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Sinopec Oilfield Service Corporation

(a joint stock limited company established in the People's Republic of China)

(Stock code: 1033)

Announcement of the interim results for the six months ended 30 June 2018

The Board of Directors ("**the Board**") of Sinopec Oilfield Service Corporation (the "**Company**") hereby presents the interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018.

1. IMPORTANT NOTES

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

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

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

1.4 This announcement of interim results is a summary of the 2018 Interim Report of the Company. For more details, investors should carefully read the full version of the 2018 Interim Report, which is published on the websites of the Shanghai Stock Exchange ("**SSE**") (website: <http://www.sse.com.cn>), The Stock Exchange of Hong Kong Limited ("**HKSE**") (website: <http://www.hkex.com.hk>) and the Company (website: <http://ssc.sinopec.com>).

2. BASIC INFORMATION OF THE COMPANY

2.1 Company Profile

2.1.1 Places of listing, names and codes of the stock:

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	SSE	*ST Youfu	600871	SINOPEC SSC
H Shares	HKSE	SINOPEC SSC	1033	-

2.1.2 Contact Persons and Contact Information

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

2.2 Principal financial data and financial indicators

2.2.1 Extracted from the interim financial report prepared under IFRS (Unaudited)

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000	Increase /(Decrease) (%)
Total assets	60,153,882	61,942,629	(2.9)
Total liabilities	54,004,436	64,046,629	(15.7)
Total equity attributable to equity shareholders of the Company	6,149,446	(2,102,628)	Not applicable
Net assets per share attributable to equity shareholders of the Company (RMB)	0.32	(0.15)	Not applicable
	For the six months ended 30 June 2018 RMB '000	For the six months ended 30 June 2017 RMB '000	Increase/(Decrease) (%)
Profit/(Loss) attributable to equity shareholders of the Company	615,731	(2,132,148)	Not applicable
Basic and diluted earnings/(loss) per share	RMB 0.034	RMB (0.151)	Not applicable
Net cash used in operating activities	(3,515,042)	(1,988,314)	Not applicable
Return on net assets	10.01%	(33.73%)	Increased by 43.74 percentage points
Net cash used in operating activities per share	RMB (0.185)	RMB (0.141)	Not applicable

2.2.2 Extracted from the interim financial report prepared in accordance with the PRC ASBE (Unaudited)

(1) Key financial data

	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000	Increase/(Decrease) (%)
Operating income	23,653,002	19,842,318	19.2
Operating profit ("-" for losses)	403,678	-2,149,212	Not applicable
Profit before income tax ("-" for losses)	549,066	-2,085,986	Not applicable
Net profit attributable to equity shareholders of the Company ("-" for losses)	400,949	-2,285,324	Not applicable

Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company (“-” for losses)	463	-2,328,674	Not applicable
Net cash inflow from operating activities (“-” for outflow)	-3,515,042	-1,988,314	Not applicable
	As at 30 June 2018 RMB’000	As at 31 December 2017 RMB’000	Increase/(Decrease) (%)
Total equity attributable to equity shareholders of the Company	6,149,446	-2,102,628	Not applicable
Total assets	60,153,882	61,942,629	-2.9

(2) Key financial indicators

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

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

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

2.2.4 Differences between the interim financial report of the Company prepared in accordance with the PRC ASBE and IFRS (Unaudited)

	Net profit attributable to equity shareholders of the Company (“-” for losses)		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000	As at 30 June 2018 RMB'000	As at 1 January 2018 RMB'000
PRC ASBE	400,949	-2,285,324	6,149,446	-2,102,628
Adjusted items and amounts in accordance with IFRS:				
Specific reserve (a)	214,782	153,176	-	-
IFRS	615,731	-2,132,148	6,149,446	-2,102,628
Explanations for difference	Please refer to the section 7.3 of the financial report in this announcement			

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

3.1 Changes in share capital

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

Notes for changes in shares:

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

3.2 As at 30 June 2018, there were 144,151 shareholders in the Company, including 143,809 shareholders of A shares and 342 registered holders of H shares.

3.3 As at 30 June 2018, the shareholdings of the top ten shareholders of the Company are as follows:

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Changes of shareholdings ¹ (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation ²	State-owned legal person	1,503,568,702	10,727,896,364	56.51	1,503,568,702	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") ³	Overseas legal person	3,315,102,482	5,401,937,978	28.45	2,595,786,987	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
Darry Asset Management (Hangzhou) Co., Ltd.	Others	0	133,333,333	0.70	0	133,333,300
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.35	0	0
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi	Others	0	66,666,666	0.35	0	0

Investment No.47 Trust Plan						
Changjiang Pension Insurance Co.,Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension anagement Fund ⁴	Others	23,148,854	23,148,854	0.12	23,148,854	0
Huaan Fund-Industrial Bank –China Foreign Economy & Trade Co.Ltd	Others	0	13,333,300	0.07	0	0
Shenzhen Yongtai Investment Co., Ltd.	Domestic legal person	10,000,000	10,000,000	0.05	0	0
China Construction Bank Corporation –Huaxia Xinghua Mixed Securities Investment Fund	Others	9,168,500	9,168,500	0.05	0	0

Shareholdings of top ten shareholders of shares without selling restrictions

Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
China Petrochemical Corporation	9,224,327,662	A Share
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”)	2,806,150,991	H Share
CITIC Limited	1,035,000,000	A Share
Darry Asset Management (Hangzhou) Co., Ltd.	133,333,333	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	66,666,666	A Share
Huaan Fund- Industrial Bank –China Foreign Economy & Trade Co.Ltd	13,333,300	A Share
Shenzhen Yongtai Investment Co., Ltd.	10,000,000	A Share
China Construction Bank Corporation–Huaxia Xinghua Mixed Securities Investment Fund	9,168,500	A Share
Cai Xilian	6,680,000	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan and Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan belong to Donghai Fund Management Limited	

	Company, the Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders.
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Note

1. As compared with the number of shares held as of 31 December 2017.
2. Apart from directly holding 10,727,896,364 A-shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H-shares through its wholly-owned subsidiary Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.
3. “HKSCC (Nominees) Limited” is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the company on behalf of other companies or individual shareholders.
4. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

3.4 Substantial Shareholder's Interests in Shares or Short Position of the Company

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

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

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

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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in Directors, Supervisors and Senior Management

The first extraordinary general meeting for 2018 of the Company was held on 8 February 2018, Mr. Chen Xikun, Mr. Ye Guohua, Mr. Lu Baoping and Mr. Fan Zhonghai were elected as directors of the 9th Session of the Board of Directors of the Company. Mr. Jiao Fangzheng, Mr. Sun Qingde, Ms. Jiang

Bo, Mr. Pan Ying and Mr. Zhang Huaqiao were re-elected as directors of the 9th Session of the Board of Directors. Mr. Zhang Jianbo was elected as supervisor of the 9th Session of the Supervisory Committee. Mr. Zou Huiping, Mr. Du Jiangbo and Ms. Zhang Qin were re-elected as supervisors of the 9th Session of the Supervisory Committee. The Company held the employee's representative meeting on 1 February 2018, Mr. Li Wei, Mr. Zhang Hongshan and Mr. Huang Songwei were re-elected as the employee representative supervisors of the 9th Session of the Supervisory Committee.

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

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

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

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

4.2 Directors', Supervisors' and Senior Management's Interests and Short Positions in Shares, Underlying Shares and Debentures

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

Share Option Incentive Granted to Directors, Supervisors and Senior Management

Name	Position	Number of share options held at the beginning of 2018	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Number of share options by the end of reporting period
Sun Qingde	Vice Chairman, General Manager	210,000	0	0	0	210,000

Lu Baoping	Director	190,000	0	0	0	190,000
Huang Songwei	Supervisor	180,000	0	0	0	180,000
Zhang Yongjie	Deputy Manager	190,000	0	0	0	190,000
Liu Rushan	Deputy Secretary of CPC Committee	190,000	0	0	0	190,000
Zuo Yaojiu	Deputy Manager	180,000	0	0	0	180,000
Zhang Jinhong	Deputy Manager	180,000	0	0	0	180,000
Li Honghai	Secretary to the Board	140,000	0	0	0	140,000
Zhou Shiliang	Former Director, Deputy Manager	210,000	0	0	0	210,000
Total	/	1,670,000	0	0	0	1,670,000

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 share of restricted-sale A shares in private to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension, and its shares shall be subscribed by the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB 60.65million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

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

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme (RMB)	Subscription scheme shares under Qi Xin Gong Ying Scheme	Subscription Price (RMB/A Share)	Subscription of A share (shares)
Sun Qingde	Vice Chairman, General Manager	400,000	400,000	2.62	152,671
Chen Xikun	Director, Deputy Manager	400,000	400,000	2.62	152,671
Li Wei	Chairman of	350,000	350,000	2.62	133,587

	Supervisory Committee				
Zhang Hongshan	supervisors	350,000	350,000	2.62	133,587
Huang Songwei	supervisors	350,000	350,000	2.62	133,587
Zhang Yongjie	Deputy Manager	350,000	350,000	2.62	133,587
ZuoYaojiu	Deputy Manager	350,000	350,000	2.62	133,587
Zhang Jinhong	Deputy Manager	350,000	350,000	2.62	133,587
Li Tian	CFO	350,000	350,000	2.62	133,587
Li Honghai	Secretary to the Board	300,000	300,000	2.62	114,503
total	/	3,550,000	3,550,000	-	1,354,954

4.3 Independent Non-executive Director and Audit Committee

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

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

5. MANAGEMENT DISCUSSION & ANALYSIS

The following financial figures, except where specifically noted, are extracted from the Company's unaudited interim financial report prepared in accordance with the PRC ASBE

5.1 Market review

In the first half of 2018, international crude oil prices trended upwards amidst fluctuations. The average price level was significantly higher than that for the same period last year. The average Europe Brent Spot Price was USD 71.16 per barrel, representing a year-on-year increase of 35.1%. The increase in international crude oil prices encouraged domestic and foreign oil companies to increase upstream capital expenditure for oilfield exploration and development. The upstream capital expenditure for oilfield exploration and development of Sinopec, the largest customer of the Company, for the first half of 2018 was RMB10.76 billion, a year-on-year increase of 56.6%. Affected by this, the oilfield service industry showed a gradual improvement. The oilfield service business was active and the business volume of the oilfield service market increased substantially.

5.2 Operation Review

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

For the first half of 2018, the Company's operating results turned losses into profits, mainly benefiting

from: With a rebound in international oil prices, domestic and foreign oil companies significantly increased upstream capital expenditure for oilfield exploration and development. The operating conditions of the oilfield service industry continued to improve, with a significant year-on-year increase in the volume of work in connection with major specialized tasks and revenue. The demonstration of effects of deepening reforms, strengthening management and explore internal potential. For the first half of the year, the gross profit margin of the Company's main business was 5.9%.

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

5.2.1 Geophysical service

The Company's revenue in geophysical service was RMB 2,552,178,000 in the first half of 2018, representing an increase of 31.0% from RMB 1,948,440,000 in the corresponding period of the previous year. The completed 2D seismic have accumulated for 12,843 kilometers, increased by 89.8% from the corresponding period last year; while the 3D seismic for 7,269 square kilometers, representing an increase of 9.7% over the corresponding period last year. Both the data record of qualified rates in 2D seismic and 3D seismic are 100%. The Company has made a great effort to meet the demand of oilfield exploration and production of Sinopec Group. By increasing the application of vibroseis, we maintained sustainable increases in working efficiency of seismic engineering as well as materials quality. We actively expanded external markets such as China Geological Survey and Yanchang Group with an aggregated signed contract value of approximately RMB 110 million. For overseas market, we effectively completed the 2D acquisition projects in Bolivia, Myanmar and Chad, 3D acquisition projects in Algeria and Nigeria, and 2D acquisition project in Panama.

5.2.2 Drilling service

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

5.2.3 Logging/ mud logging service

The Company's operation revenue in logging/mud logging service was RMB 690,604,000 in the first half of 2018, an increase of 5.5% from RMB 654,752,000 in the corresponding period of the previous year. Our completed logging projects have been accumulated for 97,510,000 standard meters in the

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

5.2.4. Downhole operation service

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

5.2.5. Engineering and construction service

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

5.2.6. International business service

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

5.2.7. Research & development

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

5.2.8. Internal reforms and management

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

5.2.9. Capital Expenditure

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

5.3 Assets, liabilities, equity and cash flow analysis (Prepared in accordance with International Financial Reporting Standards (“IFRS”))

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

Total assets were RMB 60,153,882,000, decreased by RMB 1,788,747,000 compared with that at the end of last year, of which (i) current assets were RMB 31,990,818,000, increased by RMB 152,321,000

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

The total liabilities were RMB 54,004,436,000, decreased by RMB 10,042,193,000 compared with that at the end of last year, including that (i) current liabilities were RMB 52,441,849,000, decreased by RMB 10,935,726,000 compared with that at the end of last year, mainly due to comprehensive impact of a decrease of RMB 5,747,156,000 of receipt in advance and other payables, a decrease of RMB 4,172,752,000 in notes and trade payables, the implementation of the new accounting standards for the reclassification of items in condensed consolidated statement of financial position resulted in a decrease amount of RMB 6,765,375,000 in amounts due to customers for contract works and an increase of RMB 6,466,922,000 of contract liabilities. (ii) Non-current liabilities were RMB 1,562,587,000, increased by RMB 893,533,000 compared with that at the end of last year mainly due to the increase of finance lease liabilities under long-term borrowing by RMB 860,569,000.

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

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

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

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

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

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

approximately 25.1% (as at 31 December 2017: 47.2%).

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

5.4 Statement of operation by industry

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

5.5 Statement of operation by regions

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

5.6 Business prospects

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

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

5.6.1 Geophysical service

In the second half of 2018, the Company will continue to implement efficient exploration with project management as its core to serve the exploration and development of domestic and overseas oil companies, broaden the service scope of seismic exploration and capture larger volume of work. Active expansion for business markets in new areas, such as non-seismic, mapping and survey areas, will be pursued to nurture growth spots in operations. Continuous expansion in overseas land and ocean markets will be pursued in Africa, Middle East, Latin America and East Asia to secure more quality geophysical projects. In the second half of the year, we plan to complete the 2D seismic data collection for 7,600 km and 3D seismic data collection for 7,300 sq.km.

5.6.2. Drilling service

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

5.6.3 Logging/ Mud Logging Services

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

logging footage with 4,350,000 meters in the second half of the year.

5.6.4 Downhole operation service

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

5.6.5 Engineering and construction service

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

5.6.6 International business service

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

5.6.7 Research & development

In the second half of 2018, the Company will closely focus on key exploration and development projects such as Shunbei extra-deep oil and gas reservoir capacity construction, Weirong shale gas development and hard-to-recover reserve cooperation in eastern China, to strengthen the research of adaptive technologies, and to increase the integration of low-cost engineering technologies, and to facilitate revenue generation, quality improvement and efficiency enhancement through technologies. First, we will conduct research on the completeness of Weirong shale gas wellbore and research on

low-cost, optimal and fast drilling technology, to ensure the productive development of Weirong shale gas. Second, we will continue to tackle critical points in measuring 185 °C, 204 °C whereas drilling instruments and small wellbore electric imaging logging instruments to meet the requirements of extra-deep oil and gas data acquisition. Third, we will speed up the upgradation and promotion of logging/mud logging instruments with independent intellectual property rights, and complete technology promotion and product release to help develop the international market. Fourth, we will promote open innovation, jointly tackle critical points in drilling rotary guide tools, complete downhole tests, and achieve substantial application progress. Fifth, we will enforce in the industrialization of mature technologies, promote and apply broadband acceleration detector, mid-deep marine construction design, CCUS (carbon capture, utilization and storage) full-process industrialized application, equipment and tools such as rig automatic pipe column processing device, and improve the capability of technologies to generate revenue and benefits. Sixth, we will continue to improve the R&D system, speed up the construction of the technology center, and complete the operation of the tight oil and gas technology center and the acidic gas operation technology center.

5.6.8 Internal Reform and Management

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

5.6.9 Capital Expenditure

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

6. SIGNIFICANT EVENTS

6.1 Final dividends for 2017, interim dividends for 2018 and proposal on issue of shares by capitalizing the common reserves

(1) Final dividends for 2017

Due to the fact that the Company's undistributed profit for the year ended 31 December 2017 was negative, as proposed by the Board and approved by shareholders at 2017 annual general meeting held on 20 June 2018, the Company did not distribute any final dividend for the year ended 31 December 2017. Therefore, the Company

did not have any profit distribution plan to implement during the reporting period.

(2) Interim dividends for 2018 and proposal on issue of shares by capitalizing the common reserves
In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend would be distributed for the year ended 31 December 2018, and no issue of bonus shares by way of capitalization of common reserves.

6.2 During the reporting period, the Company was involved in material litigation or arbitration.
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－麥地那第三期管線項目C包施工工程合同》)" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu – Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay RMB 456,810,240 for the project fee and the accrued interest, RMB 145,968,410.5 for the loss due to stoppage of work and the accrued interest, RMB 38,018,100 for the advance payment under the letter of guarantee and the accrued interest, and RMB 500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the "Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhongjing Zi No. 048223)".

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

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

6.3 During the reporting period, there was no bankruptcy restructuring related matter.

6.4 During the reporting period, the Company had no major acquisition or disposals of assets, nor any merger and acquisitions activities.

6.5 Information on material connected transactions

The Company's material connected transactions entered into during the six months ended 30 June 2018 were as follows:

(a) The following are the material connected transactions relating to ordinary operation during the reporting period:

The nature of the transaction classification	Connected parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials	China Petrochemical Corporation and its subsidiaries	2,029,979	37.9
Sales of products	China Petrochemical Corporation and its subsidiaries	7,798	5.8
Rendering Engineering services	China Petrochemical Corporation and its subsidiaries	13,265,680	56.4
Receiving of community services	China Petrochemical Corporation and its subsidiaries	464,445	100

Rental expenses	China Petrochemical Corporation and its subsidiaries	12,907	9.1
Loans interest expenses	China Petrochemical Corporation and its subsidiaries	275,566	98.8
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	16,559,753	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	17,343,880	100
Safety and insurance fund expenses	China Petrochemical Corporation	41,550	100

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

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

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

Unit: RMB'000

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

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

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

6.6 Material contracts and performance

(a) During the reporting period, there were no trusteeship and subcontracting other companies by the Company which would contribute profit to the Company of 10 per cent or more of its total profits for the current period.

(b) Leasing Matters

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

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

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

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

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

6.7 Analysis of investment situation

(a) Investment in securities

During the reporting period, there was no investment in securities.

(b) Interest in other listed securities held by the Company

During the reporting period, the Company did not hold any shares of other listed companies.

(c) Equities of financial institutions held by the Company

During the reporting period, the Company did not hold any shares of financial institutions such as commercial banks, securities companies, insurance companies, trust companies and future companies.

(d) Shareholding interests of the Company in non-listed financial institutions

During the reporting period, the Company did not hold any shares of non-listed financial institutions.

(e) During the reporting period, no entrusted asset management, no other investment or asset management and derivatives investment items of the Company.

6.8 The special undertakings made by the Company and its shareholders holdings more than 5% and the performance of the undertakings as of 30 June 2018:

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

Undertaking Background	Undertaking Type	Undertaking Party	Undertaking	Undertaking Date and Period	Is there deadline for performance of undertaking	Whether or not strictly and timely fulfill the undertaking
			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.			
Undertakings regarding the Material Assets Reorganisation	To solve connected transactions	China Petrochemical Corporation	The Commitment of Regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Commitment date: 12 September 2014 Period: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Undertakings regarding the Material Assets Reorganisation	Others	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	Commitment date: 12 September 2014 Period: long term	Yes	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

Undertaking Background	Undertaking Type	Undertaking Party	Undertaking	Undertaking Date and Period	Is there deadline for performance of undertaking	Whether or not strictly and timely fulfill the undertaking
			guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company.			

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

7. INTERIM FINANCIAL REPORT

7.1 Interim financial report prepared in accordance with IFRS

The following financial information has been extracted from the Company's unaudited interim financial report, prepared in accordance with IFRS, for the six months ended 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	23,653,002	19,842,318
Cost of sales and taxes		(22,160,834)	(19,886,735)
Gross profit/(loss)		1,492,168	(44,417)
Selling expenses		(23,531)	(21,370)
General and administrative expenses		(1,322,208)	(1,485,061)
Finance expenses - net	6	(163,624)	(247,916)
Reversal of provision/(Provision) for impairment on assets	7	121,880	(284,193)
Share of loss from joint ventures		(2,969)	(12,945)
Operating profit/(loss)		101,716	(2,095,902)
Other income	8	685,275	222,042
Other expenses	9	(23,143)	(58,950)
Profit/(Loss) before income tax	10	763,848	(1,932,810)
Income tax expense	11	(148,117)	(199,370)
Profit/(Loss) for the period		615,731	(2,132,180)
Other comprehensive income for the period, net of tax		-	-
Profit/(Loss) and total comprehensive income/ (expense) for the period		615,731	(2,132,180)
Profit/(Loss) and total comprehensive income/ (expense) for the period attributable to :			
Owners of the Company		615,731	(2,132,148)
Non-controlling interests		-	(32)
Profit/(Loss) and total comprehensive income/ (expense) for the period		615,731	(2,132,180)
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company (presented in RMB per share)	12		
Basic and diluted		0.034	(0.151)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	15	24,345,808	25,820,147
Other non-current assets		2,866,798	3,065,771
Long-term receivables		-	233,061
Prepaid land leases	16	116,960	118,540
Intangible assets		132,848	162,994
Interests in joint ventures		191,496	194,465
Interests in associates		12,581	12,581
Financial assets at fair value through other comprehensive income		24,389	-
Available-for-sale financial assets		-	24,389
Deferred income tax assets		472,184	472,184
Total non-current assets		28,163,064	30,104,132
Current assets			
Inventories	20	1,250,578	1,193,039
Notes and trade receivables	17	14,722,033	18,171,083
Prepayment and other receivables	18	4,227,021	3,326,446
Amounts due from customers for contract works	19	-	6,610,035
Contract assets	19	9,567,447	-
Restricted cash		11,534	14,538
Cash and cash equivalents		2,212,205	2,523,356
Total current assets		31,990,818	31,838,497
Total assets		60,153,882	61,942,629

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Equity			
Share capital	21	18,984,340	14,142,661
Reserves		(12,834,894)	(16,245,289)
Equity attributable to owners of the Company		6,149,446	(2,102,628)
Non-controlling interests		-	(1,372)
Total equity		6,149,446	(2,104,000)
Liabilities			
Non-current liabilities			
Long term borrowings	25	1,417,394	508,863
Deferred income		122,310	136,312
Deferred income tax liabilities		22,883	23,879
Total non-current liabilities		1,562,587	669,054
Current liabilities			
Notes and trade payables	23	25,315,123	29,487,875
Receipt in advance and other payables	24	3,633,711	9,380,867
Amounts due to customers for contract works	19	-	6,765,375
Contract liabilities	19	6,466,922	-
Short term borrowings	25	16,871,037	17,539,674
Current income tax payable		155,056	203,784
Total current liabilities		52,441,849	63,377,575
Total liabilities		54,004,436	64,046,629
Total equity and liabilities		60,153,882	61,942,629
Net current liabilities		(20,451,031)	(31,539,078)
Total assets less current liabilities		7,712,033	(1,434,946)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 21)	Share premium RMB'000	Other capital reserve RMB'000	Surplus reserve RMB'000	Specific reserve RMB'000	Accumulated losses RMB'000	Total RMB'000		
At 1 January 2018	14,142,661	8,826,247	81,621	200,383	202,477	(25,556,017)	(2,102,628)	(1,372)	(2,104,000)
Profit and total comprehensive income for the period	-	-	-	-	-	615,731	615,731	-	615,731
Transactions with owners:									
Issue of share capital (Note 21)	4,841,679	2,796,036	-	-	-	-	7,637,715	-	7,637,715
Appropriation of specific reserve	-	-	-	-	347,266	(347,266)	-	-	-
Utilisation of specific reserve	-	-	-	-	(132,484)	132,484	-	-	-
Other	-	(1,372)	-	-	-	-	(1,372)	1,372	-
Total transactions with owners	4,841,679	2,794,664	-	-	214,782	(214,782)	7,636,343	1,372	7,637,715
At 30 June 2018 (Unaudited)	18,984,340	11,620,911	81,621	200,383	417,259	(25,155,068)	6,149,446	-	6,149,446

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Attributable to owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 21)	Share premium RMB'000	Other capital reserve RMB'000	Surplus reserve RMB'000	Specific reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	
At 1 January 2017	14,142,661	8,826,247	70,985	200,383	176,068	(14,973,476)	8,442,868	8,441,592
Loss and total comprehensive expense for the period	-	-	-	-	-	(2,132,148)	(2,132,148)	(2,132,180)
Transactions with owners:								
Equity settled share-based transaction (Note 22)	-	-	9,048	-	-	-	9,048	9,048
Appropriation of specific reserve	-	-	-	-	284,906	(284,906)	-	-
Utilisation of specific reserve	-	-	-	-	(131,730)	131,730	-	-
Total transactions with owners	-	-	9,048	-	153,176	(153,176)	9,048	9,048
At 30 June 2017 (Unaudited)	14,142,661	8,826,247	80,033	200,383	329,244	(17,258,800)	6,319,768	6,318,460

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cash flows from operating activities		
Cash flows used in operations	(3,352,315)	(1,774,619)
Interest received	35,114	8,460
Income tax paid	(197,841)	(222,155)
Net cash used in operating activities	(3,515,042)	(1,988,314)
Cash flows from investing activities		
Purchases of property, plant and equipment	(308,535)	(214,699)
Proceeds from disposal of property, plant and equipment	16,272	5,722
Proceeds from disposal of other non-current assets	14,436	-
Dividends received from joint venture	-	300
Net cash used in investing activities	(277,827)	(208,677)
Cash flows from financing activities		
Proceeds from borrowings	17,059,753	29,001,017
Repayments of borrowings	(17,361,845)	(26,839,058)
Interests paid	(302,487)	(367,393)
Proceeds from issuance of new shares	7,637,715	-
Payment for Sinopec Group capital restructuring funds	(2,600,000)	-
Payment for profit arising during major assets restructuring	(1,118,902)	-
Net cash generated from financing activities	3,314,234	1,794,566
Net decrease in cash and cash equivalents	(478,635)	(402,425)
Effect of foreign exchange rate changes on cash and cash equivalents	167,484	(29,983)
Cash and cash equivalents at the beginning of the period	2,523,356	2,446,923
Cash and cash equivalents at the end of the period	2,212,205	2,014,515

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

1 General information and the Reorganisation

Sinopec Oilfield Service Corporation (the “Company”) is a joint stock company with limited liability established in the People’s Republic of China (the “PRC”). The registered office is No. 9, Jishikou Road, Chaoyang District, Beijing, the PRC and the headquarter address is No. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC. The name of the Company was changed from Sinopec Yizheng Chemical Fibre Company Limited to Sinopec Oilfield Service Corporation with effect from 20 March 2015.

The immediate and ultimate holding company of the Company is China Petrochemical Corporation (hereinafter referred to as the “Sinopec Group”) which is a state wholly-owned enterprise established in the PRC.

Originally, the Company and its subsidiaries (hereinafter referred to as the “Group”) are principally engaged in the production and sale of chemical fiber and chemical fiber raw materials in the PRC.

At the end of December 2014, the Company completed the material assets reorganisation by using of all its assets and liabilities at that time as consideration, to repurchase and then cancel the shares held by China Petroleum & Chemical Corporation. At the same time, the Company acquired 100% equity interest of 中石油工程技术服务有限公司 from Sinopec Group, which was satisfied by the issuance of shares to Sinopec Group (hereinafter collectively referred to as the “Reorganisation”).

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

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 28 August 2018.

2 BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

As at 30 June 2018, the Group had net current liabilities of approximately RMB20,451,031,000 (31 December 2017: RMB31,539,078,000) and capital commitments of approximately RMB 73,121,000. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group’s borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In June 2018, the Company obtained a line of credit of RMB15 billion and USD0.9 billion (Total: approximately RMB21 billion) from the Sinopec Group’s subsidiaries respectively, and line of credit promissory note of RMB 4 billion from Sinopec Group’s subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements, and considered that going concern basis is appropriate for the preparation of this interim financial information.

2 BASIS OF PRESENTATION AND PREPARATION (CONTINUED)

2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information have been prepared under the historical cost convention, whereas the financial instruments are carried at fair value.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the interim financial information are the same as those in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s interim financial information:

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Classifications to IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 40	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on the Group’s results and financial position.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of goods
- Rendering of drilling engineering, geophysics, engineering construction, special downhole operations and logging and mud logging

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has selected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligation in the sales of parts and components, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled exchange for transferring the promised goods to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation in the rendering of drilling engineering, geophysics, engineering construction, special downhole operation and logging and mug logging is measured based on the percentage of completion to recognise revenue according to input or output method.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3.1.2 Summary of effects arising from initial application of IFRS 15

The adoption of IFRS 15 does not have a significant impact to the Group's results and financial position for the current or prior periods except the presentation of contract assets and contract liabilities. To follow the terminology used under IFRS 15, the Group has made the following adjustments at 1 January 2018:

- (1) "Amounts due from/to customers for contract works" has been reclassified as "Contract assets/liabilities"; and
- (2) "Receipt in advance from customers" in relation to deposits or payment received in advance for services not yet delivered to customers, which was previously included in "Receipt in advance-advance for construction and service", and "Amounts due to customers for contract works" have been reclassified as "Contract liabilities".

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017		Carrying amounts under IFRS 15 at 1 January 2018
	RMB'000	Reclassification RMB'000	RMB'000
Current assets			
Amount due from customers for contract works			-
	6,610,035	(6,610,035)	
Contract assets	-	6,610,035	6,610,035
	<u>6,610,035</u>	<u>-</u>	<u>6,610,035</u>
Current liabilities			
Receipt in advance and other payables	9,380,867	(1,773,584)	7,607,283
Amount due to customers for contract works	6,765,375	(6,765,375)	-
Contract liabilities	-	8,538,959	8,538,959
	<u>16,146,242</u>	<u>-</u>	<u>16,146,242</u>

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial instruments. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets), and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) with the cumulative effect of initial application recognised at the date of initial application and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets designated as at fair value through other comprehensive income

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (“FVTOCI”).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income; and are not subject to impairment assessment. The cumulative gain or loss accumulated in fair value through other comprehensive income reserve will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “Other income” line item in profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under expected credit losses model

The Group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets which are subject to impairment under IFRS 9 (including notes and trade receivables) and contract assets. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECLs represents the ECLs that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECLs represents the portion of lifetime ECLs that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECLs for notes and trade receivables and contract assets. The ECLs on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises ECLs. The assessment of whether lifetime ECLs should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(1) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indication of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

(2) Measurement and recognition of expected credit losses

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECLs is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss by adjusting their carrying amount, which the exception of notes and trade receivables, contract assets where the corresponding adjustment is recognised through a loss allowance account.

At 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

As at 30 June 2018, the Group has applied simplified approach and recorded lifetime ECLs on notes and trade receivables and contract assets, and general approach and 12-month ECLs on amounts due from related company and other receivables. The Group determined that there are no significant financial impact arising from these changes.

3.2.2 Summary of effects arising from initial application of IFRS 9

From available-for-sale financial assets to financial assets at FVTOCI

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale financial assets at cost less impairment. The investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB24,389,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amount as at 31 December 2017 under IAS 39 RMB'000	Reclassification RMB'000	Carrying amount as at 1 January 2018 under IFRS9 RMB'000
Non-current assets			
Financial assets at FVTOCI (note)	-	24,389	24,389
Available-for-sale financial assets	24,389	(24,389)	-
	<u>24,389</u>	<u>-</u>	<u>24,389</u>

Note: The fair value of the unlisted equity securities is measured using valuation techniques with reference to the net asset value, which is categorised as level 3 of fair value hierarchy. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

Except as described above, the adoption of IFRS 9 does not have a significant impact to the Group's results and financial position for the current or prior periods.

4 REVENUE

The Group's revenue is as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Geophysics	2,552,187	1,952,617
Drilling engineering	12,390,817	11,681,646
Logging and mud logging	695,110	655,510
Special downhole operations	2,043,192	1,533,586
Engineering construction	5,291,485	3,443,066
Others	680,211	575,893
	23,653,002	19,842,318
		For the six months ended 30 June 2018 RMB'000 (Unaudited)
Revenue recognition:		
At a point of time		112,764
Over time		23,540,238
		23,653,002

Remaining performance obligations

As at 30 June 2018, amount of remaining performance obligations is RMB51,682,000,000 , which is expected to be completed in the coming 60 months.

5 SEGMENT INFORMATION

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

Five reportable operating segments are as follows:

- Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;
- Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;
- Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;
- Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and
- Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects, oil and gas transporting process projects, storage and transportation projects, petrochemical supporting projects, building construction, water resources and hydropower, ports and waterways, electricity transmission and distribution projects, manufacturing of pressure vessels, LNG projects, coal chemical engineering, geothermal utilisation, energy saving and municipal roads and bridges.

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain prepaid land leases, certain intangible assets, certain other non-current assets, certain inventories, certain amounts due from customers for contract works, certain contract assets, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred income tax assets.

All liabilities are allocated to reportable segments other than certain borrowings, certain deferred income, certain deferred income tax liabilities, certain notes and trade payables, certain deposits received and other payables, certain amounts due to customers for contract works, certain contract liabilities and certain tax payable.

The resources related to interest income, interest expenses, interests in joint venture and associates, gain on investment, income tax expense as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

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

5 SEGMENT INFORMATION (CONTINUED)

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

(a) Segment results, assets and liabilities

For the six months ended 30 June 2018 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2018 (Unaudited)								
Segment revenue and results								
Revenue from external customers	2,552,187	12,390,817	695,110	2,043,193	5,291,485	680,210	-	23,653,002
Inter-segment revenue	-	81,813	190,939	121,333	500	1,086,089	(1,480,674)	-
Reportable segment revenue	2,552,187	12,472,630	886,049	2,164,526	5,291,985	1,766,299	(1,480,674)	23,653,002
Reportable segment profit /(loss)	166,769	117,244	70,568	88,322	40,752	(381,939)	-	101,716
Other income	17,220	118,188	5,154	14,935	475,512	54,266	-	685,275
Other expenses	(1,672)	(10,365)	(805)	(1,454)	(4,383)	(4,464)	-	(23,143)
Profit/(loss) before income tax	182,317	225,067	74,917	101,803	511,881	(332,137)	-	763,848
Income tax expense								(148,117)
Profit for the period								615,731

5 SEGMENT INFORMATION (CONTINUED)

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

For the six months ended 30 June 2018 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2018 (Unaudited)								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	209,323	818,751	84,407	196,708	96,406	109,157	-	1,514,752
-- Other non-current assets	24,265	563,190	15,096	50,814	5,424	19,304	-	678,093
-- Prepaid land leases	-	214	208	934	224	-	-	1,580
-- Intangible assets	177	32,187	570	318	2,784	2,947	-	38,983
Capital expenditure								
-- Property, plant and equipment	9,530	14,635	280	24,499	8,864	4,105	-	61,913
Provision/(Reversal of provision) for impairment on trade receivables	(3,889)	(10,830)	(3,753)	(1,751)	(131,400)	4,180	-	(147,443)
Provision/(Reversal of provision) for impairment on other receivables	(1,224)	4,104	235	162	20,697	1,589	-	25,563
As at 30 June 2018 (Unaudited)								
Assets								
Segment assets	4,976,271	33,754,212	1,770,638	6,224,963	4,891,296	33,939,147	(25,402,645)	60,153,882
Liabilities								
Segment liabilities	3,914,171	28,603,870	1,382,494	3,696,553	13,147,183	28,662,810	(25,402,645)	54,004,436

5 SEGMENT INFORMATION (CONTINUED)

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

As at 31 December 2017 and for the six months ended 30 June 2017, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2017 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,952,617	11,681,646	655,510	1,533,586	3,443,066	575,893	-	19,842,318
Inter-segment revenue	2,089	91,918	167,046	12,295	19,848	150,710	(443,906)	-
Reportable segment revenue	1,954,706	11,773,564	822,556	1,545,881	3,462,914	726,603	(443,906)	19,842,318
Reportable segment loss	(82,019)	(1,036,260)	(128,239)	(431,032)	(309,041)	(109,311)	-	(2,095,902)
Other income	17,681	114,035	2,809	13,763	71,540	2,214	-	222,042
Other expenses	(3,828)	(46,068)	(1,246)	(2,782)	(3,840)	(1,186)	-	(58,950)
Loss before income tax	(68,166)	(968,293)	(126,676)	(420,051)	(241,341)	(108,283)	-	(1,932,810)
Income tax expense								(199,370)
Loss for the period								(2,132,180)

5 SEGMENT INFORMATION (CONTINUED)

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

As at 31 December 2017 and for the six months ended 30 June 2017, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2017 (Unaudited)								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	239,193	903,711	97,612	234,435	103,154	72,895	-	1,651,000
-- Other non-current assets	19,326	806,849	23,961	45,615	13,669	75	-	909,495
-- Prepaid land leases	-	211	208	871	191	-	-	1,481
-- Intangible assets	261	14,948	269	514	2,983	2,931	-	21,906
Capital expenditure								
-- Property, plant and equipment	20,496	61,837	5,562	7,453	957	8,569	-	104,874
Provision/(Reversal of provision) for impairment on trade receivables	(996)	24,480	(3,967)	118,451	60,244	4,295	-	202,507
Provision/(Reversal of provision) for impairment on other receivables	(718)	2,114	112	180	89,086	(9,088)	-	81,686
As at 31 December 2017 (Audited)								
Assets								
Segment assets	5,318,569	34,807,136	2,007,167	6,394,501	6,928,328	22,703,276	(16,216,348)	61,942,629
Liabilities								
Segment liabilities	4,602,485	29,309,833	1,568,472	3,830,778	15,557,750	25,393,659	(16,216,348)	64,046,629

5 SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
The PRC	17,499,389	13,629,171
Middle East	3,555,372	3,736,914
Other countries	2,598,241	2,476,233
	23,653,002	19,842,318

	Specified non-current assets	
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
The PRC	23,727,622	26,416,413
Other countries	3,938,869	2,958,085
	27,666,491	29,374,498

(c) Major customer

For the six months ended 30 June 2018 and 2017, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Customer A	13,273,478	10,711,477

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and accounted for 56% (2017: 54%) of the Group's revenue.

6 FINANCE EXPENSES - NET

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Finance income		
Interest income from entrusted loans		
- Sinopec Group's subsidiaries	-	67
Interest income		
- Sinopec Group's subsidiaries	702	245
- Third-party banks and other financial institutions	34,412	8,148
Exchange gains, net	115,868	61,711
	150,982	70,171
Finance expenses		
Interest expenses on loans wholly repayable within 5 years		
- Sinopec Group and its subsidiaries	(275,566)	(277,066)
- Associates and joint ventures of the Group	(6,071)	-
- Third-party banks and other financial institutions	(1,827)	(1,840)
Bank and other charges	(31,142)	(39,181)
	(314,606)	(318,087)
	(163,624)	(247,916)

7 REVERSAL OF PROVISION/(PROVISION) FOR IMPAIRMENT ON ASSETS

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Reversal of provision/(Provision) for impairment on trade and other receivables, net	121,880	(284,193)

8 OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of other non-current assets, net	2,714	502
Government grants (Note)	515,849	192,920
Waived payables	10,001	1,090
Penalty income	664	542
Compensation received	329	3,561
Gain on debt restructuring	147,330	19,457
Others	8,388	3,970
	685,275	222,042

Note:

Government grants for the periods ended 30 June 2018 and 2017 primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

9 OTHER EXPENSES

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment, net	1,819	33,476
Loss on scraps of assets	418	497
Penalty	2,911	4,745
Compensation	7,320	3,958
Others	10,675	16,274
	23,143	58,950

10 PROFIT/(LOSS) BEFORE INCOME TAX

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

	For the six months ended	
	30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs, including directors and supervisors emoluments	6,811,475	6,461,781
Retirement benefit plan contribution (including in the above mentioned staff costs)		
— Municipal retirement scheme costs	622,855	618,572
— Supplementary retirement scheme costs	165,038	163,205
Share options granted to directors and employees (including in the above mentioned staff costs)	-	9,048
Cost of goods sold	5,401,001	4,494,119
Depreciation and amortisation		
— Property, plant and equipment	1,514,752	1,651,000
— Other non-current assets	678,093	909,495
— Prepaid land leases	1,580	1,481
— Intangible assets	38,983	21,906
Operating lease expenses		
— Property, plant and equipment	682,308	480,202
(Reversal of provision)/Provision for impairment, net		
— Trade and other receivables	(121,880)	284,193
Rental income from property, plant and equipment after relevant expenses	(12,263)	(4,237)
Research and development expenses	240,196	51,138
Loss on disposal/write-off of property, plant and equipment, net	1,819	33,476
Gain on disposal/write-off of other non-current assets, net	(2,714)	(502)
Exchange gains, net	(115,868)	(61,711)

11 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax		
PRC enterprise income tax	17,161	18,846
Overseas income tax	131,952	176,140
	<u>149,113</u>	<u>194,986</u>
Deferred income tax		
(Reversal) and origination of temporary difference	(996)	4,384
Income tax expense	<u>148,117</u>	<u>199,370</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2018 and 2017 is 25%

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the six months ended 30 June 2018 and 2017, the majority of the companies of the Group are subject to 25% income tax rate.

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

12 EARNINGS/(LOSS) PER SHARE

(a) Basic

For the six months ended 30 June 2018 and 2017, the basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company.

	For the six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit/(Loss) for the period attributable to owners of the Company (RMB'000)	615,731	(2,132,148)
Weighted average number of ordinary shares in issue (Shares)	18,352,229,243	14,142,660,995
Basic earnings/(loss) per share (RMB)	<u>0.034</u>	<u>(0.151)</u>

(b) Diluted

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

The calculation of diluted loss per share did not take into account of exercise of the share options which are potential ordinary shares because of anti-dilutive effects, hence, the diluted loss per share

for the six month ended 30 June 2017 were the same as the basic loss per share.

13 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2018 (2017: Nil).

14 EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	6,023,582	5,670,956
Retirement benefit plan contribution (Note)		
— Municipal retirement scheme costs	622,855	618,572
— Supplementary retirement scheme costs	165,038	163,205
Share options granted to directors and employees (Note 22)	-	9,048
	6,811,475	6,461,781

Note:

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2018, the Group and the employees pay 20% and 8% (31 December 2017: 20% and 8%) of salary respectively to basic defined contribution plan.

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

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

15 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2018

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Balance at 1 January 2018	1,328,500	58,786,465	309,372	60,424,337
Additions	-	26,119	35,794	61,913
Transfer to intangible asset	-	-	(8,837)	(8,837)
Disposals/Write-off	(815)	(155,459)	-	(156,274)
At 30 June 2018	1,327,685	58,657,125	336,329	60,321,139
Accumulated depreciation and impairment loss				
Balance at 1 January 2018	439,200	34,093,256	71,734	34,604,190
Depreciation	22,159	1,492,593	-	1,514,752
Disposals/ Write-off	(591)	(143,020)	-	(143,611)
At 30 June 2018	460,768	35,442,829	71,734	35,975,331
Carrying amounts				
At 30 June 2018 (Unaudited)	866,917	23,214,296	264,595	24,345,808
Carrying amounts				
At 31 December 2017 (Audited)	889,300	24,693,209	237,638	25,820,147

For the six months ended 30 June 2017

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
Balance at 1 January 2017	1,331,721	59,220,040	962,110	61,513,871
Additions	-	94,599	10,275	104,874
Disposals/ Write-off	(2,623)	(298,536)	-	(301,159)
Reclassification	(17,643)	-	-	(17,643)
At 30 June 2017	1,311,455	59,016,103	972,385	61,299,943
Accumulated depreciation and impairment loss				
Balance at 1 January 2017	399,691	31,344,813	95,264	31,839,768
Depreciation	22,452	1,628,548	-	1,651,000
Disposals/ Write-off	(1,950)	(267,719)	-	(269,669)
Reclassification	(4,186)	-	-	(4,186)
At 30 June 2017	416,007	32,705,642	95,264	33,216,913
Carrying amounts				
At 30 June 2017 (Unaudited)	895,448	26,310,461	877,121	28,083,030

Note:

As at 30 June 2018, the property, plant and equipment under finance leases are "Oil engineering

equipment and others” and its carrying amounts are RMB1,036,421,000 (31 December 2017: RMB80,172,000).

16 PREPAID LAND LEASES

	2018 RMB'000	2017 RMB'000
At 1 January	118,540	108,178
Reclassification	-	13,457
Amortisation	(1,580)	(1,481)
At 30 June (Unaudited)	<u>116,960</u>	<u>120,154</u>

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

17 NOTES AND TRADE RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables		
- Sinopec Group and its subsidiaries	6,375,030	9,082,346
- Associates and joint ventures of the Group	2,584	14
- Sinopec Group and its joint ventures and associates	95,917	122,450
- Third parties	9,784,393	10,077,873
	<u>16,257,924</u>	<u>19,282,683</u>
Less: Provision for impairment	(2,173,304)	(2,320,747)
Trade receivables – net	<u>14,084,620</u>	<u>16,961,936</u>
Notes receivables	637,413	1,209,147
Notes and trade receivables - net	<u>14,722,033</u>	<u>18,171,083</u>

As at 30 June 2018 and 31 December 2017, the Group's notes and trade receivables were approximately their fair values.

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

As at 30 June 2018 and 31 December 2017, none of the Group's notes receivables were pledged as collateral or overdue.

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

17 NOTES AND TRADE RECEIVABLES (CONTINUED)

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 1 year	11,524,816	13,428,767
1 to 2 years	2,415,442	3,631,272
2 to 3 years	543,119	821,310
Over 3 years	238,656	289,734
	14,722,033	18,171,083

The movements of provision for impairment on trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	2,320,747	1,177,173
Provisions	745,861	656,752
Reversal	(893,304)	(454,245)
At 30 June (Unaudited)	2,173,304	1,379,680

The Group applied the simplified approach according to IFRS 9 to assess the expected credit losses.

Provision/(Reversal of provision) for impairment on trade receivables is included in "Reversal of provision/(Provision) for impairment on assets" in condensed consolidated statement of profit or loss and other comprehensive income.

18 PREPAYMENT AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Prepayments (a)	646,152	441,556
Other receivables (b)		
Petty cash funds	63,322	34,523
Guarantee deposits	845,207	846,193
Disbursement of funds	734,202	641,003
Temporary payment	995,608	759,129
Escrow payments	9,735	9,733
Deposits	37,493	42,944
Export tax refund receivables	6,960	5,261
Excess value-added tax paid	828,854	651,200
Value added tax to be offset	19,906	24,043
Prepaid value-added tax	404,287	205,916
Prepaid income tax	10,686	4,314
Others	279,491	289,950
	4,881,903	3,955,765
Less: Provision for impairment	(654,882)	(629,319)
Prepayments and other receivables - net	4,227,021	3,326,446

Note:

- (a) As at 30 June 2018, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB17,292,000 (31 December 2017: RMB30,088,000) and the associates and joint ventures of the Group amounting at RMB216,000 (31 December 2017: RMB72,000) and nil for the associates and joint ventures of Sinopec Group (31 December 2017: RMB3,000).
- (b) As at 30 June 2018, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB280,949,000 (31 December 2017: RMB337,509,000), the associates and joint ventures of the Group amounting at RMB234,000 (31 December 2017: RMB309,000) and the associates and joint ventures of Sinopec Group amounting at RMB1,001,000 (31 December 2017: RMB1,457,000).
- (c) The amounts due from related parties are unsecured, interest free and repayable on demand.
- (d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2018 and 31 December 2017 approximate their fair values.

The movements of provision for impairment on other receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	629,319	524,759
Provisions	148,737	180,921
Reversal	(123,174)	(99,235)

At 30 June (Unaudited)

654,882

606,445

19 CONTRACT ASSETS/CONTRACT LIABILITIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Contract assets	9,826,495	-
Amounts due from customers for contract works	-	6,869,083
Less: Expected loss on contracts	(259,048)	(259,048)
	9,567,447	6,610,035
Contract liabilities	(6,466,922)	-
Amounts due to customers for contract works	-	(6,765,375)
	3,100,525	(155,340)
Contract cost incurred plus recognised profit less recognised losses	76,426,977	60,396,625
Less: Expected loss on contracts	(259,048)	(259,048)
Less: Progress billings	(73,067,404)	(60,292,917)
	3,100,525	(155,340)

Note: The contract assets primarily related to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

20 INVENTORIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Raw materials	1,179,991	1,164,785
Finished goods	129,605	85,725
Work in progress	9,992	2,887
Turnover materials	1,608	10,151
Others	1,838	1,947
	1,323,034	1,265,495
Less: Provision for impairment/write off	(72,456)	(72,456)
	1,250,578	1,193,039

21 SHARE CAPITAL

	As at 30 June 2018		As at 31 December 2017	
	Number of shares (Share)	Share capital RMB'000 (Unaudited)	Number of shares (Share)	Share capital RMB'000 (Audited)
Registered, issued and paid:				
- Domestic non-public legal person shares of RMB1.00 each	11,786,045,218	11,786,046	10,259,327,662	10,259,328
- Social public A shares of RMB1.00 each	1,783,333,333	1,783,333	1,783,333,333	1,783,333
- H shares of RMB1.00 each	5,414,961,482	5,414,961	2,100,000,000	2,100,000
	<u>18,984,340,033</u>	<u>18,984,340</u>	<u>14,142,660,995</u>	<u>14,142,661</u>
		Number of shares (Share)	Share capital RMB'000	
As at 1 January 2018		14,142,660,995	14,142,661	
Issuance of shares (Note)		4,841,679,038	4,841,679	
		<u>18,984,340,033</u>	<u>18,984,340</u>	
As at 30 June 2018				

Note:

According to the China Securities Regulatory Commission's license [2018] No. 142 "Approving the non-public issuance of shares by Sinopec Oilfield Service Corporation", the Company had issued 1,526,717,556 A shares at non-public issuance at RMB2.62 per share, to the China Petrochemical Corporation and Changjiang Pension Insurance Co., Ltd. - Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension anagement Fund; According to the China Securities Regulatory Commission's license [2018] No. 130 "Approving the issuance of additional overseas listed foreign shares by Sinopec Oilfield Service Corporation", the Company had issued 3,314,961,482 H shares at non-public issuance at HKD1.35 per share to the two designated investors - Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund Corporation Limited. After deduction of share issuance expenses of RMB 20,783,000, the net proceeds from issuance of share is RMB7,637,715,000.

22 SHARE-BASED PAYMENTS

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

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

- (i) achieving compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;
- (ii) ratio of earnings before interest, tax, depreciation and amortisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;
- (iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and
- (iv) the performance of the indicator for economic value added has reached the target set by the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

As at 30 June 2018, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price (per share in RMB)	Outstanding shares
1 November 2019	5.63	14,715,000
1 November 2020	5.63	19,620,000

The movement of share options are as follows:

	No. of share options
Outstanding shares at 31 December 2016 and 1 January 2017	49,050,000
Lapsed during the year	(14,715,000)
Outstanding shares at 31 December 2017, 1 January 2018 and 30 June 2018	34,335,000

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. At 30 June 2018, the Company have 34,335,000 share options has not been exercised with a total fair value of RMB41,441,000 at the grant date.

22 SHARE-BASED PAYMENTS (CONTINUED)

The significant inputs into the model were as follows:

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

No share-based payment expenses have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 (For the six months ended 30 June 2017: RMB9,048,000). For the six months ended 30 June 2018, no share option had been exercised.

At 30 June 2018, the Company have a total of 34,335,000 (31 December 2017: 34,335,000) outstanding shares under the share option incentive scheme. Under the current capital structure, fully exercise of the outstanding shares will lead to issue of 34,335,000 (31 December 2017: 34,335,000) extra ordinary A share and increase in share capital of RMB34,335,000, before issue expenses.

23 NOTES AND TRADE PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables		
- Sinopec Group and its subsidiaries	1,766,090	1,150,292
- Associates and joint ventures of the Group	9,904	49,643
- Sinopec Group's joint ventures and associates	55,120	47,623
- Third parties	20,279,637	25,194,924
	22,110,751	26,442,482
Notes payables	3,204,372	3,045,393
	25,315,123	29,487,875

As at 30 June 2018 and 31 December 2017, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 1 year	18,760,019	20,493,186
1 and 2 years	3,398,586	5,007,071
2 and 3 years	1,255,304	1,799,618
Over 3 years	1,901,214	2,188,000
	25,315,123	29,487,875

24 RECEIPT IN ADVANCE AND OTHER PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Receipt in advance (a)		
Advances for construction and service	-	1,773,584
Salaries payables	425,066	381,240
Other tax payables	728,114	829,417
Output valued-added tax to be certified	44,182	11,744
Interest payables (b)	29,756	10,927
Other payables (c)		
Guarantee deposits	667,807	670,463
Deposits	145,398	164,697
Disbursement of funds	771,773	473,452
Temporary receipts	438,920	743,062
Escrow payments	78,942	44,850
Withheld payments	64,652	67,641
Sinopec Group capital restructuring funds	-	2,600,000
Payable of profit arising during major assets restructuring	-	1,118,902
Others	239,101	490,888
	3,633,711	9,380,867

Note:

- (a) As at 30 June 2018, the receipt in advance include related party balances: Sinopec Group and its subsidiaries amounting at RMB449,991,000 (31 December 2017: RMB423,073,000) and the joint ventures and associates of Sinopec Group amounting at RMB4,581,000 (31 December 2017: RMB5,179,000). Due to initial application of IFRS 15, the balance as at 30 June 2018 has been reclassified to contract liabilities (Note 19).
- (b) As at 30 June 2018 and 31 December 2017, the interest payables was the related party balances with Sinopec Group and its subsidiaries.
- (c) As at 30 June 2018, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB71,899,000 (31 December 2017: RMB3,767,038,000).

The above amounts due to related parties are unsecured, interest free and repayable on demand.

25 BORROWINGS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Current liabilities		
Loans from Sinopec Finance Company Limited (a)	10,400,000	6,995,000
Loans from Sinopec Century Bright Capital Investment Company Limited (a)	3,817,778	8,015,830
Loans from Sinopec Group (a)	2,500,000	2,500,000
Finance lease liabilities (b)	153,259	28,844
	16,871,037	17,539,674
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Company Limited (a)	503,788	455,826
Finance lease liabilities (b)	913,606	53,037
	1,417,394	508,863
	18,288,431	18,048,537

Note:

- (a) Loans from related parties

The loans from related parties of the Group are repayable as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 1 year	16,717,778	17,510,830
1 to 2 years	503,788	455,826
	17,221,566	17,966,656

As at 30 June 2018, loans from related parties are unsecured and their annual interest rates were range from 2.62 % to 8.78 % (31 December 2017: 1.7 % to 7.9 %).

25 BORROWINGS (CONTINUED)

(b) Finance lease liabilities

The analysis of the Group's obligations under finance leases is as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Total minimum lease payments		
- Within 1 year	196,137	34,200
- 1 to 2 years	174,583	27,223
- 2 to 5 years	468,976	32,193
- Over 5 years	399,812	-
	1,239,508	93,616
Future finance charges on finance leases	(172,643)	(11,735)
Present value of finance lease liabilities	1,066,865	81,881
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Present value of minimum lease payments:		
- Within 1 year	153,260	28,844
- 1 to 2 years	139,937	23,919
- 2 to 5 years	398,668	29,118
- Over 5 years	375,000	-
	1,066,865	81,881
Less: Portion due within one year included under current liabilities	(153,259)	(28,844)
Portion due after one year included under non-current liabilities	913,606	53,037

Note:

- (i) On 11 January 2018, the Group entered into a sale and leaseback arrangement with the Sinopec Group's joint venture at a consideration of approximately RMB1,000,000,000 for term of 8 years.
- (ii) As at 30 June 2018, the Group leased certain oil engineering equipment for its business operations. The lease term are from 2 to 8 years (31 December 2017: 2 to 5 years).

26 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2018 and 31 December 2017 not provided for in the interim financial information are as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Contracted but not provided for	73,121	130,116

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 30 June 2018 and 31 December 2017 are as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 1 year	158,849	291,189
1 to 2 years	20,447	32,746
2 to 3 years	12,323	11,775
Over 3 years	19,008	21,130
Total	210,627	356,840

The Group leases various residential properties, office, equipments and leased land under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 24 years (31 December 2017: 1 to 24 years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

(c) Investment commitments

As at 30 June 2018, the Group has outstanding commitments of RMB129,625,000 (31 December 2017: RMB129,625,000) in respect of its investment in joint ventures.

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2018.

27 CONTINGENCIES

In preparing this interim financial information, except for described below, there were no further developments of those contingencies as at 30 June 2018, which were disclosed in the 2017 annual report.

Contingent liabilities and financial impacts due to pending litigation

China National Chemical Engineering No. 11 Construction Co., Ltd. (the “Applicant”) and Sinopec International Petroleum Services Corporation (“International services Corporation” or the “Respondent”), a wholly-owned subsidiary of the Group, has entered into the “Works Contract for the Package C Construction of the Saudi Yanbu — Medina Phase III Pipeline Project” (the “Construction Works Contract”) with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the “Package C Project” of the “Saudi Yanbu — Medina Phase III Pipeline Project”. On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the “Application for Arbitration” in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay approximately RMB456,810,000 for the project fee and the accrued interest, approximately RMB145,968,000 for the loss due to stoppage of work and the accrued interest, approximately RMB38,018,000 for the advance payment under the letter of guarantee and the accrued interest, and approximately RMB500,000 for attorney fee and the arbitration fee for the case (the “Arbitration”). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018 and issued the “Notice of Arbitration for the Dispute Case of Project Contract No. P20180585 ([2018] China Trade Zhongjing Zi No. 048223)”. As the hearing of the case has not yet proceeded, the Group does not make provision for the pending litigation since the management considered that the outcome of the litigation cannot be reasonably estimated and cannot determine its impact on the Group’s financial position and operation result.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the “state-owned enterprises”).

In accordance with IAS 24 “Related party disclosures”, other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group (“other state-owned enterprises”). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2018 and 2017.

The transactions with related parties are carried out on normal commercial terms or relevant agreements with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Purchases of materials		
- Sinopec Group and its subsidiaries	2,029,979	1,645,866
Sales of products		
- Sinopec Group and its subsidiaries	7,798	46,163
Rendering of engineering services		
- Sinopec Group and its subsidiaries	13,265,680	10,665,334
Receiving of community services		
- Sinopec Group and its subsidiaries	464,445	779,812
Receiving of integrated services		
- Sinopec Group and its subsidiaries	-	68,119
Receiving of technology research and development services		
- Sinopec Group and its subsidiaries	83,000	-
Rental expenses		
- Sinopec Group and its subsidiaries	12,907	26,763
Interest income from entrusted loans		
- Sinopec Group's subsidiaries	-	67
Deposits interest income		
- Sinopec Group's subsidiaries	702	245
Loans interest expenses		
- Sinopec Group and its subsidiaries	275,566	277,066
Borrowings obtained		
- Sinopec Group and its subsidiaries	16,559,753	28,945,143
Borrowings repaid		
- Sinopec Group and its subsidiaries	17,343,880	26,837,186
Safety and insurance fund expenses		
- Sinopec Group	41,550	1,100
Safety and insurance fund refund		
- Sinopec Group	24,489	-

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant related party transactions arising with the joint ventures and associates of the Group:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
- Associates and joint ventures of the Group	43	-
Receiving of engineering services		
- Associates and joint ventures of the Group	391,869	340,557
Loans Interest expenses		
- Associates and joint ventures of the Group	6,071	-

(c) Remuneration of key management personnel

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee	300	300
Salaries, allowances and bonus	4,257	4,073
Contributions to pension plans	260	370
Share-based payments	-	9,048
	4,817	13,791

(d) Related party guarantee

At 30 June 2018, Sinopec Group has not provided performance guarantee to the Group. (31 December 2017: USD210,000,000).

7.2 Interim financial report prepared in accordance with the PRC ASBE

The following financial information has been extracted from the Company's unaudited interim financial report, prepared in accordance with the PRC ASBE, for the six months ended 30 June 2018.

Consolidated balance sheets

(Expressed in thousands of Renminbi Yuan)

	30 June 2018	31 December 2017
Assets		
Current assets:		
Cash at bank and on hand	2,223,739	2,537,894
Notes receivable and accounts receivable	14,722,033	18,171,083
Advances to suppliers	628,379	424,731
Other receivables	2,315,178	2,000,100
Inventories	2,236,451	1,344,434
Contract assets	8,581,574	6,458,640
Non-current assets due within one year	157,329	-
Other current assets	1,263,733	885,473
Total current assets	32,128,416	31,822,355
Non-current assets:		
Available-for-sale financial assets	-	24,389
Long-term receivables	-	233,061
Long-term equity investments	204,077	207,046
Other equity investment	24,389	-
Fixed assets	24,090,620	25,584,153
Construction in progress	264,595	237,638
Intangible assets	249,808	281,534
Long-term prepaid expenses	2,719,793	3,080,269
Deferred tax assets	472,184	472,184
Total non-current assets	28,025,466	30,120,274
Total assets	60,153,882	61,942,629

Consolidated balance sheets (continued)*(Expressed in thousands of renminbiyuan)*

Liabilities and shareholders' equity

Current liabilities:

Short-term loans	16,717,778	17,510,830
Notes payable and accounts payable	25,315,123	29,487,875
Contract liabilities	6,466,922	8,538,959
Employee benefits payable	425,066	381,240
Taxes payable	883,170	1,033,201
Other payables	2,399,428	6,370,386
Non-current liabilities due within one year	153,259	28,844
Other current liabilities	44,182	11,744

Total current liabilities

52,404,928**63,363,079**

Non-current liabilities:

Long-term loans	503,788	455,826
Long-term payables	950,527	67,533
Deferred income	122,310	136,312
Deferred income tax liabilities	22,883	23,879

Total non-current liabilities

1,599,508**683,550**

Total liabilities

54,004,436**64,046,629**

Shareholders' equity:

Share capital	18,984,340	14,142,661
Capital reserve	11,702,532	8,907,868
Other comprehensive income	-	-
Specific reserve	417,259	202,477
Surplus reserve	200,383	200,383
Undistributed profits	-25,155,068	-25,556,017
Equity attributable to the owners of the company	6,149,446	-2,102,628
Minority interests	-	-1,372

Total shareholders' equity

6,149,446**-2,104,000**

Total liabilities and shareholders' equity

60,153,882**61,942,629**

Consolidated income statements
(Expressed in thousands of Renminbi Yuan)

	For the six months ended	
	30 June	
	2018	2017
1.Revenue	23,653,002	19,842,318
Less: Cost of sales	22,258,048	19,868,364
Taxes and surcharges	117,568	171,547
Selling and distribution expenses	23,531	21,370
General and administrative expenses	1,082,012	1,433,923
Research and development expenses	240,196	51,138
Finance costs	163,624	247,983
Including: Interest expense	283,464	278,906
Interest income	35,114	8,393
Credit impairment loss	-121,880	284,193
Add: Other income	515,849	132,840
Investment income (“-” for loss)	-2,969	-12,878
Including: Share of loss of a joint venture	-2,969	-12,945
Gains from disposal of non-current asset (“-” for loss)	895	-32,974
2.Operating profit (“-” for loss)	403,678	-2,149,212
Add: Non-operating income	166,712	88,700
Less: Non-operating expenses	21,324	25,474
3.Profit before income tax (“-” for loss)	549,066	-2,085,986
Less: Income tax expenses	148,117	199,370
4.Net profit for the period (“-” for loss)	400,949	-2,285,356
Profit for the period attributable to:		
- The owners’ of the company	400,949	-2,285,324
- Minority interests	-	-32
5.Earnings per share (“-” for loss):		
Basic earnings per share (in RMB)	0.02	-0.16
Diluted earnings per share (in RMB)	0.02	-0.16
6.Other comprehensive income for the period	-	-
7.Total comprehensive income for the period	400,949	-2,285,356
Total comprehensive income for the period attributable to:		
- The owners of the Company	400,949	-2,285,324
- Minority shareholders	-	-32

Consolidated cash flow statement
(Expressed in thousands of renminbiyuan)

	For the six months ended	
	30 June	
	2018	2017
1.Cash flows from operating activities:		
Cash received from sale of goods	20,161,035	21,243,506
Refund of taxes	82,209	133,703
Cash received from other operating activities	1,202,578	727,661
Sub-total of cash inflows	21,445,822	22,104,870
Cash paid for goods and services	16,466,696	15,740,923
Cash paid to and for employees	5,948,147	5,526,507
Cash paid for all types of taxes	724,656	1,004,765
Cash paid relating to other operating activities	1,821,365	1,820,989
Sub-total of cash outflows	24,960,864	24,093,184
Net cash inflow from operating activities(“-” for outflow)	-3,515,042	-1,988,314
2.Cash flows from investing activities:		
Cash received from the investment income	-	367
Net cash received from disposal of fixed assets	30,708	5,722
Sub-total of cash inflows	30,708	6,089
Cash paid for acquisition of fixed assets,intangible assets and other long term assets	308,535	214,766
Sub-total of cash outflows	308,535	214,766
Net cash inflow from investing activities(“-” for outflow)	-277,827	-208,677
3.Cash flows from financing activities:		
Cash received from the acquisition of investments	7,639,698	-
Cash received from borrowings	16,559,753	29,010,835
Cash received from other financing-related activities	500,176	3,038
Sub-total of cash inflows	24,699,627	29,013,873
Cash paid for repayments of borrowings	17,343,880	26,837,186
Cash paid for distribution of dividend, profit or payments of interests	280,230	352,785
Cash paid for other financing activities	3,761,283	29,336
Sub-total of cash outflows	21,385,393	27,219,307
Net cash inflow from financing activities	3,314,234	1,794,566
4.Effect of foreign exchange rate changes on cash and cash equivalents	167,484	-29,983
5.Net (decrease)/increase in cash and cash equivalents	-311,151	-432,408
Add: Cash and cash equivalents at the beginning of the period	2,523,356	2,446,923
6.Cash and cash equivalents at the end of the period	2,212,205	2,014,515

Consolidated Statement of changes in shareholders' equity
(Expressed in thousands of Renminbi Yuan)

Items	Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/Retained earnings	Minority interests	Total shareholders equity'
Balance at 31 December 2017	14,142,661	8,907,868	202,477	200,383	-25,556,017	-1,372	-2,104,000
Add: Changes in accounting policies	-	-	-	-	-	-	-
Adjustment for the business combination under common control	-	-	-	-	-	-	-
Balance at 1 January 2018	14,142,661	8,907,868	202,477	200,383	-25,556,017	-1,372	-2,104,000
Changes during the period (decrease in "-")	4,841,679	2,794,664	214,782	-	400,949	1,372	8,253,446
Total comprehensive income	-	-	-	-	400,949	-	400,949
Increase or decrease of capital	4,841,679	2,794,664	-	-	-	1,372	7,637,715
Transfer of equity	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-
Distribution of profits	-	-	-	-	-	-	-
Special reserve-provided during the period	-	-	347,266	-	-	-	347,266
Special reserve-used during the period (expressed in "-")	-	-	-132,484	-	-	-	-132,484
Balance at 30 June 2018	18,984,340	11,702,532	417,259	200,383	-25,155,068	-	6,149,446
Balance at 31 December 2016	14,142,661	8,897,232	176,068	200,383	-14,973,476	-1,276	8,441,592
Adjustment for the business combination under common control	-	-	-	-	-	-	-
Balance at 1 January 2017	14,142,661	8,897,232	176,068	200,383	-14,973,476	-1,276	8,441,592
Changes during the period (decrease in "-")	-	9,048	153,176	-	-2,285,324	-32	-2,123,132
Total comprehensive income	-	-	-	-	-2,285,324	-32	-2,285,356
Increase or decrease of capital	-	9,048	-	-	-	-	9,048
Transfer of equity	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-
Distribution of profits	-	-	-	-	-	-	-
Special reserve-provided during the period	-	-	284,906	-	-	-	284,906
Special reserve-used during the period (expressed in "-")	-	-	-131,730	-	-	-	-131,730
Balance at 30 June 2017	14,142,661	8,906,280	329,244	200,383	-17,258,800	-1,308	6,318,460

7.3 Reconciliation statement of differences in the financial statements prepared under different GAAPs

The difference between the financial statements prepared under the IFRS and PRC ASBE on net profit and net assets are as follows:

	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	For the six months ended 30 June		At 30 June	At 1 January
	2018	2017	2018	2018
Amounts under PRC ASBE	400,949	-2,285,324	6,149,446	-2,102,628
Adjustments under IFRS:	-	-	-	-
Specific reserve (a)	214,782	153,176	-	-
Amounts under IFRS	615,731	-2,132,148	6,149,446	-2,102,628

a. Specific reserve

Under PRC ASBE, accrued production safety fund is recognised as expenses in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. As using production safety fund, if it is profit or loss related, the cost of expenditure is directly charged against the specific reserves. While if it is capital expenditure related, the cost of fixed asset is offset against the specific reserves and the same amount of accumulated depreciation is recognised, then the fixed asset is no longer depreciated in its useful life.

8. OTHER EVENTS

8.1 Compliance with the Corporate Governance Code

For the six months ended 30 June 2018, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except that:

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

The Company held the second meeting of the Audit Committee of the ninth session of the Board on 27 August 2018, during which the interim financial statements of the Company for the reporting period was reviewed.

8.2 Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Upon specifically inquires of all the Directors, Supervisors and Senior Management, the Company confirms that its Directors, Supervisors and Senior Management have fully complied with the standards as set out in the Model Code during the reporting period.

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

During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Li Honghai
Secretary to the Board

28 August 2018
Beijing, The PRC

As at the date of this announcement, the Board of Directors comprises Mr. Sun Qingde#, Mr. Chen Xikun#, Mr. Lu Baoping+, Mr. Fan Zhonghai+, Mr. Wei Ran+, Ms. Jiang Bo, Mr. Pan Ying*, Mr. Chen Weidong* and Mr. Dong Xiucheng*.*

+ Non-Executive Director

Executive Director

* Independent Non-Executive Director