

The financial assets and liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows:

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020						
Restricted cash and cash equivalents	**1,551,458**	**–**	**–**	**–**	**1,551,458**	**1,551,458**
Notes and trade receivables	**9,358,385**	**–**	**–**	**–**	**9,358,385**	**9,358,385**
Financial assets at FVTOCI – Notes receivables	**1,323,425**	**–**	**–**	**–**	**1,323,425**	**1,323,425**
Other receivables	**4,456,306**	**–**	**–**	**–**	**4,456,306**	**4,456,306**
Notes and trade payables	**(26,802,737)**	**–**	**–**	**–**	**(26,802,737)**	**(26,802,737)**
Other payables	**(2,652,248)**	**–**	**–**	**–**	**(2,652,248)**	**(2,652,248)**
Borrowings	**(20,158,137)**	**(771,927)**	**(637,027)**	**(331,542)**	**(21,898,633)**	**(21,211,952)**
	(32,923,548)	**(771,927)**	**(637,027)**	**(331,542)**	**(34,664,044)**	**(33,977,363)**
As at 31 December 2019						
Restricted cash and cash equivalents	1,668,837	–	–	–	1,668,837	1,668,837
Notes and trade receivables	11,996,855	–	–	–	11,996,855	11,996,855
Financial assets at FVTOCI – Notes receivables	1,446,389	–	–	–	1,446,389	1,446,389
Other receivables	4,107,756	–	–	–	4,107,756	4,107,756
Notes and trade payables	(24,802,226)	–	–	–	(24,802,226)	(24,802,226)
Other payables	(2,797,837)	–	–	–	(2,797,837)	(2,797,837)
Borrowings	(21,535,652)	(616,467)	(1,736,684)	(291,009)	(24,179,812)	(23,246,278)
	(29,915,878)	(616,467)	(1,736,684)	(291,009)	(32,560,038)	(31,626,504)

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.3 Capital risk management

The objectives of the Group's capital risk management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital. Net liabilities are calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the sum of total equity and net liabilities as shown in the consolidated statement of financial position. Total equity includes the equity attributable to shareholders of the parent and non-controlling interests.

At the reporting date, the gearing ratio is set out as below:

	2020	2019
	RMB'000	RMB'000
Total borrowings (Note 34)	21,211,952	23,246,278
Less: Cash and cash equivalents (Note 26)	(1,523,352)	(1,650,732)
Net debts	19,688,600	21,595,546
Total equity	6,722,866	6,763,872
Total capital	26,411,466	28,359,418
Gearing ratio	75%	76%

42.4 Fair value estimation

Fair value measurements

Other than noted as below, the carrying value of the Group's financial assets and liabilities stated at the consolidated statement of financial position are not materially different from their fair values.

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The Group discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (level 3).

(a) Recurring fair value measurement of the Group's financial assets measured at fair value

The financial assets measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	Level 3	
	2020	2019
	RMB'000	RMB'000
Financial assets at FVTOCI (non-recycling)		
– Unlisted equity investments	22,835	32,847
Financial assets at FVTOCI		
– Notes receivables	1,323,425	1,446,389
	1,346,260	1,479,236

The reconciliation of the carrying amounts of assets classified within Level 3 of the fair value hierarchy is as follows:

	2020	2019
	RMB'000	RMB'000
At 1 January	1,479,236	39,011
(Deduction)/Addition	(122,964)	1,446,389
Movement in fair value recognised in other comprehensive income	(10,012)	(6,164)
At 31 December	1,346,260	1,479,236

The fair value of the unlisted equity securities and notes receivables is measured using valuation techniques with reference to the net asset value and asset-based valuation, respectively. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

There have been no transfers into or out of Level 3 during the year ended 31 December 2020 (2019: Nil).

42 FINANCIAL AND CAPITAL RISKS MANAGEMENT (Continued)

42.4 Fair value estimation (Continued)

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying value of the Group's financial instruments carried at cost or amortised cost are not materially different from fair value as at 31 December 2020 and 2019.

43 POST BALANCE SHEET EVENTS

As at 24 March 2021, there are no other material events after reporting period to be disclosed.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2020 and 2019, the Group has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/Place of incorporation and type of legal entity	Registered capital	Actual interest held		Principal activities and place of operation
			Direct held	Indirect held	
Sinopec Oilfield Service Co., Ltd.	The PRC/Limited Company	RMB4,000,000	100% (2019: 100%)	–	Petroleum engineering and technical services/The PRC
Sinopec Shengli Oil Engineering Company Limited*	The PRC/Limited Company	RMB700,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Zhongyuan Oil Engineering Company Limited*	The PRC/Limited Company	RMB450,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Jianghan Oil Engineering Company Limited*	The PRC/Limited Company	RMB250,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec East China Oil Engineering Company Limited*	The PRC/Limited Company	RMB864,297	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec North China Oil Engineering Company Limited*	The PRC/Limited Company	RMB886,300	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Southwest Oil Engineering Company Limited*	The PRC/Limited Company	RMB300,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering Geophysical Company Limited*	The PRC/Limited Company	RMB300,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC
Sinopec Oil Engineering and Construction Corporation*	The PRC/Limited Company	RMB500,000	–	100% (2019: 100%)	Engineering and Construction/ The PRC
Sinopec Shanghai Offshore Oil Engineering Company Limited*	The PRC/Limited Company	RMB2,000,000	–	100% (2019: 100%)	Offshore Oil engineering and technical services/The PRC
Sinopec International Oil Engineering Company Limited*	The PRC/Limited Company	RMB700,000	–	100% (2019: 100%)	Petroleum engineering and technical services/The PRC

* The Company holds shares through Sinopec Oilfield Service Co., Ltd..

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Section XII Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 25 March 2021 (Thursday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman of the Company;
2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;
3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of Grant Thornton (Special General Partnership); The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by Grant Thornton Hong Kong Limited;
4. Documents and Announcements disclosed in the reporting period;
5. The Article of Associations of the Company;
6. Copies of the Annual Reports and Interim Reports from 1993 to 2020 and the First Quarter Report and the Third Quarter Report from 2002 to 2020 of the Company.

This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, except the financial statements prepared in accordance with IFRSs and its related reports of the auditors, the Chinese version is considered to be more accurate.