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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 on Annual Results 2018

The Board of Directors (“**the Board**”) and the Supervisory Committee of Sinopec Oilfield Service Corporation (“**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. The content of the annual results is extracted from the 2018 annual report (the “Annual Report”). In order to understand the full content, the investors should read the Annual Report for more details.

The Board of the Company has pleasure in presenting the audited annual results of the Company and its subsidiaries (“**the Group**”) for the year ended 31 December 2018.

1. COMPANY PROFILE

- | | |
|-----------------------------------|---|
| (1). Legal name: | Sinopec Oilfield Service Corporation
中石化石油工程技術服務股份有限公司 |
| Abbreviation: | SSC
石化油服 |
| (2). Legal representative: | Mr. Liu Zhongyun |
| (3). Registered address: | 22#, Chaoyangmen North Street, Chaoyang District, Beijing,
P.R.China |
| Office address: | 9#, Jishikou Road, Chaoyang District, Beijing, P.R. China |
| Postal code: | 100728 |
| Telephone: | 86-10-59965998 |
| Fax: | 86-10-59965997 |
| Internet website: | http://ssc.sinopec.com |
| E-mail: | ir.ssc@sinopec.com |

(4).Secretary to the Board: Mr. Li Honghai
Securities affairs representative: Mr. Shen Zehong
Address: 9#, Jishikou Road,Chaoyang District, Beijing, P.R.China
The Office of the Board of Director
Telephone: 86-10-59965998
Fax: 86-10-59965997
E-mail: ir.ssc@sinopec.com

(5). Domestic newspapers to disclose information: China Securities, Shanghai Securities News, Securities Times

Internet website designated by HKSE to disclose information: <http://www.hkexnews.hk>

Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the annual report: <http://www.sse.com.cn>

Place where the annual report available for inspection: The Office of the Board of Director of the Company

(6). Places of listing, names and codes of the stock:

H share: The Stock Exchange of Hong Kong Limited ("HKSE")
Stock name: SSC
Stock code: 1033

A Share: Shanghai Stock Exchange ("SSE")
Stock name: SSC
Stock code: 600871

2. PRINCIPAL FINANCIAL INFORMATION AND FINANCIAL INDICATORS

(1) Extracted from the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS")

Unit: RMB'000

	As at 31 December				
	2018	2017 (Restated)	2016 (Restated)	2015	2014
Total assets	60,904,715	62,089,315	74,794,669	85,307,777	81,295,708
Total liabilities	55,126,305	64,190,633	66,343,412	60,670,824	62,599,570
Equity attributable to owners of the Company	5,778,410	(2,099,946)	8,452,533	24,638,094	18,697,120
Net assets per share attributable to owners of the Company ³ (RMB)	0.31	(0.15)	0.60	1.74	1.46
Equity ratio of owners	9.50%	(3.39%)	11.30%	28.88%	23.00%
Return on net assets	4.16%	(503.02%)	(191.64%)	(0.05%)	12.93%
	For the year ended 31 December				
	2018	2017 (Restated)	2016	2015	2014
Revenue ¹	58,409,078	48,593,948	42,923,500	60,349,334	78,993,315
Profit/(Loss) before income tax ¹	613,769	(10,324,177)	(15,887,181)	469,719	3,320,072
Income tax expense/(credit) ¹	373,581	239,034	311,196	481,421	900,930
Profit/(Loss) attributable to owners of the Company					
Including: continuing operations ²	240,188	(10,563,115)	(16,198,242)	(11,543)	2,416,928
discontinued operations ²	-	-	-	-	(1,159,620)
Basic and diluted earnings/(loss) per share(RMB)					
Including: continuing operations ²	0.013	(0.747)	(1.145)	(0.001)	0.159
discontinued operations ²	-	-	-	-	(0.076)

Notes:

1. Information of 2014 included continuing operation only, after 2015 the company operates only continuing business.

2. In the consolidated statement of comprehensive income, the Oilfield Business was classified as “continuing operations” and the Fibre Business was classified as “discontinued operations”.

3. The per share information was calculated on the base of the number of shares at the end of each reporting year.

(2) Extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (“PRC ASBE”)

2.1 Principal financial information

Unit: RMB'000

	For the year ended 31 December 2018	For the year ended 31 December 2017		Increase/ (Decrease) (%)	For the year ended 31 December 2016
		After adjusted	Before adjusted		
Operating income	58,409,078	48,593,948	48,485,788	20.2	42,923,500
Operating profit (“-” for losses)	852,278	-10,202,891	-10,196,367	Not Applicable	-16,080,264
Profit before income tax (“-” for losses)	515,637	-10,350,586	-10,344,082	Not Applicable	-15,803,702
Net profit attributable to equity shareholders of the Company (“-” for losses)	142,056	-10,589,524	-10,582,541	Not Applicable	-16,114,763
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company (“-” for losses)	37,951	-10,399,296	-10,399,296	Not Applicable	-16,173,871
Net cash inflow from operating activities (“-” for outflow)	-2,939,789	404,761	419,456	Not Applicable	-3,907,318
	As at 31 December 2018	As at 31 December 2017		Year-on-year change (%)	As at 31 December 2016
		After adjusted	Before adjusted		
Total equity attributable to equity shareholders of the Company	5,778,410	-2,099,946	-2,102,628	Not Applicable	8,442,868
Total assets	60,904,715	62,089,315	61,942,629	-1.9	74,493,166

2.2 Principal financial indicators

	For the year ended 31 December 2018	For the year ended 31 December 2017		Year-on-year change (%)	For the year ended 31 December 2016
		After adjusted	Before adjusted		
Basic earnings per share (RMB) (“-” for losses)	0.008	-0.749	-0.748	Not Applicable	-1.139
Diluted earnings per share (RMB) (“-” for losses)	0.008	-0.749	-0.748	Not Applicable	-1.139
Basic earnings per share deducted extraordinary gain and loss (RMB) (“-” for losses)	0.002	-0.735	-0.735	Not Applicable	-1.144
Weighted average return on net assets (%)	2.86	-335.35	-335.78	Increased by 338.21 percentage points	-97.19
Weighted average return on net assets deducted extraordinary gain and loss (%)	0.76	-329.32	-329.97	Increased by 330.08 percentage points	-97.55

2.3 Extraordinary gain and loss items and amounts

Unit: RMB'000

Extraordinary gain and loss item	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Disposal of non-current assets	278	-172,607	-68,312
Government grants recognised in profit or loss during the year	472,569	150,674	74,863
Gain and loss from debt restructuring	395,261	14,481	-
Net profit or loss from the beginning to the merger date of the subsidiary of the business combination under common control	-2,385	-6,983	-
Profits and losses arising from matters unrelated to the normal business of the Company	-475,276	-	-
Gain and loss from external entrusted loans	-	67	27,555
Other non-operating income and expenses excluding the aforesaid items	-257,894	-162,195	25,703
Tax effect	-28,448	-13,665	-701
Total	104,105	-190,228	59,108

(3) Differences between the financial statements prepared in accordance with PRC ASBE and IFRS

Unit: RMB'000

	Net profit attributable to owners of the Company ("-" for losses)		Total equity attributable to owners of the Company	
	For the year ended 31 December 2018	For the year ended 31 December 2017 (Restated)	As at 31 December 2018	As at 31 December 2017 (Restated)
PRC ASBE	142,056	-10,589,524	5,778,410	-2,099,946
IFRS	240,188	-10,563,115	5,778,410	-2,099,946

Please refer to the section 7.4 of the Financial Report in this announcement for explanations of the related differences.

3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(1) Changes in the Company's 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	-	-	-	-	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	-	-	-	-	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

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, 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 or its designated related party (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 non-public issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. After completion 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.

(2)Information on shareholders

2.1 Number of shareholders

As at 31 December 2018, the number of shareholders of the Company was 136,301, including 135,960 holders of A shares and 341 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules of the HKSE.

As at 28 February 2019, the number of shareholders of the Company was 131,776, including 131,432 holders of A shares and 344 registered holders of H shares.

2.2 The shareholdings of the top ten shareholders of the Company

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Number of shares held increased/decreased ¹ by (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation ²	State-owned legal person	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	3,315,275,482	5,402,110,978	28.46	2,595,786,987	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
Darry Asset Management (Hangzhou) Co., Ltd.	Others	0	133,333,333	0.70	0	133,333,300
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.35	0	0
Donghai Fund-Xingye Bank-Huaxin Trust-Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.35	0	0
Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund ⁴	Others	23,148,854	23,148,854	0.12	23,148,854	0
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust 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
Cai Xilian	Domestic natural person	6,680,000	6,680,000	0.04	0	0
Shareholdings of top ten shareholders of shares without selling restrictions						
Name of shareholders			Number of shares without selling restrictions held at the end of the reporting period (shares)		Types of shares	
China Petrochemical Corporation			9,224,327,662		A Share	
HKSCC (Nominees) Limited			2,806,323,991		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-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.	13,333,300	A Share
Shenzhen Yongtai Investment Co., Ltd.	10,000,000	A Share
Cai Xilian	6,680,000	A Share
Hu Xucang	6,200,189	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan” and “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan” belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.	

Note1: As compared with the number of shares held as of 31 December 2017.

Note2: 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.

Note3: “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.

Note4: Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

(3) The interest or short position held by the substantial shareholders and other persons in the Company’s shares or underlying shares

As at 31 December 2018, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company’s shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”).

Name of shareholder	Number of share held (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
China Petrochemical Corporation	10,727,896,364 (A Shares)	56.51	79.06	Not Applicable	-
	2,595,786,987 (H Shares) ¹	13.67	Not Applicable	47.94	-
CITIC Limited	1,035,000,000	7.32	8.59	Not Applicable	-

Note1: 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 and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2018, no other person had an interest or short position in the Company’s shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) of the Company.

(4)The controlling shareholder

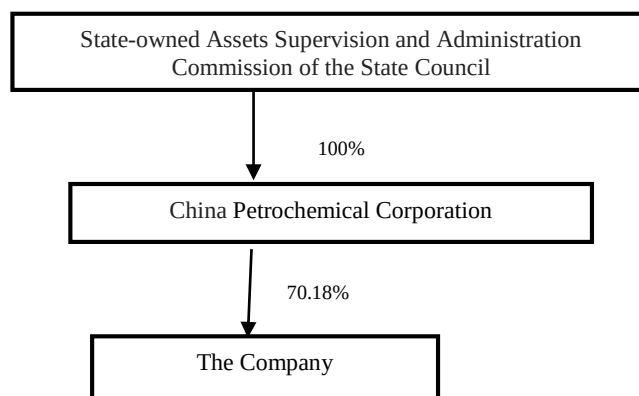
Name of the controlling shareholder: China Petrochemical Corporation, holding 70.18% of the Company's shares
Legal representative: Dai Houliang
Date of establishment: 14 September 1983
Registered capital: RMB 274.867 billion
Principal activities: Upon the reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

During the reporting period, the controlling shareholder of the Company did not change.

(5) The actual controller

The actual controller is still China Petrochemical Corporation.

(6) The block diagram of the property and control relationship between the Company and the ultimate controller



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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Information on interests in share and remuneration of directors, supervisors and senior management

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB)(before taxation)	Whether get payment from related party of the Company
Liu Zhongyun	Chairman	Male	56	24 December 2018	7 February 2021	0	0	No Change	—	Yes
Sun Qingde	Vice Chairman General Manager	Male	57	6 June 2016 11 March 2016	7 February 2021	0	0	No Change	678,600	No
Chen Xikun	Director, Deputy General Manager	Male	54	8 February 2018	7 February 2021	0	0	No Change	640,500	No
Lu Baoping	Director	Male	57	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Fan Zhonghai	Director	Male	53	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Wei Ran	Director	Male	51	20 June 2018	7 February 2021	0	0	No Change	—	No
Jiang Bo	Independent Non-Executive Director	Female	63	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Pan Ying	Independent Non-Executive Director	Male	49	16 December 2015	7 February 2021	0	0	No Change	200,000	No
Chen Weidong	Independent Non-Executive Director	Male	63	20 June 2018	7 February 2021	0	0	No Change	100,000	No
Dong Xiucheng	Independent Non-Executive Director	Male	57	20 June 2018	7 February 2021	0	0	No Change	100,000	No
Li Wei	Chairman of the Supervisory Board	Male	41	27 June 2017	7 February 2021	0	0	No Change	540,550	No
Zou Huiping	Supervisor	Male	58	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Du Jiangbo	Supervisor	Male	54	16 June 2015	7 February 2021	0	0	No Change	—	Yes

Zhang Qin	Supervisor	Female	56	9 February 2015	7 February 2021	0	0	No Change	—	Yes
Zhang Jianbo	Supervisor	Male	56	8 February 2018	7 February 2021	0	0	No Change	—	Yes
Zhang Hongshan	Supervisor	Male	58	23 February 2017	7 February 2021	0	0	No Change	734,300	No
Zhang Yongjie	Deputy General Manager	Male	55	9 February 2015	7 February 2021	0	0	No Change	685,700	No
Zuo Yaojiu	Deputy General Manager	Male	56	27 June 2017	7 February 2021	0	0	No Change	621,850	No
Zhang Jinhong	Deputy General Manager	Male	56	28 April 2015	7 February 2021	0	0	No Change	573,100	No
Li Tian	Chief Financial Manager	Male	44	29 August 2017	7 February 2021	0	0	No Change	571,833	No
Li Honghai	Secretary to the board	Male	55	9 February 2015	7 February 2021	0	0	No Change	429,360	No
Jiao Fangzheng	Former Chairman	Male	56	9 February 2015	7 June 2018	0	0	No Change	—	Yes
Ye Guohua	Former Director	Male	50	8 February 2018	23 August 2018	0	0	No Change	—	Yes
Zhang Huaqiao	Former Independent Non-Executive Director	Male	55	9 February 2015	20 June 2018	0	0	No Change	100,000	No
Huang Songwei	Former Supervisor	Male	54	27 June 2017	11 December 2018	0	0	No Change	551,050	No
Zhou Shiliang	Former Director Former Deputy General Manager	Male	61	9 February 2015	8 February 2018	0	0	No Change	55,425	No
Li Lianwu	Former Director	Male	61	9 February 2015	8 February 2018	0	0	No Change	—	Yes

Note:

1. Mr. Sun Qingde, Mr. Chen Xikun, Mr. Li Wei, Mr. Zhang Hongshan, Mr. Zhang Yongjie, Mr. Zuo Yaojiu, Mr. Zhang Jinhong, Mr. Li Tian, Mr. Li Honghai and Mr. Huang Songwei all received 12 months of salary in 2018. Mr. Zhou Shiliang left the position of director and deputy general manager on 8 February 2018. In 2018, Mr. Zhou Shiliang received one month of salary.

2. Ms. Jiang Bo, and Mr. Pan Ying received twelve months of directors' fee in 2018. Mr. Chen Weidong and Mr. Dong Xiucheng started their positions on 20 June 2018 and received six months of directors' fee in 2018. Mr. Zhang Huaqiao resigned the position of independent non-executive director on 20 June 2018. In 2018, he received six months of director's fee.

(2) Information on share option scheme provided to directors, supervisors and senior management during the reporting period

Unit: shares

Name	Position	Number	Number	Exercisable	Share	Exercise price	Number of	Stock price
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		of share options held at the beginning of 2018	of share options newly granted during the reporting period	e share options during the reporting period	options exercised during the reporting period	of share options (yuan/share)	share options by the end of reporting period	at the end of reporting period(yuan/share)
Sun Qingde	Vice Chairman , General Manager	210,000	0	0	-63,000	5.63	147,000	1.83
Lu Baoping	Director	190,000	0	0	-190,000	5.63	0	1.83
Zhang Yongjie	Deputy Manager	190,000	0	0	-57,000	5.63	133,000	1.83
Liu Rushan	Deputy Party Secretary	190,000	0	0	-57,000	5.63	133,000	1.83
Zuo Yaojiu	Deputy Manager	180,000	0	0	-54,000	5.63	126,000	1.83
Zhang Jinhong	Deputy Manager	180,000	0	0	-54,000	5.63	126,000	1.83
Li Honghai	Secretary to the Board	140,000	0	0	-42,000	5.63	98,000	1.83
Zhou Shiliang	Former Director, Former Deputy Manager	210,000	0	0	-210,000	5.63	0	1.83
Wang Hongchen	Former Chief Financial Manager	180,000	0	0	-180,000	5.63	0	1.83
Huang Songwei	Former Supervisor	180,000	0	0	-180,000	5.63	0	1.83
Total	/	1,850,000	0	0	-1,087,000	/	763,000	/

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by certain directors, supervisors, senior management and other core management personnel of the Group. The number of subscribers shall not exceed 198, and the subscription amount is RMB 60.65 million in total. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018, and the first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

In Qi Xin Gong Ying Scheme, the company's directors, supervisors and senior executives subscribed for a total of 3.55 million, accounting for approximately 5.9% of the total share of the scheme. The total number of directors, supervisors and senior management personnel of the Company who subscribed for the win-win plan was 10 persons. For details of the participation of the directors, supervisors and senior management personnel of the Company in the concerted efforts, see the following table.

Name	Position	Subscription	Subscription	Subscription	Subscription of A
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		amount under Qi Xin Gong Ying Scheme (RMB thousand)	scheme shares under Qi Xin Gong Ying Scheme ('000 shares)	Price (RMB/A Share)	share (share)
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	Supervisory board chairman	350,000	350,000	2.62	133,587
Zhang Hongshan	Supervisor	350,000	350,000	2.62	133,587
Zhang Yongwei	Deputy Manager	350,000	350,000	2.62	133,587
Zuo Yaojiu	Deputy Manager	350,000	350,000	2.62	133,587
Zhang Jinhong	Deputy Manager	350,000	350,000	2.62	133,587
Li Tian	Chief Financial Manager	350,000	350,000	2.62	133,587
Li Honghai	Secretary to the Board	300,000	300,000	2.62	114,503
Huang Songwei	Former Supervisor	350,000	350,000	2.62	133,587
Total	/	3,550,000	3,550,000	-	1,354,954

(4) Changes in Directors, Supervisors and Senior Management

Name	Position	Change	Reasons for change
Liu Zhongyun	Chairman	Elected	Elected by the Shareholders' Meetings; Appointed by the Board of Directors
Chen Xikun	Director; Deputy General Manager	Elected; Appointed	Elected by the Shareholders' Meetings; Appointed by the Board of Directors
Lu Baoping	Director	Elected	Elected by the Shareholders' Meetings
Fan Zhonghai	Director	Elected	Elected by the Shareholders' Meetings
Wei Ran	Director	Elected	Elected by the Shareholders' Meetings
Chen Weidong	Independent Non-Executive Director	Elected	Elected by the Shareholders' Meetings
Dong Xiucheng	Independent Non-Executive Director	Elected	Elected by the Shareholders' Meetings
Zhang Jianbo	Supervisor	Elected	Elected by the Shareholders' Meetings
Jiao Fangzheng	Chairman	Resigned	Change of work
Zhou Shiliang	Director; Deputy General Manager	Resigned	Expiration of term of office and arrival of statutory retirement age
Li Lianwu	Director	Resigned	Expiration of term of office and arrival of statutory retirement age
Zhang Huaqiao	Independent Non-Executive Director	Resigned	Personal reason
Ye Guohua	Director	Resigned	Change of work
Huang Songwei	Supervisor	Resigned	Change of work

After the election of the Company's first extraordinary general meeting of shareholders on 8 February 2018, Mr. Chen Xikun, Mr. Ye Guohua, Mr. Lu Baoping and Mr Fan Zhonghai were appointed as the directors of the 9th session of the Board of Directors. Mr. Jiao Fangzheng, Mr Sun Deqing, Ms. Jiang Bo,

Mr Pan Ying and Mr. Zhang Huaqiao were re-appointed as the director of the 9th session of the Board of Directors. Mr. Zhang Jianbo was appointed as the supervisor of the 9th session of the Supervisory Committee; Mr. Zheng Huiping, Mr. Du Jiangbo and Ms. Zhang Qin were re-appointed as the supervisors of the 9th Supervisory Committee; After the election workers representatives meeting on 1 February 2018, Mr. Li Wei, Mr. Zhang Hongshan and Mr. Huang Songwei were appointed as employee representative supervisors of the 9th session of the Supervisory Committee.

The directors of the Company, Mr. Zhou Shiliang and Mr. Li Lianwu, ceased to serve as directors of the Company since 8 February 2018 due to the expiration of their term of office and reaching the statutory retirement age. Mr. Jiao Fangzheng, the Chairman of the Board, tendered his resignation as Chairman, Non-executive Director of the Company and Chairman of the Strategy Committee of the Board of Directors due to change in his work positions since 7 June 2018. Mr. Zhang Huaqiao, the independent non-executive director of the Company, has been working as a director or independent non-executive director in a number of overseas and domestic listed companies. He has been busy since 20 June 2018 and has ceased to serve as the independent director of the ninth session of the board of directors of the Company. Mr. Ye Guohua, the director of the Company, has ceased to serve as a director of the Company and a member of the Audit Committee since 23 August 2018 due to change in his work positions. Mr. Huang Songwei, employee representative supervisor of the Company, has ceased to serve as a supervisor of the Company since 11 December 2018 due to change in his work positions.

The company expresses its sincere gratitude to Mr Jiao Fangzheng, Mr. Zhou Shiliang, Mr. Li Lianwu, Mr. Ye Guohua, Mr. Zhang Huaqiao and Mr. Huang Songwei for their hard work and their important contributions.

After the election of the Company's general meeting of shareholders in 2017 on 20 June 2018, Mr. Wei Ran, Mr. Chen Weidong and Mr Dong Xiucheng were appointed as the directors of the 9th session of the Board of Directors. Mr. Chen Weidong and Mr. Dong Xiucheng were elected as independent non-executive directors of the Company.

After the election of the Company's second extraordinary general meeting of shareholders in 2018 on 24 December 2018, Mr. Liu Zhongyun, was appointed as the non-executive director of the 9th session of the Board of Directors. And after the election of the ninth meeting of the 9th session of the Board of Directors held on 24 December 2018, Mr. Liu Zhongyun was elected as the Chairman of the Board and the Director of the Strategy Committee.

(5) Directors', Supervisors' and Senior Management's rights to acquire shares and debentures and short position

As at 31 December 2018, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Listing Rules.

5 REPORT OF THE BOARD

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

(1) Discussion and analysis of operation during the reporting period

1.1 Market Review

In 2018, the world economy maintained moderate growth. Chinese economy continued to grow steadily, and its gross domestic product (GDP) grew by 6.6% year-on-year. Domestic oil and gas consumption continued to grow rapidly, and the international oil prices showed recovery amid volatile markets. The annual average Europe Brent Spot Price was 71.3 dollars per barrel, representing a year-on-year increase of 31.8%. The rise in international crude oil prices encouraged domestic and foreign oil companies to increase capital expenditure for upstream exploration and development. For example, in 2018, Sinopec Group, the Company's largest customer, spent RMB42.2 billion on upstream exploration and development, a year-on-year increase of 34.8%. As a result, the operating environment of the oilfield service industry has further improved, the oilfield service workload has increased significantly year-on-year, and the oilfield service market has continued to recover.

1.2 Operations Review

In 2018, the Company's consolidated revenue was RMB 58,409,078,000, representing a year-on-year increase of 20.2%, and net profit attributable to shareholders of the Company amounted to RMB142,056,000, representing a significant year-on-year increase of RMB10,731,580,000. In 2018, the Company seized the favourable opportunity when oil companies increased investment in upstream exploration and development, strengthened market analysis and judgment, continued to increase incentives, and fully explored the market. The total amount of the newly signed contracts totalled RMB62.77 billion, representing a year-on-year increase of 18.0%. The Company organized the production and operation in a scientific way according to features of the oil service industry. The completed contract amount was RMB58.42 billion, representing a year-on-year increase of 29.2%, and the workload in the main profession increased significantly year-on-year. The Company deepened internal reforms, continued to promote streamlining the organization structuring, accelerated the professional development of auxiliary businesses, and strengthened cost control by tapping potential and increasing efficiency. In doing so, the Company saw its economic benefits gradually improved, achieved a gross profit margin of 8.2% for the main business, an increase of 14.2 percentage points year-on-year, and the net profit attributable to shareholders of the Company turned around in the year.

1.2.1 Geophysical service

In 2018, the Company's operation revenue from the principal business of geophysical service was RMB5,131,649,000, an increase of 28.9% than the same period of the previous year, for which the figure was RMB3,980,069,000. The completed 2D seismic accumulated for 30,279 kilometers in the year, an increase of 36.7% than the previous year; while the 3D seismic accumulated for 13,441 square kilometers, a decrease of 1.8% than the previous year. The Company improved the quality of seismic data continuously, with 2D and 3D records reaching quality rate of 100%. The Company's single-point high-density seismic acquisition technology has been promoted and applied in mature oil fields in Eastern oilfield, showing a good market prospect. The Company fully explored the domestic external markets and international markets, gradually expanded the market scale of the China Geological Survey, and continued to maintain its position as the largest international geophysical contractor in Algeria.

1.2.2 Drilling service

In 2018, the Company's operation revenue from the principal business of drilling service was RMB29,883,120,000, an increase of 20.9% than the same period of the previous year, for which the figure was RMB24,718,771,000. Its completed drilling footage reached 8,690 kilometers, representing a year-on-year increase of 18.1%. The Company provided high-quality and effective services for the exploration and development of Sinopec Group and fully supported the capacity building at Fuling Shale Gas Phase II, Shunbei ultra-deep oil and gas field, tight gas fields in North China, middle and shallow strata of the western Sichuan Basin, Puguang gas field, Weirong shale gas field and mature oil fields in Eastern oilfield, and the Phase I of the Wen-23 Gas Storage entered the final stage. The shale gas supporting technology helped expand the markets of CNPC, CNOOC, China Geological Survey, and Guizhou shale gas, etc., having 49 drilling rigs in the Chinese oil shale gas market. The construction of 14 offshore drilling platforms commenced. The Company remained as the largest onshore drilling contractor of Saudi Aramco, KOC and Ecuatoriana Estatal Petrolera Corporation.

1.2.3 Logging/ mud logging service

In 2018, the Company's operation revenue from the principal business of logging/mud logging service was RMB 2,006,180,000, an increase of 10.8% than the same period of the previous year, for which the figure was RMB1,810,868,000. Its completed logging projects have accumulated for 243,090,000 standard meters, an increase of 17.5% than the previous year. Its completed mud logging projects have accumulated for 7,470 kilometers, an increase of 12.2% than the previous year. In 2018, the Company steadily improved its service capacity and market competitiveness in logging/mud logging service, providing high-quality and effective guarantee for the Sinopec Group's capacity building of Weirong shale gas field, the production increase task of oil and gas fields in Northwest China and Sichuan and witnessing the scale of domestic and foreign markets, including CNPC's southwest shale gas, China Geological Survey, and local coal bed methane, expanding significantly.

1.2.4 Downhole operation service

In 2018, the Company's operation revenue from the principal business of downhole operation was RMB 5,644,308,000, an increase of 34.7% than the same period of the previous year, for which the figure was RMB4,189,002,000. It completed downhole operation for 5,954 wells, an increase of 15.7% than the previous year. In 2018, the Company firmly grasped the favourable opportunity presented by the market recovery for its downhole operation business, to ensure the Sinopec Group's focus of the oil and gas exploration and development in "North China, Northwest China, Sichuan and Chongqing", continued to promote the increase in reserves and production of shale gas in the Sichuan and Chongqing area, Ordos dense oil and gas, and Shunbei super deep oil and gas reserves, etc., and strived to push forward the stabilization and increase in production of offshore oil and gas fields, marginal reserves in eastern old oil fields and acidic gas field. The Company cooperated with Sinopec Group to develop marginal reserves and achieved remarkable results, and contracted 12 hard-to-recover marginal blocks with the cumulative increase in crude oil production of about 30,000 tons throughout the year. The Company continued to expand the domestic external market and international markets with superior technology and equipment, constantly strengthened the support capabilities of its professional teams in coiled tubing and high-pressure operations and other services, and continuously improved the high-end business service capabilities.

1.2.5 Engineering and construction service

In 2018, the Company's operation revenue from the principal business of engineering and construction service was RMB13,132,857,000, an increase of 10.8% than the same period of the previous year, for which the figure was RMB11,581,717,000. In 2018, the cumulative value of newly signed contracts was RMB18.07 billion, a decrease of 3.5% than the same period of the previous year and the completed contracts valued RMB14.50 billion, an increase of 21.9% than the same period of the previous year. The

Company fully promoted the construction of key projects such as the gas pipeline project from Qianjiang to Shaoguan and the first phase of Ordos-Anping-Cangzhou Gas Pipeline Project Phase I, a national key project, has been officially put into operation. The Company vigorously developed markets and won bids for 6 tenders of the 7 phases of the Rizhao-Puyang-Luoyang Crude Oil Pipeline Project, with a contract value of RMB450 million. The Company also actively expanded new markets and new fields and successively won the bids for the Gulei Refining and Chemical and Guizhou Coal Chemical projects with a total contract value of RMB1.35 billion in addition to 4 bids for offshore wind power projects. The Company also actively expanded the local gas pipeline and municipal road and bridge markets, with the total amount of newly signed contracts for gas pipelines of RMB1.79 billion in the year.

1.2.6 International business

In 2018, the Company's operation revenue from the principal business of international business service was RMB13,111,312,000, an increase of 1.4% than the same period of the previous year, for which the figure was RMB 12,936,519,000. The revenue contributed by the international business accounted for 22.9% of the whole revenue, with a year-on-year decrease of 4.3 percentage points. The Company has been firmly committed to its internationalization strategy and established 5 large-scale markets in the Middle East, Africa, America, Central Asia, and the Southeast Asia over many years of development. In 2018, the value of newly signed contracts in overseas markets was US\$2.21 billion, representing a year-on-year increase of 16.3% and the completed contract value was US\$1.88 billion, representing a year-on-year decrease of 6.7%. The Company continued to expand the Middle East market and renewed a five-year contract on four drilling rigs services with Saudi Arabian Oil Company with a contract value of US\$270 million. In addition, SSC signed a five-year contract with one-year extension option on 20 drilling rigs services with Kuwait Oil Company (KOC) with a contract value of US\$ 1.06 billion. In the Mexican market, the Company successfully completed the contract transformation of the EBANO oilfield comprehensive service project, and made breakthroughs in the development of new markets such as Chad and Ukraine.

1.2.7 Research and development

In 2018, the Company implemented in-depth innovation-driven strategies, continuously strengthened its technological research, and improved its exploration and production capabilities. It has applied for 562 patents at home and abroad and was granted 465 patents. "A multi-directional drilling and workover Jack-up platform" won the 2018 National Outstanding Patent Award. In 2018, the Company used science and technology to improve the quality, service speed, efficiency and production of the oil service business, integrated a series of engineering technologies such as supportive shale oil and gas exploration, ultra-deep wells, tight oil and gas development, and optimized the plan design and construction process, improving the main technical indicators. Shunbei Peng No.1 well has a drilling depth of 8,455 meters, Shunbei No.5-5H well has a drilling depth of 8,520 meters, and Shunbeiyong No.1 well has a drilling depth of 8,588 meters, continuously breaking the records for the deepest onshore well drilled in Asia, and marking that the Company has mastered the world-class advanced ultra-deep well drilling technology. The single-point high-density and high-precision seismic exploration technology has been industrialized in the Eastern China, Sichuan, and Zhunzhong areas, and the first domestic self-scanning high-efficiency acquisition research has been successful. By applying technologies such as "low temperature multi-effect evaporation", the Company has built the first water resources utilization and treatment station for high-sulfur gas field mining in China. The Company has successfully completed the domestic ERP project, effectively improving the level of Group management and control.

1.2.8 Internal reform and management

In 2018, the Company continued to deepen internal reforms, and its various reform measures achieved good results. The Company continued to streamline its business, and its organizational structure has become more sophisticated, reducing 5 departments of the Company and reducing 4 professional business

units. The Company continued to promote the professional development of auxiliary business, comprehensively promoted the contracting operation of auxiliary business, and strived to reduce the losses on auxiliary business, making the main business better and bigger. The Company optimized the allocation of internal equipment and resources, improved the sharing mechanism, stepped up efforts in equipment coordination and adjustment and improved the efficiency of generating revenue from assets. The Company vigorously tapped potential and increased efficiency, and reduced a total cost of RMB3.2 billion for the whole year. The Company actively promoted the extension of the industry chain, and the business structure adjustment achieved initial results. In terms of the upward extension of the industry chain, the Company completed the contract transformation of the EBANO comprehensive project in Mexico and continued to promote the cooperation with Sinopec Group to develop hard-to-recover reserves. In terms of the downward extension of the industry chain, the Company has sold the skid-mounted automated measurement system for drilling fluid parameters to the CNOOC market. The Company accelerated the development of technical services and emerging businesses. Sinopec Zhongyuan Petroleum Engineering Corporation, a wholly-owned subsidiary of the Company, obtained the qualification of global logging project contractor of Total, and realized the healthy development of special businesses such as energy conservation and environmental protection, tractor logging and coiled tubing.

1.2.9 Capital expenditure

In 2018, the Company actually had a capital expenditure of RMB1.52 billion. In 2018, the Company insisted on optimizing investment, making good use of incremental assets, and revitalizing inventory assets. It spent funds on strictly selected investment targets. The investment is mainly made for the transformation of 9 drilling rigs and workover rigs in the international market, electric transformation of 7 drilling rigs, the purchase of 8 sets of network power devices for drilling rigs, 11 sets of top-drive guiding devices and 1 set of rotary guiding device, the update and reconstruction of the No. 3 platform and the discovery of some equipment and facilities of No. 2 geophysical ship, and the ERP information system construction and other investment projects.

1.3. Financial analysis (Prepared in accordance with IFRS)

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

1.3.1 Assets, liabilities and equity analysis

Total assets were RMB 60,904,715,000, representing a decrease of RMB 1,184,600,000 from that at the end of 2017, of which: Current assets were RMB 32,042,484,000, representing an increase of RMB 137,063,000 from that at the end of 2017. The increase was mainly due to comprehensive impact of the reclassification of the items in consolidated statement of financial position in the implementation of the new accounting standards in 2018, resulting in an increase in contract assets of RMB 9,066,019,000, and a decrease of RMB 6,624,302,000 in amounts due from customers for contract works, and a decrease of RMB 2,080,157,000 in notes and trade receivables. Non-current assets were RMB 28,862,231,000, representing a decrease of RMB 1,321,663,000 from that at the end of 2017, which was mainly due to a decrease of RMB 1,692,078,000 in property, plant and equipment and an increase of RMB 588,709,000 in other non-current assets.

Total liabilities were RMB 55,126,305,000, representing a decrease of RMB 9,064,328,000 from that at the end of 2017, of which: Current liabilities were RMB 52,990,402,000, a decrease of RMB 10,531,177,000 as compared with the end of 2017, which was mainly due to comprehensive impact of a decrease of RMB 2,486,513,000 in notes and trade payables, the implementation of the new accounting standards for the reclassification of items in consolidated statement of financial position resulted in an increase amount of RMB 4,390,293,000 in contract liabilities and a decrease of RMB 6,788,227,000 of amounts due to customer for contract works. Non-current liabilities were RMB 2,135,903,000, an increase of RMB 1,466,849,000

compared with the end of 2017, which was mainly due to an increase of RMB 869,046,000 in long-term borrowings and an increase of RMB 595,742,000 in provisions.

Total equity attributable to owners of the Company was RMB 5,778,410,000, an increase of RMB 7,878,356,000 as compared with the end of 2017, mainly due to the completion of the non-public placement of A shares and H shares in January 2018, the corresponding increase in share capital and reserves totalled RMB 7,637,715,000, and the profit attributable to equity holders of the Company in 2018 was RMB 240,188,000.

As at 31 December 2018, the ratio of total liabilities to total assets was 90.5%, and 103.4% as at 31 December 2017.

1.3.2 Cash flow analysis

During the year ended 31 December 2018, the Group's net cash outflow from operating activities was RMB 2,939,789,000, representing an increase of cash outflow by RMB 3,344,550,000 as compared with last year. This was mainly due to increase in cash outflow to settle bills and trade payables in 2018 by RMB 2,293,211,000 as compared with last year.

During the year ended 31 December 2018, the Group's net cash outflow from investing activities was RMB 1,174,471,000, an increase of cash outflow by RMB 162,527,000 as compared with last year. It was mainly due to the increase in cash outflows of RMB 98,033,000 for additions of property, plant and equipment in 2018.

During the year ended 31 December 2018, the Group's net cash inflow from financing activities was RMB 3,618,785,000, presenting an increase of cash inflow by RMB 2,870,751,000 compared with last year. It was mainly due to the completion of the non-public placement of A shares and H shares in January 2018 and the company received net proceeds of RMB 7,637,715,000.

1.3.3 Affiliated company borrowings

As at 31 December 2018, the Company's affiliated borrowings were RMB 18,142,373,000 (31 December 2017: RMB17,966,656,000). These borrowings included the short-term borrowings in RMB17,606,082,000, and the long-term borrowings due more than one year of RMB536,291,000; the fixed-rate loans were RMB14,600,000,000 and the floating rate loans were RMB 3,542,373,000. As at 31 December 2018, the balance of RMB borrowings accounted for approximately 80.5% and the balance of US dollar borrowings accounted for 19.5%.

1.3.4 Assets pledge

For the year ended 31 December 2018, there was no pledge on the Group's assets.

1.3.5 Gearing ratio

As at 31 December 2018, the gearing ratio of the Group was 74.6% (2017: 115.7%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

1.4 Statement of the operations by industries (in accordance with PRC ASBE)

Industries	Operating income for 2018 RMB'000	Operating cost for 2018 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	5,131,649	4,737,771	7.7	28.9	26.2	Increased by 2.1 Percentage points
Drilling	29,883,121	27,302,161	8.6	20.9	3.0	Increased by 15.8 Percentage points

Logging/Mud logging	2,006,180	1,967,854	1.9	10.8	-4.7	Increased by 15.9 Percentage points
Downhole Operation	5,644,308	5,103,037	9.6	34.7	12.9	Increased by 17.5 Percentage points
Engineering and construction	13,132,857	11,959,947	8.9	10.8	-4.3	Increased by 14.4 Percentage points
Other	1,499,026	1,545,115	-3.1	30.8	29.8	Increased by 0.8 Percentage points
Total	57,297,141	52,615,885	8.2	20.1	4.1	Increased by 14.2 Percentage points

1.5 Operating income by regions (in accordance with PRC ASBE)

Region	Operating income for 2018 RMB'000	Operating cost for 2018 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Mainland China	44,185,829	41,177,951	6.8	27.4	5.9	Increased by 17.5 Percentage points
Hong Kong, Macau, Taiwan, and overseas	13,111,312	11,437,934	12.8	1.4	-5.3	Increased by 6.1 Percentage points

1.6 Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	RMB 11,574,866,000	Percent of total purchases	34.1%
Aggregate sales amounts to the top five largest customers	RMB 47,381,157,000	Percent of total sales	81.1%

(2) Prospects

2.1 Competitive Industry Structure and Development Trend

Looking forward to 2019, the world economy will continue to maintain moderate growth, and China's economy will continue to develop steadily. International oil prices will continue to fluctuate in a wide range. The total capital expenditure of global oil and gas exploration and development will continue to grow. Especially driven by the national strategy of energy security, the three major oil companies in China are expected to continue to increase investment in upstream exploration and development. At the same time, with the rapid growth of China's natural gas demand and the vigorous promotion of the construction of natural gas production, supply and storage systems, investment into China's natural gas field will be further increased. As a result of the aforementioned conditions, the oilfield service industry will continue to recover and grow, and the operating environment will continue to improve.

2.2 Business Strategy

In 2019, the Company will seize the favourable opportunities brought by the continuously increasing demand of oilfield service market, and leverage its comprehensive oil and gas service capabilities and unique technological advantages to support the exploration and development of Sinopec Group and

expand external markets in order to achieve profit growth and improve efficiency. It plans to secure RMB61.7 billion worth newly-signed contracts for the year, in which RMB34.9 billion will be from Sinopec's internal market, RMB 11.8 billion from domestic external market, and RMB 15.0 billion from overseas market. The Company will continue to deepen reforms, optimize its organizational structure, team structure and business structure, and enhance its competitiveness. It will continue to promote the upward and downward extension of the industry chain, expand the cooperative development of hard-to-recover reserves and comprehensive reservoir services, accelerate the breakthrough in technologies such as drilling rotation guidance, high-temperature and high-pressure MWD, and high-end logging/mud logging instruments, so as to cultivate high-end products and develop emerging industries. It will pay close attention to cost control, vigorously tap potential and increase efficiency, continue to strengthen scientific and technological research, promote oilfield service business to speed up efficiency, enhance the ability to innovate and to improve efficiency, striving to achieve better business performance to lay a decisive foundation for the Company's overall sustainable development. The Company puts emphasis on the following aspects:

2.2.1 Geophysical service

In 2019, the Company will increase the introduction and promotion of some technologies such as single-point high-density seismic acquisition, vibroseis acquisition in large desert areas, high-precision seismic acquisition in shallow seas, and downhole optical fiber sensing, and give full scope to the advantages of technology in promoting the oil and gas exploration. Moreover, SSC will continue to efficiently serve Sinopec Group in its exploration tasks, comprehensively carry out oil exploration in Tarim Basin, Faulted basin in East China and Junggar Basin, and natural gas exploration in Sichuan Basin and Ordos Basin. In addition, SSC will continue to foster integrated service capabilities of acquisition, processing and interpretation, deepen strategic cooperation with key customers such as China Geological Survey and China Academy of Geological Sciences, so as to better manage foreign projects such as those in Algeria, Nigeria, Central Africa and Mexico, timely commence the Saudi S84 project and operate it efficiently. Furthermore, the Company plans to complete annual acquisition of 2D seismic data reaching 21,000 kilometers, which is a 30.6% decrease from 2018, and 3D seismic data of 17,310 square kilometer, which is a 28.8% increase from 2018.

2.2.2 Drilling Service

In 2019, the Company will closely focus on the development requirements of “maintaining stable production of crude oil and achieving rapid growth in natural gas” of Sinopec Group, strengthen service concepts, improve service quality and efficiency, consolidate and improve internal market share, and efficiently serve the construction projects of key production capacity in areas including Weirong, western Sichuan, Dongsheng and Haiyu and effectively promote the development of projects including Shunbei ultra-deep oil and gas fields, Southwest natural gas, and Ordos dense oil and gas. It will also pool superior resources to go all out to explore the Chinese oil market, and take the Xinjiang, Sichuan and Chongqing, and Northern Shaanxi markets of CNPC as key domestic external markets, to facilitate further development of the offshore oil drilling platforms and ship markets of CNOOC, and to further consolidate its position in traditional markets such as Yanchang Oilfield and China Geological Survey, continuously expanding the scope of market services with quality services. It will make further use of the advantages of the Company's technology integration, expand the domestic shale gas market, and explore a low-cost cooperation model for geothermal and coalbed methane markets. The Company plans to complete drilling footage of 9,200 kilometers in 2019, which is a 5.9% increase from the actual footage completed in 2018.

2.2.3 Logging/ Mud logging service

In 2019, the Company will continue to focus on exploration and development demands, and consolidate and expand its share in Sinopec Group's internal market while actively increasing income from external market. For Sinopec Group's internal market, the Company will ensure the implementation of key district projects including Shunbei and Sichuan. For external market, it will continue to optimize the layout, and

put emphasis on market expansion in Weiyuan, Ordos, Shaanxi Yanchang and Middle East markets of CNPC. It will continue to optimize the allocation of internal resources such as crews, equipment and staff as well as improve and strengthen its business in logging/mud logging service. The Company plans to complete logging footage of 235,700 kilometers in 2019, which is a 3.0% decrease from the actual footage completed in 2018, in addition to completing mud logging footage of 7,850 kilometers, which is a 5.1% increase from the actually completed footage in 2018.

2.2.4 Downhole operation service

In 2019, the Company will constantly refine the construction technology system of special downhole operation, continuously extend the industry chain upwards and downwards in efforts to enhance its support capability in exploration and development service, with a focus to ensure the exploration and development and the increase in reserves and production of the Fuling shale gas field in the Sichuan Basin and the Weirong shale gas field, Ordos dense oil and gas, Tarim super deep oil and gas reserves, and offshore oil and gas fields. Moreover, SSC will continue to promote the cooperation with Sinopec Group to develop the hard-to-recover reserves to further expand the scale. It will also refine and strengthen its high-end businesses in high pressure operation and intelligent coiled tubing; and continue to develop new businesses such as non-hydraulic fracturing and intelligent well completion. The Company will continue to expand the shale gas market of CNPC, and continue to expand the workover markets in the Middle East, Central Asia and other regions based on the Kuwaiti workover project, so as to improve its high-end business service capabilities, and increase its market share. In 2019, the Company plans to complete downhole operation service for 6,686 wells, which is a 12.3% increase from the actual completed number in 2018.

2.2.5 Engineering and construction service

In 2019, the Company will focus on enhancing project management, comprehensively control project risks and enhance the profitability of projects. It will make good preparation for the construction of some key projects, such as Qianjiang to Shaoguan gas transmission pipeline construction project, Wei-Rong shale gas project, Ordos-Anping-Cangzhou natural gas pipeline, and Rizhao-Puyang-Luoyang crude oil pipeline. The Company will also consolidate and increase the market share of Sinopec Group, actively participate in pipeline construction of Shunbei and Weirong, and continuously increase the market share of long-distance pipelines; set up pipeline emergency rescue teams, pay close attention to the national oil and gas pipeline market, and closely keep abreast of the key gas, water conservancy, municipal projects of central enterprises and local government. In the international market, the Company will strengthen key project development, focusing on Saudi Arabia, Kenya, Thailand and other advantageous markets, so as to continuously optimize the overseas market layout. Moreover, it will spare no effort to expand new businesses and new markets such as solid waste, hazardous waste disposal, and soil remediation. In 2019, the company plans to secure RMB15.0 billion worth of new contracts and complete RMB13.5 billion worth of contracts.

2.2.6 International business

In 2019, in terms of international business, the Company will focus on strengthening unified management, optimizing market layout, efficiently integrating resources, accelerating transformation and upgrading, and strictly preventing and controlling risks, striving to achieve sustainable and high-quality development. In efforts to make the drilling business better and bigger, the Company will enter into the clean energy fields such as natural gas wells in Saudi Arabia, develop deep wells drilling and repairing business in Kuwait, expand technical services business such as drilling fluids and directional wells in Ecuador and Algeria and actively explore markets in other countries like Ukraine and Iraq. The Company will focus on optimizing and centralizing the geophysical service business. It will integrate high-quality resources to develop regional markets in Africa, the Middle East, Latin America, and Central and South Asia, especially develop the Algerian market, and actively track markets such as the UAE, Oman, Nigeria, and Bangladesh. The Company will make progress in stability in the project construction business, through

focusing on tracking Saudi Arabia, Uganda, Kenya, Thailand and other markets. In addition, the Company will steadily expand its integrated reservoir services business and summarize and promote the experience of the EBANO project in Mexico. The overseas equity oil and increased oil production will reach 184,000 tons. In 2019, the Company plans to secure USD2.2 billion worth of new contracts and complete USD1.9 billion worth of contracts.

2.2.7 Technology development

In 2019, the Company will continue to innovate scientific research management system and operational mechanism, optimize top-level design, and integrate superior resources to improve the quality and efficiency of innovation. The Company will focus on the three tasks of exploring developing, and utilizing reserves, improving oil and gas production and recovery efficiency, conducting cost control and speed improvement, increase scientific research and technology promotion and application, and ensure quality services for major projects in Shunbei construction area, Sichuan and Chongqing construction area and the North Hubei construction area. Furthermore, the Company will continuously improve the seismic exploration technologies such as high-density, complex surface and vibroseis, make breakthroughs and optimize the key technologies such as deep shale gas, atmospheric shale gas and deep oil and gas reservoirs, improve key technologies such as tight oil and gas reservoirs, shallow sea oil and gas reservoirs, and old oil fields in the east, and increase the pilot test and promotion of mature processing technology, and strengthen the safe, rapid and effective construction capacity. Moreover, the Company will make efforts to extend industry chain and provide technical support for emerging business development, and foster new economic growth points. It will also promote the upgrade and transformation of equipment to be more automatic, information-based and intelligent to improve the operational efficiency.

2.2.8 Internal reform and management

In 2019, the Company will continue to deepen reforms and promote the sustainable and high-quality development of the Company. The Company will optimize the overall utilization of internal resources, promote financial, personnel, information sharing services, streamline the organizational structuring, and promote the reduction of business units and departments to reduce operating costs. The Company will deepen the professional development of auxiliary business, improve the contracting operation mechanism, and promote the market-oriented operation mechanism of auxiliary business. It will increase the performance appraisal, and make substantial breakthroughs in the reforms of the three systems of personnel, labor, and distribution to stimulate business vitality. It will also make joint efforts to reduce cost and fees and deepen the cost goal management of all staff by enhancing the cost control in all factors and the entire process. In 2019, the Company plans to reduce cost and fees of RMB600 million.

2.2.9 Capital expenditures

In 2019, the Company plans to arrange a capital expenditure of RMB2.5 billion, including RMB2.19 billion for non-installed equipment investment, RMB30 million for engineering projects, RMB30 million for computer information projects, RMB90 million for safety and environmental protection projects, and RMB160 million for general technical measures. The capital expenditure is mainly used for the rig's electrification, network automation, automatic transformation that can improve operational speed and efficiency, updating electric fracturing crowbars and fracturing trucks, purchasing high-precision and high-density geophysical equipment, upgrading the construction equipment in overseas markets, managing safety hazards, environmental protection projects, and strictly controlling non-production or non-main business projects, thereby enhancing the Company's technical service capabilities, developing core competitiveness, and vigorously improving the efficiency of investment.

(3) Profit distribution plan.

The net profit to equity shareholders of the Company was RMB 142,056,000 in accordance with the PRC ASBE (the net profit to equity shareholders of the Company was RMB240,188,000 in accordance with

the IFRS) for the year 2018 has been audited by Grant Thornton (Special General Partnership). At the end of 2018, the undistributed profit of the Patent Company was RMB -1,466,064,000. Due to the accumulated net profit in Parent Company was negative value at the end of 2018, the Board proposed not to distribute any dividend nor capitalize any reserve for the year 2018. The above proposed profit distribution scheme shall be submitted for approval at the 2018 Annual General Meeting.

6 SIGNIFICANT EVENTS

(1)Material litigation or arbitration or events commonly disputable by the media during this reporting period

China National Chemical Engineering No. 11 Construction Co., Ltd. (中國化學工程第十一建設有限公司) (the “Applicant”) entered into the “Works Contract for the Package C Construction of the Saudi Yanbu—Medina Phase III Pipeline Project (《沙特延布—麥迪那第三期管線項目C包施工工程合同》)” (the “Construction Works Contract”) with Sinopec International Petroleum Services Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company (the “International Services Corporation” or the “Respondent”) on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the “Package C Project” of the “Saudi Yanbu—Medina Phase III Pipeline Project”. On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the “Application for Arbitration” in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay 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 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 case is still under trial, it is currently impossible to determine its impact on the current or future profits of the Company. The Company will make active response and safeguard the legitimate rights and interests of the Company.

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

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

According to relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganization plan upon the court of Rio has approved that the Brazil Subsidiary enters into the legal reorganization procedure. Such legal reorganization is conditional upon the approval of the reorganization plan from the creditors’ meeting and the court of Rio.

For the purpose of obtaining approval from creditors' meeting and the court of Rio in Brazil, the Brazil Subsidiary's reorganization plan shall include fully settling the amount due to employees in respect of the Project, repaying a proportion of debts due to Three Suppliers, and paying legal fees, fees on judicial authorities and other service fees in relation to the implementation of the legal reorganization procedure. Such payments amount is estimated to be approximately RMB 370 million.

For details, please refer to the "Announcement regarding the Proposed Judicial Reorganization by an indirectly wholly-owned overseas Subsidiary" (P. 2018-056) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", www.sse.com.cn on 4 September 2018 and disclosed at www.hkexnews.hk on 3 September 2018.

(2) During this reporting period, there were no non-operational funds supplied by the Company to the controlling shareholders and its related parties.

(3) Material acquisition or disposals of assets, any merger and acquisitions activities during this reporting period.

On 28 December 2018, SOSC (a wholly-owned subsidiary of the Company) acquire the related assets, including the account receivables, other receivables, inventories, other current assets, properties and buildings, machinery and equipment, long-term amortized expenses and current liabilities of Nanjing Weinuo and 100% asset interests in Jiangsu Oilfield (Hereinafter referred to as "This Assets Acquisition"). Consideration for the Transaction will be determined according to the valuation amount calculated by the asset-based method, the Valuation Date is on 30 November 2018. According to the Valuation Report upon its filing, the total valuation amount of the assets above is RMB 82,411,600.

For details, please refer to the "Regarding the Acquisition of Nanjing Weinuo's related assets by Petroleum Engineering Co., Ltd. Connected Transaction Announcement (P. 2018-075)" disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times" and www.sse.com.cn disclosed on 29 December 2018, and "Connected Transaction - Acquisition of the Target Assets and the Jiangsu Oilfield Asset Interests" disclosed at www.hkexnews.hk on 28 December 2018.

As of the disclosure date of this report, the Company has completed the settlement of the relevant assets and the 100% equity of the Jiangsu Oilfield held by it.

(4) Information on connected transactions

The Company's significant connected transactions entered into during the year ended 31 December 2018 are as follows:

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

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipments	China Petrochemical Corporation and its subsidiaries	8,097,321	52.9
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	36,501,508	62.0
Receiving of community services	China Petrochemical Corporation and its subsidiaries	1,002,930	100.0

Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	325,003	100.0
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	271,345	93.8
Rental expenses	China Petrochemical Corporation and its subsidiaries	150,425	32.2
Loan interest expenses	China Petrochemical Corporation and its subsidiaries	582,557	87.9
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	35,585,650	100.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	35,608,897	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	81,630	100.0
Safety and insurance fund refund	China Petrochemical Corporation	171,495	100.0

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

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

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

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

Unit: RMB '000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	9,450,147	-1,720,597	7,729,550	13,662,161	-7,412,497	6,249,664
Sinopec Finance Company Limited	-	-	-	6,995,000	2,605,000	9,600,000
Sinopec Century Bright Capital Investment Limited	-	-	-	8,471,656	-4,929,283	3,542,373
Total	9,450,147	-1,720,597	7,729,550	29,128,817	-9,736,780	19,392,037
Causes of connected claims and debts	Normal production and operation					
Influence of connected claims and debts on the Company	No material adverse effect					

(5) During the reporting period, there were no trusteeship, sub-contracting and leasing of properties of other companies by the Company which would contribute profit to the Company of 10% or more of its total profits for the current period.

(6) Leasing of the company during the reporting period.

Unit:RMB

Les sor	Lessee	Leased Assets	The amount of money involved	Lease commence ment date	Lease termin ation date	Rental Income	The basis for determining the rental income The impact of leasing proc	The impact of leasing proceeds on the company	Is it a connec ted transac tion?	Connected relation
TS FL	Shengli Petroleum Engineering Company	machines and equipment used for drilling and downhole operations	RMB 1 billion	8 February 2018	8 February 2026	RMB -174 million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the company

(7) Guarantee of the company during the reporting period

Unit: RMB '000

External Guarantee of the Company (excluding Guarantees for Subsidiaries)	
Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries)	0
Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries)	0
The Guarantee of the Company and its Subsidiaries to the Subsidiaries	
Total Amount of Guarantees paid to Subsidiaries during the Reporting Period	1,587,210
Total Balance of Guarantees to Subsidiaries at the end	14,007,867

of the Reporting Period (B)	
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total guarantee (A+B)	14,007,867
Total Amount of Guarantees as a Percentage of the Company's Net Assets (%)	242.4
Among them:	
Amount of Guarantee provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantee Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	14,007,867
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	11,118,662
Sum of the three Guarantee above (C+D+E)	25,126,530
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the company are all provided by the guarantees for the performance of the performance guarantee letters issued by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the second extraordinary general meeting of the company in 2018.

(8) The appointment and dismissal of the accounting firm during the reporting period.

Whether or not change the accounting firm	No
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	4
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The audit period for the overseas accounting firm	4
The remuneration of the domestic and overseas accounting firm	RMB 9,800,000
The name of the internal control accounting firm	Grant Thornton (Special General Partnership)
The remuneration of the internal control accounting firm	RMB 2,000,000

Note: Grant Thornton Hong Kong Limited provided the Company tax services on Hong Kong profit tax declaration in 2018, and the compensation was HKD 10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2018. The Proposal has been approved by the Shareholders at the annual general meeting of 2017 on 20 June 2018.

On 25 March 2019, the Board of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor of the Company for the year 2019. The proposal shall be subject to the approval by the shareholders at the Company's 2018 annual general meeting.

(9) The special undertakings by the Company and its shareholders with holdings of more than 5% and the implementation of commitments for the year ended 31 December 2018:

Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
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Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
Undertakings regarding the Material Assets Reorganization	China Petrochemical Corporation	The Non-Competition Undertaking 1. China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights. 2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. Within 5 years of the Material Assets Reorganisation, China Petrochemical Corporation will find the appropriate opportunity to sell the Petroleum Service Business belonged "Exploration IV" drilling rig of Sinopec Star to the Company, after the China Petrochemical Corporation's comprehensive consideration of the related factors of National Law, Industry Norms and International Political Economy. 3. After the Material Assets Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment	Date of undertaking: 12 September, 2014 Duration: Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Undertakings regarding the Material Assets Reorganization	China Petrochemical Corporation	The undertakings of regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and its controlling Company's will sign the standard agreement of connected transactions, and will fulfil the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations,	Date of undertaking: 12 September, 2014 Duration: Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
		and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.		
Commitments regarding the Material Assets Reorganization	China Petrochemical Corporation	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1.China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independence of CSRC. China Chemical Corporation will not utilize, control or violate the Standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2.China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding company. 3. If China Petrochemical Corporation violate the above commitment, it would undertake the law and compensate the losses caused to the Company	Date of Commitment: 12 September, 2014 Duration: Long Term	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

(10) Company's share option incentive plan and its respective effect.

a. The grant date and quantity

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

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

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

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

The Proposed Grant covers 467 key business personnel holding core positions, and the total amount of share options granted to them was 47.20 million shares, accounting for 96.2% of the total amount of the share options in the Proposed Grant, and accounting for 0.3337% of the total shares of the Company. During the reporting period, none of the share options granted was exercised, and no share options were cancelled or lapsed.

d. Exercise price of the Proposed Grant

According to the determining principal of exercise price, the exercise price of the Proposed Grant is RMB 5.63 per share (If, during the Validity Period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares or any other events takes place, an adjustment to the number of Share Options shall be made accordingly).

e. Validity Period and Exercise Arrangement under the Proposed Grant

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

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

(6) Exercise of the Proposed Grant during the reporting

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

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

For details, please refer to the “Announcements relating to Non-fulfillment of Exercise Conditions for the First Exercise Period and Adjustment to the List of Participants and the Number of Share Options

under the First Grant of the A Share Option Incentive Scheme” disclosed on “China Securities Journal” , “Shanghai Securities News” , “Securities Times” and www.sse.com.cn on 30 October 2018, and at www.hkexnews.hk on 29 October 2018.

(11) Other major issues.

By the resolutions of the company’s first extraordinary general meeting of shareholders in 2017, held on 16 November 2017, the first A-share class shareholder meeting in 2017 and the first H share class shareholder meeting in 2017, and the approval of the China Securities Regulatory Commission China Securities Regulatory License [2018] No. 142 , the company had issued 1,503,568,702 shares and 23,148,854 new A shares to the China Petrochemical Corporation and the QiXinGongYing Scheme with a nominal value of RMB1.00 per share (non-public issuance of A shares). The non-public issuance of RMB ordinary shares (A shares) was issued at RMB 2.62 per share. As of 19 January 2018, the company had received RMB 3,987,867,324.96 in subscription payments (after deducting various issuance expenses of RMB 12,132,671.76), the net proceed from each share was approximate RMB 2.612. The Grant Thornton Certified Public Accountants (Special General Partnership) conducted a capital verification of the above-mentioned raised funds, and on 19 January 2018, it issued the Capital Verification Report No.110ZC0018 of the “Comparative Verification” (2018). On 25 January 2018, the Company completed the registration and custody of the non-public issuance of A shares in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

By the resolutions of the company’s first extraordinary general meeting of shareholders in 2017 on 16 November 2017, the first A-share class shareholder meeting in 2017 and the first H share class shareholder meeting in 2017, and the approval of the China Securities Regulatory Commission China Securities Regulatory License [2018] No. 130, the Company had issued 2,595,786,987 shares and 719,174,495 at RMB1.00 each new H shares to Century Bright Company and China Structural Reform Fund respectively. On the announcement date of non-public issuance of H shares (i.e. September 20, 2017), the closing price of H shares was HK\$1.40 per each H share. The non-public issuance of overseas-listed foreign shares (H shares) was HK\$1.35 per share. As of 24 January 2018, the company had received RMB4,464,700,300.49 in subscribed shares from the issuer (net of issuance fees RMB 8,650,000), equivalent to RMB 3,649,847,848.64. The net proceed from each share was RMB1.101. The Grant Thornton Certified Public Accountants (Special General Partnership) conducted a capital verification of the above-mentioned raised funds, and on 30 January 2018, it issued the Capital Verification Report No. 110ZC0039 of the “Comparative Verification” (2018).

Reasons for and benefits of the Non-public Placement are as follows: (a) Enhance the core competitiveness of the Company’s main business. The Non-public Placement will enhance the financial strength of the Company, promote the business development of the Company and enhance the core competitiveness of the main business. (b) Optimise the capital structure and reduce the financial risk. All the proceeds from the Non-public Placement are proposed to be used to supplement the working capital of the Company. As of 30 June 2017, the Company’s asset-liability ratio was 90.8%, which was relatively high. Through the Non-public Placement, the Company’s asset-liability ratio will be reduced, which will help the Company to optimise the capital structure and reduce the financial risk. (c) Enjoy more support from the controlling shareholder. CPC plans to subscribes for Shares of the Company under the Non-public Placement, which reflects the supportive determination of the controlling shareholder to the Company and the confidence in the future development of the Company; meanwhile, the Company may enjoy more support from controlling shareholder, which is conducive to the protection of the Company’s stable and sustainable development.

According to the circulars “Non-public Placement under specific Mandate and connected Transaction” disclosed at www.hkexnews.hk on 18 October 2017, all net proceeds from the Non-public Placement are proposed to be used to supplement the working capital of the Company as follows:

- (a) RMB3.5-4 billion are to be used to repay historical transactional payables within 3 months upon receiving the proceeds;
- (b) RMB2.5-3 billion are to be used to optimise financial structure of the Group by repaying operational payables and lowering the total liability scale of the Group within 3 months upon receiving the proceeds;
- (c) RMB1-1.5 billion are for general operational use of the Group.

The net proceeds raised from this Non-public Placement amounted to RMB 7.64 billion, of which: A-share raised funds amounted to RMB 3.988 billion, and repaid historical transaction payments amounted to RMB 3.719 billion, supplementing the company's liquidity of RMB 269 million; H-share proceeds Among the HK\$4,465 million, the company's bank loans were repaid to US\$570 million, and the remainder was used to supplement the company's liquidity.

7. FINANCIAL REPORT

7.1 Audit Opinion

The financial statements of the Group for the year ended 31 December 2018, prepared in accordance with the PRC ASBE have been audited by Liu Zhizeng and Wang Tao of Grant Thornton (Special General Partnership), which has issued unqualified opinion on 25 March 2019. Also, the financial statements of the Group for the year ended 31 December 2018, prepared in accordance with IFRS have been audited by Grant Thornton Hong Kong Limited, which has issued unqualified opinion on 25 March 2019.

7.2 Financial Statements prepared in accordance with IFRS

The following financial information were extracted from the audited consolidated financial statements of the Company and its subsidiaries (hereinafter referred to as the “Group”) for the year ended 31 December 2017, which were prepared in accordance with the IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Revenue	4	58,409,078	48,593,948
Cost of sales and taxes and surcharges		(53,508,883)	(51,448,719)
Gross profit/(loss)		4,900,195	(2,854,771)
Selling expenses		(64,249)	(59,615)
General and administrative expenses		(3,239,084)	(3,619,364)
Research and development expenses		(928,586)	(517,599)
Finance expenses - net	5	(441,190)	(579,984)
Expected credit loss and impairment losses on assets	6	(37,068)	(2,735,857)
Investment income	7	600	600
Share of profit/(loss) from joint ventures		24,348	(14,791)
Share of profit from associates		2,135	1,213
Operating profit/(loss)		217,101	(10,380,168)
Other income	8	1,199,612	502,465
Other expenses	9	(802,944)	(446,474)
Profit/(Loss) before income tax	10	613,769	(10,324,177)
Income tax expense	11	(373,581)	(239,034)
Profit/(Loss) for the year		240,188	(10,563,211)
Other comprehensive income for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Net movement in fair value of financial assets at fair value through other comprehensive income “FVTOCI”		11,676	-
Total comprehensive income/(expense) for the year		251,864	(10,563,211)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Profit/(Loss) for the year attributable to :			
Owners of the Company		240,188	(10,563,115)
Non-controlling interests		-	(96)
Profit/(Loss) for the year		240,188	(10,563,211)
Total comprehensive income/(expense) for the year attributable to :			
Owners of the Company		251,864	(10,563,115)
Non-controlling interests		-	(96)
Total comprehensive income/(expense) for the year		251,864	(10,563,211)
		RMB	RMB (Restated)
Earnings/(Loss) per share for profit/(loss) attributable to owners of the Company (presented in RMB per share)			
Basic and diluted	12	0.013	(0.747)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
Assets				
Non-current assets				
Property, plant and equipment		24,206,172	25,898,250	29,753,367
Other non-current assets		3,654,512	3,065,803	4,049,224
Long-term receivables		-	233,061	-
Prepaid land leases		118,335	120,167	109,866
Intangible assets		118,940	162,994	77,147
Interests in joint ventures		218,813	194,465	209,444
Interests in associates		14,010	12,581	11,885
Available-for-sale financial assets		-	24,389	24,389
Financial assets at FVTOCI		39,011	-	-
Deferred tax assets		492,438	472,184	183,548
Total non-current assets		28,862,231	30,183,894	34,418,870
Current assets				
Inventories		1,217,323	1,211,187	1,453,729
Notes and trade receivables	14	16,111,200	18,191,357	24,876,707
Prepayments and other receivables		3,444,501	3,330,600	3,646,908
Contract assets		9,066,019	-	-
Amounts due from customers for contract works		-	6,624,302	7,923,397
Restricted cash		29,861	14,538	3,012
Cash and cash equivalents		2,173,580	2,533,437	2,472,046
Total current assets		32,042,484	31,905,421	40,375,799
Total assets		60,904,715	62,089,315	74,794,669

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000 (Restated)	As at 1 January 2017 RMB'000 (Restated)
Equity				
Share capital		18,984,340	14,142,661	14,142,661
Reserves		(13,205,930)	(16,242,607)	(5,690,128)
Equity attributable to owners of the Company		5,778,410	(2,099,946)	8,452,533
Non-controlling interests		-	(1,372)	(1,276)
Total equity/(Capital deficiencies)		5,778,410	(2,101,318)	8,451,257
Liabilities				
Non-current liabilities				
Long term borrowings		1,377,909	508,863	796,634
Deferred income		139,594	136,312	112,171
Deferred tax liabilities		22,658	23,879	27,280
Provisions		595,742	-	-
Total non-current liabilities		2,135,903	669,054	936,085
Current liabilities				
Notes and trade payables	15	27,059,504	29,546,017	30,419,672
Deposits received and other payables		3,523,748	9,443,881	8,582,827
Contract liabilities		4,390,293	-	-
Amounts due to customers for contract works		-	6,788,227	9,057,412
Short term borrowings		17,755,104	17,539,674	17,254,639
Current income tax payable		261,753	203,780	92,777
Total current liabilities		52,990,402	63,521,579	65,407,327
Total liabilities		55,126,305	64,190,633	66,343,412
Total equity and liabilities		60,904,715	62,089,315	74,794,669
Net current liabilities		(20,947,918)	(31,616,158)	(25,031,528)
Total assets less current liabilities		7,914,313	(1,432,264)	9,387,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION

1.1 General information and the Reorganisation

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

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

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

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

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

On 31 December 2018, the Group completed acquisition of entire equity interests in Jiangsu Oilfield Service and Construction Corporation (“Jiangsu Oilfield”). As Jiangsu Oilfield is also ultimately controlled by Sinopec Group, the business combination was regarded as under common control. The consolidated financial statements of the Group have been prepared using the merger accounting basis as if the current group structure had been in existence throughout the periods presented. Refer to note 2.1 for the details.

These consolidation financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 Basis of presentation

As at 31 December 2018, the Group had net current liabilities of approximately RMB20,947,918,000 (2017 restated: RMB31,616,158,000) and capital commitments of approximately RMB136,467,000; and it had a net profit of RMB240,188,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In December 2018, the Group obtained a line of credit of RMB12 billion and USD0.9 billion (Total: approximately RMB 18.2billion), and line of credit promissory note of RMB 7 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

2 Basis of preparation

The consolidation financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). These consolidation financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

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

On 28 December 2018, Sinopec Oilfield Service Co., Ltd. "SOSC" (a wholly-owned subsidiary of the Company) and Nanjing Weinuo Oil & Gas Well Logging Engineering Co., Ltd. "Nanjing Weinuo" entered into an equity transfer agreement, pursuant to which Nanjing Weinuo has agreed to dispose of and SOSC has agreed to acquire the entire equity interests in Jiangsu Oilfield Service and Construction Corporation ("Jiangsu Oilfield") for the consideration of approximately RMB7,388,000. The acquisition has been completed on 31 December 2018. As Jiangsu Oilfield and the Group are ultimately controlled by Sinopec Group, the business combination was regarded as under common control. The consolidated financial statements of the Group have been prepared using the merger accounting basis as if the current group structure had been in existence throughout the periods presented. The comparative information in these consolidated financial statements has been restated accordingly under merger accounting basis.

2 Basis of preparation (Continued)

The preparation of consolidation financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

3 NEW AND AMENDED IFRS

The IASB has issued a number of new and amended IFRS. The Group has adopted all these new and amended IFRS, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the accounting period beginning on or after 1 January 2018:

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 a number of IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to International Accounting Standard ("IAS") 40	Transfers of Investment Property
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "ECL model" for the impairment of financial assets.

When adopting IFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated losses.

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 9 Financial Instruments (Continued)

The adoption of IFRS 9 has impacted the following areas:

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.

The Group elected to present in other comprehensive income for the fair value changes of all equity investments previously classified as available-for-sale financial assets under IAS 39. 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 NEW AND AMENDED IFRS (CONTINUED)

IFRS 9 Financial Instruments (Continued)

Classification and measurement of financial assets (Continued)

The following adjustments were made to the amounts recognised in the 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. At 1 January 2018, the difference between fair value and the cost of the unlisted equity securities is minimal and there was no impact on accumulated losses at 1 January 2018.

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.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the “incurred loss” accounting model in IAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including restricted cash, cash and cash equivalents, notes and trade receivables, other receivables and long term receivables);
- contract assets as defined in IFRS 15; and
- financial guarantee contracts issued.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (“ECL”) which uses a lifetime expected loss allowance for trade receivable and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings based on debtors' aging.

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

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 9 Financial Instruments (Continued)

Classification and measurement of financial assets (Continued)

The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under the current practices. Therefore, the Group considered no adjustment is necessary upon the initial adoption of the standard.

Classification and measurement of financial liabilities

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

IFRS 15 Revenue from contracts with customers

IFRS 15 “Revenue from contracts with customers” and “Classifications to IFRS 15 Revenue from Contracts with Customers” (collectively refer to as “IFRS 15”) replaces the previous revenue standards IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and several revenue-related Interpretations.

IFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations. The standard specifies that revenue is to be recognised when control over the goods or services is transferred to the customer, moving from the transfer of risk and rewards.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognized as an adjustment to the opening balance of accumulated losses at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18.

The adoption of IFRS 15 has impacted the following areas:

Timing of revenue recognition

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

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 15 Revenue from contracts with customers (Continued)

Timing of revenue recognition (Continued)

IFRS 15 identifies three situations where control of the promised goods or services is regarded as being transferred over time:

- (1) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (2) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (3) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the Group recognizes revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The expected impact arising from the adoption of IFRS 15 on the Group are summarised as follows:

Construction and service contracts

At report date, the revenue recognition of rendering construction and service contracts in the drilling engineering, geophysics and engineering construction, is based on the progress towards complete satisfaction of a performance obligation, which is measured at the percentage of completion and recognised revenue by output method.

The revenue from provision of services in special downhole operation and logging and mud logging is recognised when services are rendered.

The Group has determined that there is no material impact on the Group's financial statements when IFRS 15 is adopted in accounting for the Group's revenue from the services contracts not yet completed as at 1 January 2018. This is because the current accounting treatments of such contracts are largely consistent with the requirements of IFRS 15.

Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 15 Revenue from contracts with customers (Continued)

Presentation of contract assets and liabilities (Continued)

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under “Amounts due from customers for contract works” and “Amounts due to customers for contract works” respectively.

To follow the terminology used under IFRS 15, the Group has made the following adjustments at 1 January 2018:

- (1) “Amounts due from customers for contract works” under “Contract work-in-progress” amounting to RMB6,883,350,000 had been reclassified as “Contract assets”;
- (2) “Amounts due to customers for contract work” under “Contract work-in-progress” amounting to RMB6,788,227,000 had been reclassified as “Contract liabilities”;
- (3) “Receipt in advance from customers” in relation to deposits or payment received in advance for services not yet delivered to customers under “Deposits received and other payables” amounting to RMB1,773,584,000 had been reclassified as “Contract liabilities”; and
- (4) “Expected loss on contracts” in relation to provision for onerous contract under “Contract work-in-progress” amounting to RMB259,048,000 has been reclassified as “Provisions”.

The following adjustments were made to the amounts recognised in the 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 under IAS11 and IAS18 at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Current assets			
Amounts due from customers for contract works	6,624,302	(6,624,302)	-
Contract assets	-	6,883,350	6,883,350
Current liabilities			
Receipt in advance and other payables	9,443,884	(1,773,584)	7,670,300
Amounts due to customers for contract works	6,788,227	(6,788,227)	-
Contract liabilities	-	8,561,811	8,561,811
Provisions	-	259,048	259,048

3 NEW AND AMENDED IFRS (CONTINUED)

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2018 which are relevant to the Group but the Group has not early adopted are set out below:

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts ³
Amendments to IAS 1 and IAS 8	Definition of Material ²
Amendments to IFRS 3	Definition of a Business ⁵
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint
IFRIC 23	Uncertainty over Income Tax Treatments ¹
Amendments to a number of IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle ¹

¹ Accounting periods beginning on or after 1 January 2019

² Accounting periods beginning on or after 1 January 2020

³ Accounting periods beginning on or after 1 January 2021

⁴ Effective date not yet been determined

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that, except as described below, the application of other new and amended IFRSs will have no material impact on the results and the financial position of the Group.

IFRS 16 Leases

IFRS 16 replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC- 15 “Operating Leases – Incentives” and “SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense accrued on the outstanding balance of lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the outstanding balance of lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 16 Leases (Continued)

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB382,990,000 for residential properties, office and equipment, a portion of which is payable between 1 and 5 years after the reporting date.

IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of a right-of-use asset and a lease liability. Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in a right-of-use asset and an increase in a lease liability in the consolidated statement of financial position. In the consolidated statement of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Geophysics	5,132,418	3,980,166
Drilling engineering	30,086,180	24,821,489
Logging and mud logging	2,044,752	1,823,517
Special downhole operations	5,671,037	4,193,964
Engineering construction	13,242,985	11,920,110
Others	2,231,706	1,854,702
	58,409,078	48,593,948

Segment information

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

Five reportable operating segments are as follows:

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

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 2018 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
During the year ended 31 December 2018								
Segment revenue and results								
Revenue from external customers	5,132,416	30,086,180	2,044,756	5,671,037	13,242,986	2,231,706	-	58,409,071
Inter-segment income	-	183,136	819,796	441,426	80,190	332,146	(1,856,689)	-
Segment revenue	5,132,416	30,269,316	2,864,552	6,112,463	13,323,176	2,563,852	(1,856,689)	58,409,071
Reportable segment revenue/(loss)	36,016	632,486	(289,656)	232,276	(105,231)	(288,791)	-	217,106
Other income	38,646	343,986	21,246	47,146	607,716	140,876	-	1,199,616
Other expenses	(30,630)	(39,439)	(3,543)	(8,467)	(520,938)	(199,927)	-	(802,944)
Profit/(Loss) before income tax	44,032	937,033	(271,953)	270,955	(18,450)	(347,839)	-	613,768
Income tax expense								(373,581)
Profit for the year								240,187

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

For the year ended 31 December 2018 and as at that date, the segment results, assets and liabilities were as follows:
(Continued)

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
During the year ended 31 December 2018								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	411,210	1,633,206	168,281	393,311	197,061	271,399	-	3,074,468
-- Other non-current assets	43,064	1,189,025	34,327	122,600	11,437	159,356	-	1,559,809
-- Prepaid land leases	-	444	415	1,895	507	-	-	3,261
-- Intangible assets	326	52,083	1,145	630	5,790	6,005	-	65,979
Capital expenditure								
-- Property, plant and equipment	126,784	939,401	77,042	111,271	227,294	19,130	-	1,500,922
-- Prepaid land leases	-	101	-	1,661	-	-	-	1,762
-- Intangible assets	-	660	2,979	67	9,382	-	-	13,088
Provision /(Reversal of provision) for ECL on trade receivables, net	35,872	148,547	7,129	(5,520)	(155,526)	(3,281)	-	27,221
Provision /(Reversal of provision) for ECL on other receivables, net	(509)	(7,064)	13	1,863	1,290	(12,271)	-	(16,678)
Provisions - Loss on judicial reorganisation of Brazil subsidiary	-	-	-	-	475,276	-	-	475,276
ECL on contract assets	1,666	7,633	23	449	16,749	5	-	26,525
As at 31 December 2018								
Assets								
Segment assets	5,155,309	35,314,230	2,124,388	5,471,270	23,430,227	27,336,770	(37,927,479)	60,904,715
Liabilities								
Segment liabilities	4,004,200	28,583,953	1,527,149	2,833,859	23,366,680	32,737,943	(37,927,479)	55,126,305

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

For the year ended 31 December 2017 and as at that date, the segment results, assets and liabilities were restated as follows:

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
During the year ended 31 December 2017								
Segment revenue and results								
Revenue from external customers	3,980,166	24,821,489	1,823,517	4,193,964	11,920,110	1,854,702	–	48,593,948
Inter-segment income	5,179	181,418	614,791	211,021	217,396	179,601	(1,409,410)	–
Segment revenue	3,985,345	25,002,907	2,438,311	4,404,985	12,137,506	2,034,303	(1,409,410)	48,593,948
Reportable segment loss	(283,140)	(5,418,639)	(769,873)	(1,575,487)	(2,175,958)	(157,071)	–	(10,380,168)
Other income	29,727	238,152	8,151	45,848	101,216	79,369	–	502,465
Other expenses	(79,382)	(309,788)	(9,618)	(7,769)	(28,522)	(11,395)	–	(446,474)
Loss before income tax	(332,795)	(5,490,275)	(771,338)	(1,537,408)	(2,103,264)	(89,097)	–	(10,324,177)
Income tax expense								(239,034)
Loss for the year								(10,563,211)

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

For the year ended 31 December 2017 and as at that date, the segment results, assets and liabilities were restated as follows:
(Continued)

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
During the year ended 31 December 2017								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	476,755	1,832,594	194,605	458,709	208,577	118,047	-	3,289,287
-- Other non-current assets	52,372	1,824,144	47,134	97,103	26,164	41,806	-	2,088,723
-- Prepaid land leases	-	427	417	1,805	507	-	-	3,156
-- Intangible assets	530	66,382	559	931	6,428	5,977	-	80,807
Capital expenditure								
-- Property, plant and equipment	142,746	653,396	42,150	61,983	55,412	74,973	-	1,030,660
-- Prepaid land leases	-	495	3,790	-	2,551	-	-	6,836
Impairment loss on trade receivables, net	38,509	92,645	20,696	811,349	196,887	4,222	-	1,164,308
Impairment loss on/(Reversal of) other receivables, net	2,058	4,555	(51)	2,618	103,834	(8,454)	-	104,560
Expected loss on contracts work- in-progress	-	-	-	-	245,039	-	-	245,039
Write down of inventories to net realizable value	3,052	69,404	-	-	-	-	-	72,456
Impairment loss on property, plant and equipment	5,677	877,930	160,404	97,523	-	7,960	-	1,149,494
As at 31 December 2017								
Assets								
Segment assets	5,318,569	34,807,136	2,007,167	6,394,501	7,075,014	22,703,276	(16,216,348)	62,089,315
Liabilities								
Segment liabilities	4,602,485	29,309,833	1,568,472	3,830,778	15,701,754	25,393,659	(16,216,348)	64,190,633

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	2018 RMB'000	2017 RMB'000 (Restated)
The PRC	45,268,611	35,607,732
Middle East	7,362,296	7,913,339
Other countries	5,778,171	5,072,877
	58,409,078	48,593,948

	Specified non-current assets	
	2018 RMB'000	2017 RMB'000 (Restated)
The PRC	24,470,738	26,496,177
Other countries	3,860,044	2,958,083
	28,330,782	29,454,260

(c) Major customer

For the years ended 31 December 2018 and 2017, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Customer A	36,885,294	28,333,921

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction and accounted for more than 50% of the Group's revenue.

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the year ended 31 December 2018, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction service :

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:							
– At a point in time	-	25,886	594	26,755	81,577	274,882	409,694
– Over time	5,132,418	30,060,294	2,044,158	5,644,282	13,161,408	1,956,824	57,999,384
Total	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706	58,409,078

5 FINANCE EXPENSES- NET

	2018 RMB'000	2017 RMB'000 (Restated)
Finance income		
Interest income from entrusted loans		
- Sinopec Group's subsidiaries	-	67
Interest income		
- Sinopec Group's subsidiaries	1,878	524
- Third-party banks and other financial institutions	86,008	18,858
	87,886	19,449
Finance expenses		
Interest expenses on borrowings wholly repayable within 5 years		
- Sinopec Group and its subsidiaries	(582,557)	(639,109)
- Third-party banks and other financial institutions	(49,732)	(6,908)
Interest expenses on finance lease		
- Sinopec Group's associates and joint ventures	(30,154)	-
Capitalisation of interest expenses for qualifying assets (note)	-	11,360
Exchange gains, net	173,931	116,166
Bank and other charges	(40,564)	(80,942)
	(529,076)	(599,433)
	(441,190)	(579,984)

Note:

For the year ended 31 December 2018, no interest expense has been capitalised for qualifying assets represented as property, plant and equipment (2017: Qualifying assets represent property, plant and equipment, its related interest expenses had been capitalised at rates 3.92% per annum).

6 EXPECTED CREDIT LOSS AND IMPAIRMENT LOSSES ON ASSETS

	2018 RMB'000	2017 RMB'000 (Restated)
ECL /Impairment loss on trade and other receivables, net	10,543	1,268,868
ECL on contract assets	26,525	-
Expected losses on contracts work-in-progress	-	245,039
Write down of inventories to net realisable value	-	72,456
Impairment loss on property, plant and equipment	-	1,149,494
	<u>37,068</u>	<u>2,735,857</u>

7 INVESTMENT INCOME

	2018 RMB'000	2017 RMB'000 (Restated)
Investment income from available-for-sale financial assets	-	600
Investment income from financial assets at FVTOCI	600	-
	<u>600</u>	<u>-</u>

8 OTHER INCOME

	2018 RMB'000	2017 RMB'000 (Restated)
Gain on disposal of other non-current assets, net	7,447	-
Gain on debt restructuring	395,916	49,849
Government grants (note)	730,048	372,433
Waived payables	29,969	35,791
Penalty income	3,566	26,852
Compensation received	581	4,598
Insurance claims	11,451	5,930
Asset surplus	5,534	2
Others	15,100	7,010
	<u>1,199,612</u>	<u>502,465</u>

Note:

Government grants for the year ended 31 December 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

	2018 RMB'000	2017 RMB'000 (Restated)
Loss on disposal of property, plant and equipment, net	7,446	156,144
Loss on disposal of other non-current assets, net	–	16,431
Discount of trade receivables	655	35,368
Loss on scraps of assets	8,837	55
Penalty	13,593	29,019
Donation	610	1,040
Compensation	8,227	162,882
Expected loss on pending litigations	10,241	13,500
Expected loss on judicial reorganisation	475,276	–
Others	278,059	32,035
	802,944	446,474

10 PROFIT /(LOSS) BEFORE INCOME TAX

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

	2018 RMB'000	2017 RMB'000 (Restated)
Staff costs, including directors and supervisors emoluments	15,005,096	14,325,621
Retirement benefit plan contribution (included in the above mentioned staff costs)		
— Municipal retirement scheme costs	1,266,328	1,220,611
— Supplementary retirement scheme costs	338,736	322,312
Share options granted to directors and employees (included in the above mentioned staff costs)	–	10,636
Changes in inventories of finished goods and work in progress	49,769	(118,582)
Raw materials and consumables used	15,237,065	12,067,738
Depreciation and amortisation		
— Property, plant and equipment	3,074,468	3,289,287
— Other non-current assets	1,559,809	2,088,723
— Prepaid land leases	3,261	3,156
— Intangible assets	65,979	80,807
Operating lease expenses		
— Property, plant and equipment	1,982,429	1,627,403
ECL/Provision for impairment, net		
— Trade and other receivables	10,543	1,268,868
— Contract assets	26,525	–
Impairment losses on assets		
— Expected loss on contracts work-in-progress	–	245,039
— Write down of inventories to net realisable value	–	72,456
— Property, plant and equipment	–	1,149,494
Rental income from property, plant and equipment less relevant expenses	(54,043)	(27,537)
Losses on disposal/write-off of property, plant and equipment, net	7,446	156,144

10 PROFIT /(LOSS) BEFORE INCOME TAX (CONTINUE)

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

	2018 RMB'000	2017 RMB'000 (Restated)
(Gains)/Losses on disposal/write-off of other non-current assets, net	(7, 447)	16, 431
Auditors' remuneration	6, 988	7, 139
Exchange gains, net	(173, 931)	(116, 166)

11 INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000 (Restated)
Current tax		
PRC enterprise income tax	28, 480	32, 261
Overseas enterprise income tax	369, 522	498, 810
	<u>398, 002</u>	<u>531, 071</u>
Deferred tax		
Origination and reversal of temporary difference	(24, 421)	(292, 037)
Income tax expense	<u>373, 581</u>	<u>239, 034</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 period, for the years ended 31 December 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.

11 INCOME TAX EXPENSE (CONTINUED)

Reconciliation between income tax expenses and profit /loss) before income tax calculated at the statutory tax rate is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Profit/(Loss) before income tax	613,769	(10,324,177)
Taxation calculated at the statutory tax rate	153,442	(2,581,044)
Income tax effects of:		
Difference in overseas profits tax rates	255,179	335,235
Non-deductible expenses	74,355	590,402
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(220,689)	(43,578)
Effect of unrecognised tax losses and deductible temporary differences	210,514	1,972,463
Adjustments of current tax in previous years	3,719	16,047
Equity method accounting for the joint ventures and associates' profit or loss	(6,730)	3,609
Effect on opening deferred tax balances arising from change in tax rates during the year	(368)	–
Tax effect on research and development expenses	(95,841)	(54,854)
Others	–	754
Income tax expense	373,581	239,034

12 LOSS PER SHARE

(a) Basic

For the years ended 31 December 2018 and 2017, the basic earnings /(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company.

	2018	2017 (Restated)
Profit /(loss) for the year attributable to owners of the Company (RMB'000)	240,188	(10,563,115)
Weighted average number of ordinary shares in issue (Shares)	18,670,882,354	14,142,660,995
Basic earnings/(loss) per share (RMB)	0.013	(0.747)

(b) Diluted

For the year ended 31 December 2018, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares in the current year.

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 antidilutive effects, hence, the diluted loss per share for the year ended 31 December 2017 were the same as the basic loss per share.

13 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

14 NOTES AND TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000 (Restated)
Trade receivables		
- Sinopec Group and its subsidiaries	7,539,486	9,082,346
- Joint ventures	14,854	14
- Sinopec Group's joint ventures and associates	128,187	122,450
- Third parties	10,472,668	10,100,333
	18,155,195	19,305,143
Less: ECL allowance /Provision for impairment	(2,525,191)	(2,331,815)
Trade receivables - net	15,630,004	16,973,328
Notes receivables	481,196	1,218,029
Notes and trade receivables - net	16,111,200	18,191,357

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

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

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

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

Ageing analysis of notes and trade receivables net of ECL allowance (2017: net of provision for impairment) based on invoice date is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Within 1 year	14,438,847	13,449,041
1 to 2 years	1,098,807	3,631,272
2 to 3 years	377,106	821,310
Over 3 years	196,440	289,734
	16,111,200	18,191,357

14 NOTES AND TRADE RECEIVABLES (CONTINUED)

The movements of ECL allowance (2017: provision for impairment) on trade receivables are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Balance at the beginning of the year calculated under IAS 39 and IFRS 9	2,331,815	1,188,241
Acquisition (note)	167,766	–
ECL allowance / Provisions	517,168	1,257,214
Reversal	(489,947)	(92,906)
Receivables write-off as uncollectible	(1,611)	(20,734)
At 31 December	<u>2,525,191</u>	<u>2,331,815</u>

Note:

During the year ended 31 December 2018, the Group has acquired certain bills receivables and trade receivables from a related party.

15 NOTES AND TRADE PAYABLES

	2018 RMB'000	2017 RMB'000 (Restated)
Trade payables		
- Sinopec Group and its subsidiaries	1,208,415	1,150,292
- Joint ventures	14,950	49,643
- Sinopec Group's joint ventures and associates	75,055	47,623
- Third parties	21,963,342	25,253,066
	<u>23,261,762</u>	<u>26,500,624</u>
Notes payables	3,797,742	3,045,393
	<u>27,059,504</u>	<u>29,546,017</u>

As at 31 December 2018 and 2017, the carrying amounts of the 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:

	2018 RMB'000	2017 RMB'000 (Restated)
Within 1 year	22,716,227	20,551,328
1 to 2 years	2,564,414	5,007,071
2 to 3 years	752,327	1,799,618
Over 3 years	1,026,536	2,188,000
	<u>27,059,504</u>	<u>29,546,017</u>

7.3 Financial statements prepared in accordance with PRC ASBE

The following financial information has been extracted from the Company's audited financial statements, prepared in accordance with PRC ASBE for the year ended 31 December 2018.

Consolidated Balance sheet

(Expressed in thousands of Renminbi Yuan)

Assets	<u>2018</u>	<u>2017(Restated)</u>
Current assets:		
Cash at bank and on hand	2,203,441	2,547,975
Bills receivable and accounts receivable	16,111,200	18,191,357
Advances to suppliers	444,749	429,006
Other receivables	1,712,575	1,999,979
Inventories	1,411,638	1,362,582
Contract assets	8,871,704	6,472,907
Non-current assets due within one year	40,477 -	-
Other current assets	1,218,035	885,473
Total current assets	32,013,819	31,889,279
Non-current assets:		
Available-for-sale financial assets		
Long-term receivable		233,061
Long-term equity investments	232,823	207,046
Other equity instrument investments	39,011	24,389
Fixed assets	23,842,767	25,662,256
Construction in progress	365,414	237,638
Intangible assets	237,275	283,161
Long-term prepaid expenses	3,681,168	3,080,301
Deferred tax assets	492,438	472,184
Total non-current assets	28,890,896	30,200,036
Total assets	60,904,715	62,089,315

Consolidated Balance sheets (continued)*(Expressed in thousands of renminbi yuan)*

Liabilities and shareholders' equity	<u>2018</u>	<u>2017(Restated)</u>
Current liabilities:		
Short-term loans	17,606,082	17,510,830
Bills payable and accounts payable	27,059,504	29,546,017
Contract liabilities	4,390,293	8,561,811
Employee benefits payable	510,507	381,275
Taxes payable	1,053,477	1,034,596
Other payables	2,186,009	6,431,966
Non-current liabilities due within one year	156,559	28,844
Other current liabilities	917	11,744
Total current liabilities	52,963,348	63,507,083
Non-current liabilities:		
Long-term loans	536,291	455,826
Long-term payables	868,672	67,533
Provisions	595,742	-
Deferred income	139,594	136,312
Deferred income tax liabilities	22,658	23,879
Total non-current liabilities	2,162,957	683,550
Total liabilities	55,126,305	64,190,633
Shareholders' equity:		
Share capital	18,984,340	14,142,661
Capital reserve	11,710,763	8,925,950
Other comprehensive income	11,676	-
Specific reserve	300,609	202,477
Surplus reserve	200,383	200,383
Retained earnings	-25,429,361	-25,571,417
Equity attributable to the owners of the Company	5,778,410	-2,099,946
Minority interests	-	-1,372
Total shareholders' equity	5,778,410	-2,101,318
Total liabilities and shareholders' equity	60,904,715	62,089,315

Consolidated Income statements
(Expressed in thousands of Renminbi Yuan)

	<u>2018</u>	<u>2017(Restated)</u>
1. Revenue	58,409,078	48,593,948
2. Less: Cost of sales	53,320,296	51,091,147
Business taxes and surcharges	286,719	383,981
Selling and distribution expenses	64,249	59,615
General and administrative expenses	3,239,084	3,619,364
Research and development expenses	928,586	517,599
Financial costs	441,190	580,051
Impairment losses on assets	-	2,735,857
Credit impairment losses	37,068	-
Add: Other income	733,308	376,261
Investment income	27,083	-12,911
Including: Investment income from investment in association and joint venture	26,483	-13,578
Gains from disposal of non-current assets (loss in “-”)	1	-172,575
3. Operating profit (loss in “-”)	852,278	-10,202,891
Add: Non-operating income	458,857	126,204
Less: Non-operating expenses	795,498	273,899
4. Profit before income tax (loss in “-”)	515,637	-10,350,586
Less: Income tax expenses	373,581	239,034
5. Net profit for the year (loss in “-”)	142,056	-10,589,620
Classified by business sustainability:		
-Profit from continuing operations	142,056	-10,589,620
-Profit from discontinued operations		
Classified by ownership :		
- The owners’ of the Company	142,056	-10,589,524
- Minority interests	-	-96
6. Earnings per share :		
(1) Basic earnings per share (in RMB)	0.008	-0.748
(2) Diluted earnings per share (in RMB)	0.008	-0.748
7. Other comprehensive income for the year	11,676	-
Other comprehensive income (net of tax) attributable to shareholders of the company	11,676	-
8. Total comprehensive income for the year	153,732	-10,589,620
Total comprehensive income for the year/period attributable to:		
- The owners’ of the Company	153,732	-10,589,524
- Minority shareholders	-	-96

Consolidated Cash flow statement
(Expressed in thousands of renminbi yuan)

	Note	<u>2018</u>	<u>2017(Restated)</u>
1. Cash flows from operating activities:			
Cash received from sale of goods		57,450,008	48,024,729
Refund of taxes		375,483	322,777
Cash received from other operating activities		<u>2,612,319</u>	<u>3,273,594</u>
Sub-total of cash inflow		<u>60,437,810</u>	<u>51,621,100</u>
Cash paid for goods and services		43,257,951	30,950,492
Cash paid to and for employees		14,701,830	13,338,367
Cash paid for all types of taxes		1,615,629	1,922,076
Cash paid relating to other operating activities		<u>3,802,189</u>	<u>5,005,404</u>
Sub-total of cash outflows		<u>63,377,599</u>	<u>51,216,339</u>
Net cash outflow from operating activities	(1)	<u>-2,939,789</u>	<u>404,761</u>
2. Cash flows from investing activities :			
Cash received from disposal of investment		-	-
Cash received from the investment income		1,306	1,178
Net cash received from disposal of fixed assets		104,024	162,626
Cash received relating to other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash inflows		<u>105,330</u>	<u>163,804</u>
Cash paid for acquisition of fixed assets and intangible assets		1,272,413	1,175,748
Cash paid for investment in a joint venture		-	-
Net cash paid for acquisition of subsidiaries and other business units		<u>7,388</u>	<u>-</u>
Cash paid for other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash outflows		<u>1,279,801</u>	<u>1,175,748</u>
Net cash outflow from investing activities		<u>-1,174,471</u>	<u>-1,011,944</u>

Consolidated Cash flow statement (continued)
(Expressed in thousands of renminbi yuan)

	Note	<u>2018</u>	<u>2017(Restated)</u>
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		7,639,698	-
Cash received from borrowings		35,585,650	37,253,867
Cash received for other financing activities		<u>500,520</u>	<u>532,641</u>
Sub-total of cash inflows		<u>43,725,868</u>	<u>37,786,508</u>
Cash paid for repayments of borrowings		35,608,897	36,256,236
Cash paid for distribution of dividend, profit or payments of interests		613,895	709,622
Cash paid for other financing activities		<u>3,884,291</u>	<u>72,616</u>
Sub-total of cash outflows		<u>40,107,083</u>	<u>37,038,474</u>
Net cash inflow from financing activities		<u>3,618,785</u>	<u>748,034</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>135,618</u>	<u>-79,460</u>
5.Net decrease in cash and cash equivalents	(1)	-359,857	61,391
Add: Cash and cash equivalents at the beginning of the year		<u>2,533,437</u>	<u>2,472,046</u>
6.Cash and cash equivalents at the end of the year		<u>2,173,580</u>	<u>2,533,437</u>

Notes to cash flow statements

(1) Supplement to cash flow statement

(a) Reconciliation of net loss to cash flows from operating activities:

<u>Item</u>	<u>2018</u>	<u>2017(Restated)</u>
Net losses	142,056	-10,589,620
Add: Impairment loss on assets	-	2,735,857
Credit impairment losses	37,068	-
Depreciation of fixed assets	3,074,468	3,289,287
Amortisation of intangible assets	69,240	83,963
Amortisation of long-term prepaid expenses	1,559,809	2,088,723
Net loss/(gains) on disposal of fixed assets	-1	172,575
Losses/(gains) on retirement of fixed assets	8,837	55
Financial income	538,286	553,835
Investment losses	-27,083	12,911
Decrease/(Increase) in deferred tax assets	-20,254	-288,636
Increase/(Decrease) in deferred tax liabilities	-4,167	-3,401
Decrease in gross inventories	6,582,590	1,224,141
Decrease in operating receivables	-6,704,432	4,959,821
Increase in operating payables	-8,294,338	-3,871,795
Safety costs	98,132	26,409
Others	-	10,636
Net cash outflow from operating activities	<u>-2,939,789</u>	<u>404,761</u>

(b) Changes in cash and cash equivalents:

<u>Item</u>	<u>2018</u>	<u>2017(Restated)</u>
Cash at the end of the year	2,173,580	2,533,437
Less: Cash at the beginning of the year	<u>2,533,437</u>	<u>2,472,046</u>
Net decrease in cash and cash equivalents	<u>-359,857</u>	<u>61,391</u>

(2) Details of cash and cash equivalents

<u>Item</u>	<u>2018</u>	<u>2017(Restated)</u>
Cash on hand	8,114	8,180
Bank deposits available on demand	2,160,530	2,488,623
Other monetary funds available on demand	<u>4,936</u>	<u>36,634</u>
Closing balance of cash	<u>2,173,580</u>	<u>2,533,437</u>
Add: Restricted cash	<u>29,861</u>	<u>14,538</u>
Closing balance of cash and cash equivalents	<u>2,203,441</u>	<u>2,547,975</u>

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

	<u>2018</u>							
	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
1. Balance at the end of the last year	14,142,661	8,925,950	-	202,477	200,383	-25,571,417	-1,372	-2,101,318
Adjustment for the acquisition of the acquired group Business combination under common control	—	—	—	—	—	—	—	—
2. Balance at the beginning of the year	14,142,661	8,925,950	-	202,477	200,383	-25,571,417	-1,372	-2,101,318
3 Changes in equity for the year (“-” for decreases)	4,841,679	2,784,813	11,676	98,132	-	142,056	1,372	7,879,728
(1) Total comprehensive income			11,676			142,056		153,732
(2) Increase or decrease of capital	4,841,679	2,785,110	-	-	-	-	1,372	7,628,161
a. Original stock of surplus reserve	4,841,679	2,796,036						7,637,715
b. Provision of other equity instrument holders								-
c. Share payments recognised in equity								-
d. Others		-10,926					1,372	-9,554
(3) Appropriation of profits	-	-	-	-	-	-	-	-
a. Appropriation for surplus reserve								-
b. Distributions to shareholders								-
(4) Transfer of equity	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	98,132	-	-	-	98,132
(a) Accrued				970,710				970,710
(b) Utilised				-872,578				-872,578
(6) Others		-297						-297
4. Balance at the end of the year	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410

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

	<u>2017(Restated)</u>							
	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
1.Balance at the end of the last year	14,142,661	8,897,232		176,068	200,383	-14,973,476	-1,276	8,441,592
Adjustment for the acquisition of the acquired group								-
Business combination under common control		18,082				-8,417		9,665
2. Balance at the beginning of the year	14,142,661	8,915,314	-	176,068	200,383	-14,981,893	-1,276	8,451,257
3Changes in equity for the year ("-" for decreases)	-	10,636	-	26,409	-	-10,589,524	-96	-10,552,575
(1) Total comprehensive income						-10,589,524	-96	-10,589,620
(2) Increase or decrease of capital	-	10,636	-	-	-	-	-	10,636
a.Original stock of surplus reserve								-
b.Provision of other equity instrument holders								-
c.Share payments recognised in equity	-	10,636	-	-	-	-	-	10,636
d.Others								-
(3) Appropriation of profits	-	-	-	-	-	-	-	-
a.Appropriation for surplus reserve								-
b.Distributions to shareholders								-
(4)Transfer of equity	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	26,409	-	-	-	26,409
(a)Accrued				702,477				702,477
(b)Utilised				-676,068				-676,068
(6)Others								-
4. Balance at the end of the year	14,142,661	8,925,950	-	202,477	200,383	-25,571,417	-1,372	-2,101,318

(a) Specific reserve

Under PRC ASBE, accrued production safety fund is recognised as expense in profit or loss and separately recorded as a specific reserve in shareholders' equity according to the national regulation. As using production safety fund, if it is profit or loss related, the cost of expenditure is directly charged against the specific reserves. While if it is capital expenditure related, the cost 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. Under IFRS, these expenses are recognised in profit or loss as and when incurred. Relevant capital expenditure are recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

8. OTHER ITEMS

7.4 Reconciliation statement of differences in the financial statements prepared under different financial reporting standards

The differences between and the financial statements prepared under IFRS and PRC ASBE are as follows:

	Net profit attributable to equity shareholders of the Company		Net assets attributable to the shareholders of the Company	
	("—" for losses)			
	For the year ended 31 December		At 31 December	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts under PRC ASBE	142,056	-10,589,524	5,778,410	-2,099,946
Adjustments under IFRS:				
Specific reserve (a)	98,132	26,409	-	-
Amounts under IFRS	251,864	-10,563,115	5,778,410	-2,099,946

(1) Annual Report

The Company will dispatch the 2018 Annual Report to its H shareholders in due course.

(2) Compliance with the Code of Corporate Governance Practices and the Model Code

For the year ended on 31 December 2018, the Company has complied with all the code provisions under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that:

The Company has not set up a nomination committee as at the end of the reporting period. But the Articles of Association of the Company has stipulated clear rules for the nomination of the Director candidates. Pursuant to the Articles of Association of the Company, the candidates for independent directors may be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than 1% of the issued shares of the Company. The candidates for other directors can be nominated by the Board, the Supervisory Committee, or shareholders holding individually or collectively more than 3% of the issued shares of the Company. All Directors should be elected by the shareholders' general meeting of the Company.

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

During the reporting period, the Audit Committee under the Board held four meetings and reviewed the Company's 2017 Financial Statements, Interim Report for 2018 and continuing connected transactions and formed its independent opinion.

The Audit Committee of the ninth session of the Board held the sixth meeting on 21 March 2019 and reviewed and passed the resolution regarding the 2018 Financial Statements, proposed re-appointment of the auditors of the Company and performance report of the Audit Committee of the Company.

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

During the year ended at 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

(4) A detailed Annual Report of the Company containing all the information required by Paragraphs 6 to 36 of Appendix 16 to the Listing Rules will be published on the website of the HKSE in due course.

This announcement is published in both Chinese and English. Should there be any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

By Order of the Board
Li Honghai
Secretary to the board

25 March 2019, Beijing

As at the date of this announcement, the Board of Directors comprises Mr. Liu Zhongyun⁺, 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*