Sinopec Oilfield Service Corporation

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

(Stock code: 1033)

Announcement of the interim results for the six months ended 30 June 2019

The Board of Directors ("**the Board**") of Sinopec Oilfield Service Corporation (the "**Company**") hereby presents the interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019.

1. IMPORTANT NOTES

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

1.2 The interim financial statements of the Company for 2019, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("**PRC ASBE**") and International Financial Reporting Standards ("**IFRS**"), are unaudited. The interim financial statements of the Company for 2019, which have been prepared in accordance with the IFRS, have been reviewed by Grant Thornton Hong Kong Limited.

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

1.4 This announcement of interim results is a summary of the 2019 Interim Report of the Company. For more details, investors should carefully read the full version of the 2019 Interim Report, which is published on the websites of the Shanghai Stock Exchange ("**SSE**") (website: http://www.sse.com.cn), The Stock Exchange of Hong Kong Limited ("**HKSE**") (website: http://www.hkex.com.hk) and the Company (website: http://ssc.sinopec.com).

2. BASIC INFORMATION OF THE COMPANY

2.1 Company Profile

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

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

2.1.2 Contact Persons and Contact Information

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

2.2 Principal financial data and financial indicators

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

	As at 30 June 2019 RMB'000	**As at 31 December 2018 RMB'000**	Increase/(Decrease) (%)
Total assets	66,064,838	60,904,715	8.5
Total liabilities	59,479,984	55,126,305	7.9
Total equity attributable to equity shareholders of the Company	6,584,854	5,778,410	14.0
Net assets per share attributable to equity shareholders of the Company (RMB)	0.35	0.30	16.7
	For the six months ended 30 June 2019 RMB '000	**For the six months ended 30 June 2018 RMB '000**	Increase/(Decrease) (%)
Profit attributable to equity shareholders of the Company	803,913	615,731	30.6
Basic and diluted earnings per share	RMB 0.042	RMB 0.034	23.5
Net cash used in operating activities	(709,159)	(3,515,042)	Not applicable
Return on net assets	12.21%	10.01%	Increased by 2.2 percentage points
Net cash used in operating activities per share	RMB (0.037)	RMB (0.185)	Not applicable

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

（1）Key financial data

	For the six months ended 30 June 2019 RMB'000	**For the six months ended 30 June 2018 RMB'000**		Increase/(Decrease) (%)
		Adjusted	Unadjusted	
Operating income	30,256,030	23,650,777	23,653,002	27.9
Operating profit	736,554	403,678	403,678	82.5
Profit before income tax	742,777	549,066	549,066	35.3
Net profit attributable to equity shareholders of the Company	509,428	400,949	400,949	27.1

Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	430, 060	463	463	92,785.5
Net cash inflow from operating activities ("-" for outflow)	-709,159	-3,515,042	-3,515,042	Not applicable
	As at 30 June 2019 RMB'000	**As at 31 December 2018 RMB'000**		Increase/(Decrease) (%)
		Adjusted	Unadjusted	
Total equity attributable to equity shareholders of the Company	6,584,854	5,778,410	5,778,410	14.0
Total assets	66,064,838	60,904,715	60,904,715	8.5

（2）Key financial indicators

	For the six months ended 30 June 2019	**For the six months ended 30 June 2018**	Increase/(Decrease) (%)
Basic earnings per share (RMB)	0.027	0.022	22.7
Diluted earnings per share (RMB)	0.027	0.022	22.7
Basic earnings per share deducted extraordinary gain and loss (RMB)	0.023	-	Not applicable
Weighted average return on net assets	8.44%	8.99%	Decreased by 0.55 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	7.13%	0.01%	Increased by 7.12 percentage points

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

Extraordinary gain and loss items	**Amount (RMB'000)**
Disposal of non-current assets	-1,437
Government grants recognized in profit or loss during the current period	21,728
Gains of debt restructuring	75,509
Other non-operating income and expenses excluding the aforesaid items	6,223
Effect of income tax	-22,655
Total	79,368

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

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000	As at 30 June 2019 RMB'000	As at 1 January 2019 RMB'000
PRC ASBE	**509,428**	400,949	**6,584,854**	5,778,410
Adjusted items and amounts in accordance with IFRS:				
Specific reserve (a)	**294,485**	214,782	**-**	-
IFRS	**803,913**	615,731	**6,584,854**	5,778,410
Explanations for difference	Please refer to the section 7.3 of the financial report in this announcement			

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

3.1 Changes in share capital

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

3.2 As at 30 June 2019, there were 143,985 shareholders in the Company, including 143,643 shareholders of A shares and 342 registered holders of H shares.

3.3 As at 30 June 2019, the shareholdings of the top ten shareholders of the Company are as follows:

Shareholdings of the top ten shareholders						
Names of shareholders	**Nature of shareholders**	**Changes of shareholdings [1] (shares)**	**Number of shares held at the end of the reporting period (shares)**	**Percentage to total share capital (%)**	**Number of shares with selling restrictions (shares)**	**Number of shares pledged or frozen**
China Petrochemical Corporation[2]	State-owned legal person	0	10,727,896,364	56.51	1,503,568,702	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") [3]	Overseas legal person	7,766	5,402,118,744	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	0	23,148,854	0.12	23,148,854	0
Huaan Fund-Industrial Bank –China Foreign Economy & Trade Co.Ltd	Others	0	13,333,300	0.07	0	0
Hu Xucang	Domestic natural person	0	6,200,189	0.03	0	0
Hangzhou Binnuo Asset Management Ltd-Binnuodongqi No.1 Private Securities Investment Fund	Others	4,804,051	4,804,051	0.03	0	0

Shareholdings of top ten shareholders of shares without selling restrictions

Name of shareholders	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
China Petrochemical Corporation	9,224,327,662	A Share
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”)	2,806,331,757	H Share
CITIC Limited	1,035,000,000	A Share
Darry Asset Management (Hangzhou) Co., Ltd.	133,333,333	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	66,666,666	A Share
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	66,666,666	A Share
Huaan Fund- Industrial Bank –China Foreign Economy & Trade Co.Ltd	13,333,300	A Share
Hu Xucang	6,200,189	A Share
Hangzhou Binnuo Asset Management Ltd-Binnuodongqi No.1 Private Securities Investment Fund	4,804,051	A Share
Li Guangming	4,565,000	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan and Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan belong to Donghai Fund Management Limited Company, the Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders.	

Note
1. As compared with the number of shares held as of 31 December 2018.
2. Apart from directly holding 10,727,896,364 A-shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H-shares through its wholly-owned subsidiary Sinopec Century Bright Capital Investment Company Limited. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.
3. "HKSCC (Nominees) Limited" is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the company on behalf of other companies or individual shareholders.
4. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

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

As far as known to the Directors, as at 30 June 2019, the following persons had an interest or short positions in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**") were as follows:

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

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

Save as disclosed above, as at 30 June 2019, as far as known to the Directors, no other person (other than Director, Supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which would as recorded in the register kept by the Company under Section 336 of the SFO.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in Directors, Supervisors and Senior Management

The thirteenth meeting of the 9th Session of the Board of Directors of the Company was held on 20 May 2019, Mr. Chen Xikun was elected as the Vice Chairman of the 9th Session of the Board of Directors of the Company, since 20 May 2019 due to the expiration of 9th Session of the Board (February 2021). Nominated by the Chairman, Mr. Yuan Jianqiang was appointed as General Manager of the Company since 20 May 2019 due to the expiration of 9th Session of the Board (February 2021).

The election of 2018 Annual General Meeting of the Company was held on 26 June 2019. Mr. Yuan Jianqiang and Mr. Xiao Yi were elected as directors of the 9th Session of the Board of Directors of the Company since 26 June 2019 due to the expiration of 9th Session of the Board (February 2021); Mr. Zhai Yalin was elected as supervisor of the 9th Session of the Supervisory Committee since 26 June 2019 due to the expiration of 9th Session of the Supervisory Committee (February 2021). Elected by Employee Representative Meeting of the Company held on 30 May 2019, Mr. Chen Weiguo was appointed as the employee representative supervisor of the 9th Session of the Supervisory Committee since 30 May 2019 due to the expiration of 9th Session of the Supervisory Committee (February 2021).

Mr. Sun Qingde, Vice Chairman and General Manager of the Company, ceased to serve as the Vice Chairman of the Board, Executive Director and Deputy Director of the Strategy Committee of the Board since 10 May 2019. Mr. Chen Xikun, Seputy General Manager, ceased to serve as Deputy General Manager of the Company since 20 May 2019. Mr Zou Huiping, Supervisor, ceased to serve as Supervisory of the Company since 30 May 2019 due to new working arrangement.

The Company would like to express its gratitude to Mr. Sun Qingde and Mr. Zou Huiping for their hard working and outstanding contribution to the Company.

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

At 30 June 2019, except for the Share Option Incentive Scheme and Qi Xin Gong Ying Scheme disclosed below, none of the Directors or Supervisors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the registry by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

Share Option Incentive Granted to Directors, Supervisors and Senior Management

Unit: Shares

Name	Position	Number of share options held at the beginning of reporting period	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Number of share options by the end of reporting period
Zhang Yongjie	Deputy Manager	133,000	0	0	0	133,000
Liu Rushan	Deputy Secretary of CPC Committee	133,000	0	0	0	133,000
ZuoYaojiu	Deputy Manager	126,000	0	0	0	126,000
Zhang Jinhong	Deputy Manager	126,000	0	0	0	126,000
Li Honghai	Secretary to the Board	98,000	0	0	0	98,000
Sun Qingde	Former Vice Chairman, General Manager	147,000	0	0	0	147,000
Total	/	763,000	0	0	0	763,000

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 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. Limited, and its shares shall be subscribed by the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB 60.65 million. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB 1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

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

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

4.3 Independent Non-Executive Director and Audit Committee

As at 30 June 2019, the Company has four independent non-executive directors, one of whom is professional in the accounting field and has experience in financial management.

The Audit Committee of the Board of the Company has been founded. The members of the Audit Committee include Ms. Jiang Bo, Mr. Pan Ying Mr. Chen Weidong, Mr. Dong Xiucheng and Mr. Xiao Yi. The main responsibilities of the Audit Committee are to review and supervise the Company's financial reporting procedures and internal control system, and to provide advice to the Board. The Audit Committee has reviewed and confirmed the interim results for the six months ended 30 June 2019.

5. MANAGEMENT DISCUSSION & ANALYSIS

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

5.1 Market review

In the first half of 2019, the global economy showed an overall recovery. However, the instability and uncertainties of international politics and the economy increased. The Chinese economy continued its generally stable and steady progress trend, and the Gross Domestic Product (GDP) increased by 6.3% over the corresponding period of last year. The international crude oil price basically maintained a wide range of fluctuations between USD 60–70 per barrel, which effectively supported the continuous recovery of the oilfield service market. The three major domestic oil companies increased the capital expenditure for upstream exploration and development, and the recovery of the domestic oilfield service market accelerated. For example, Sinopec, the largest customer of the Company, recorded a capital expenditure for upstream exploration and development of RMB 20.1 billion in the first half of 2019, representing a year-on-year increase of 86.8%. As a result, the oilfield services industry showed a steady recovery trend, and the oilfield services business continued to be active and the workload of the oilfield services market increased significantly.

In the first half of 2019, the Company achieved remarkable results in market expansion, the total newly signed contracts amounted to RMB 42.85 billion, representing a year-on-year increase of 24.6%, the total completed contracts amounted to RMB 30.96 billion, representing a year-on-year increase of 35.1%. In particular, the newly signed contracts in the Sinopec market amounted to RMB 22.98 billion, representing a year-on-year increase of 42.7%. The completed contracts amounted to RMB 19.07 billion, representing a year-on-year increase of 38.1%. The newly signed contracts in domestic external markets amounted to RMB 7.94 billion, representing a year-on-year increase of 9.2%, the completed contracts amounted to RMB 5.88 billion, representing a year-on-year increase of 63.3%. The newly signed contracts in overseas markets amounted to USD 1.72 billion, representing a year-on-year decrease of 2.0%, the completed contracts amounted to USD 0.88 billion, representing a year-on-year decrease of 7.1%.

5.2 Operation Review

For the six months ended 30 June 2019, the Company's consolidated revenue was RMB30,256,030,000, representing an increase of 27.9% compared to RMB 23,650,777,000 in the same period of last year. Net profit attributable to shareholders of the Company is RMB 509,428,000, increased by 27.1% compared to RMB 400,949,000 in the same period of last year; and basic earnings per share was RMB 0.027, increased by RMB 0.005 compared with the same period of last year.

In the first half of 2019, the Company's operating results achieved a steady growth, mainly attributable to the continuously increase of capital expenditure for upstream exploration and development of oil companies, and the continuous improvement in operating conditions of the oilfield service industry. As a result, the Company's major professional workload and operating income increased significantly year-on-year. The effects of deepening reform, strengthening management and internal potential exploration were appeared simultaneously. In the first half of the year, the gross profit margin of the Company's principal business reached 9.2%, representing an increase of 3.3 percentage points as compared with the corresponding period of last year.

In the first half of 2019, the Company actively played its role as the main force for oil and gas exploration and development, coordinated and optimized the market layout, reinforced the production organization of projects under construction and strengthened the refined management of projects. In the first half of the year, the major professional workload increased significantly year-on-year. The operating income increased by 27.9%. The operating performance has been improved steadily and the overall profitability has been continuously enhanced.

5.2.1 Geophysical service

In the first half of 2019, the Company's geophysical services business recorded a revenue from principal business of RMB 1,869,906,000, representing a decrease of 26.7% from RMB 2,552,178,000 for the corresponding period of last year. The completed 2D seismic exploration accumulated for 13,167 kilometers, representing a year-on-year increase of 2.5%; while the completed 3D seismic exploration accumulated for 5,152 square kilometers, representing a year-on-year decrease of 29.1%; the qualified rates of data records for both 2D and 3D seismic exploration are 100%. In the first half of the year, the accumulated new contract value of geophysical services amounted to RMB 2.71 billion, representing a year-on-year increase of 401.9%. While focusing on securing the exploration and development needs of Sinopec, the Company actively explored external markets and domestic and overseas markets such as seismic information collection for China Geological Survey. The accumulated new contract value amounted to RMB 150 million. The Company continued to improve the operation efficiency of the seismic information collection team, and effectively completed 2D information collection projects in Xinjiang, Eastern region, Bangladesh, Myanmar and Caribbean Sea, and 3D information collection projects in Tarim Basin and Algeria.

5.2.2 Drilling service

In the first half of 2019, the Company's drilling services business recorded a revenue from principal business of RMB16,779,456,000, representing an increase of 35.8% from RMB12,360,125,000 for the corresponding period of last year. The completed drilling footage reached 5,010 kilometers, representing a year-on-year increase of 30.1%. The Company actively and efficiently served Sinopec in exploration and development, coordinated and adjusted teams and equipment, and optimized production and operation. At the same time, the Company continued to strengthen technical breakthroughs, optimized construction techniques, improved construction quality and operation efficiency of drilling rigs, and fully guaranteed the construction of key production capacity in Weirong shale gas field, Shunbei oil and gas field, Ordos tight gas field and mature oil fields in Eastern China. The Company also seized the increasing market investment opportunities from PetroChina, CNOOC, local coalbed methane and Yanchang Group, and actively explored external markets such as shale gas, tight gas, coalbed methane and conventional oil and gas in Southwest China. In the first half of the year, the accumulated new contract value for drilling services in domestic and overseas markets amounted to RMB5.57 billion, representing a year-on-year increase of 43.6%.

5.2.3 Logging/mud logging service

In the first half of 2019, the Company's logging/mud logging services business recorded a revenue from principal business of RMB1,048,528,000, representing an increase of 51.8% from RMB690,604,000 for the corresponding period of last year. The completed logging projects accumulated for 122,560,000 standard meters, representing a year-on-year increase of 25.7%. The completed mud logging projects accumulated for 4,570,000 meters, representing a year-on-year increase of 44.2%. The Company seized the favorable opportunities arising from the market recovery and won workload through safe, high-quality and efficient services. To ensure the capacity of construction, Sinopec Group actively explored market opportunities such as PetroChina Southwest. The various quality and technical indicators of logging/mud logging services were maintained well, techniques such as ultra-high temperature and high-pressure logging, traction perforating and other technologies continued to improve, and new records were created for various indicators such as well depth logging and traction distance, providing technical support for exploration and development and key market guarantees.

5.2.4 Downhole operation service

In the first half of 2019, the Company's downhole operation services business recorded a revenue from principal business of RMB3,197,268,000, representing an increase of 56.7% as compared with RMB2,040,928,000 for the corresponding period of last year. The Company has completed downhole operation for 3,362 wells/times, with a year-on-year increase of 17.4%. The Company gave full play to the advantages of professionalism and integration in horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing, horizontal well repairment, high-pressure operations and coiled tubing, and focused on serving the capacity increase and stabilization of Sinopec Fuling shale gas project, production increase of tight gas in Ordos, production stabilization of mature oil fields in Eastern China and ultra-deep test of Shunbei oil and gas field, and actively explored the external markets from PetroChina such as Sichuan Basin deep shale gas and Changqing tight oil and gas.

5.2.5 Engineering and construction service

In the first half of 2019, the Company's engineering and construction services business recorded a revenue from principal business of RMB6,481,250,000, representing an increase of 23.3% as compared with RMB5,254,504,000 for the corresponding period of last year. In the first half of 2019, the Company has completed contracts valued of RMB6.92 billion, representing a year-on-year increase of 27.7%; the newly signed contracts were valued at RMB10.35 billion, representing a year-on-year increase of 2.0%. The Company fully promoted the construction of key projects such as Qianjiang-Shaoguan natural gas pipeline and Rizhao-Puyang-Luoyang crude oil pipeline. Meanwhile, the Company vigorously explored the market and successively won the bid for two sections of Qingdao-Nanjing gas pipeline, with a contract value of RMB4.02 billion, as well as Shaoguan-Guangzhou main line project for North Guangdong natural gas main pipeline network, 2 sections in Guilin of Guangxi LNG gas transmission pipeline and 8 sections of Shunbei off-line pipeline and other pipeline projects, with a total contract value of RMB860 million.

5.2.6 International business

In the first half of 2019, the Company's international business achieved a revenue of RMB 6,009,307,000, representing a decrease of 2.1% as compared with RMB 6,138,476,000 for the corresponding period of last year, accounting for 20.0% of the revenue from principal business of the first half of the year. In the first half of 2019, the Company fully committed to expanding overseas high-end market, carefully organized project implementation, and made positive progress in key market of scale. In Saudi Arabian market, the Company newly signed (renewed) 32 drilling rigs service contracts with a contract value of USD1.06 billion, of which 2 drilling rigs have been awarded 10-year service contracts; the Company signed a contract for the 3D seismic information collection project of Saudi Arabian Oil Company with a contract value of USD170 million; the Company firstly entered into new business in Saudi Arabia such as gas well drilling, oil well repairment and hydrogen sulfide testing; the Company also won the bid for the pipeline project of Saudi Arabian Oil Company, with a contract value of USD270 million. In the Ecuador market, the Company signed general contracting service contracts for 41 well drilling and completion projects, and won the bid for well drilling and completion general contracting service projects of COCA-PAYAMINO oilfield.

5.2.7 Technology Research & development

In the first half of 2019, the Company continued to promote the construction of its R&D system. In response to the actual conditions of key industrial regions such as “Northwest China, North China and Sichuan and Chongqing”, the Company focused on researching in key technologies such as deep shale gas, normal pressure shale gas and deep oil and gas reservoir, and enhanced key technologies such as tight oil and gas reservoir, beach shallow marine oil and gas reservoir and mature oil fields in East China. The on-site speed and efficiency improvement have achieved remarkable results. In the first half of the year, a total of 310 domestic and overseas patents were newly applied by the Company, of which 203 patents were granted. “A multi-directional offshore oil drilling jack-up platform” of the Company won the 2018 National Patent Excellence Award. Informatisation development has been continuously and effectively promoted, and the development of SICP intelligence oil service planform has been actively improved. Projects such as wellbore data collection and delivery, video intelligent monitoring, and integrated application of wellbore business have been accelerated.

5.2.8 Internal reform and management

In the first half of 2019, the Company continued to deepen the internal reform, further streamlined the institutions and staff, and reduce the institutional operating expenses; optimized the team structure and improved the productivity. In addition, the Company continued to deepen the reform of ancillary business, further promoted the professional integration of ancillary business, and improved the mechanism of contractual operation. The Company fully implemented the assessment of single-well/project by strengthening performance assessment and intensifying the linkage between compensation and efficiency. The Company has actively built a project management system with project management as the main body and Asset Swap and Leasing Center and Human Resources Allocation Center as the “two wings”. The Company also comprehensively managed the enterprise according to laws and regulations by strengthening risk inspection and prevention, and effective risk management and control. The Company continuously strengthened project quality management by strictly controlling procurement quality, and effectively improved the quality management. The “two extensions” of the industrial chain achieved positive progress. In the first half of the year, the newly signed contracts of cooperative development projects for difficult-to-use reserves were valued at RMB 580 million, by which, the Company promoted a number of downward-extending industrial chain projects such as instruments, advanced equipment, materials and tools, and achieved a revenue of RMB 240 million. The Company also strengthened the costs and target management of all employees, created its low-cost advantages focusing on reducing standby expenses, production and operation costs and institutional operation expenses, and achieve a cost reduction of RMB 470 million.

5.2.9 Capital Expenditure

In the first half of 2019, capital expenditure of the Company reached RMB 490 million. In the first half of 2019, the Company adhered to the “proactive and prudent” investment principle, optimized investment structure, strengthened resource coordination, and continued to play the leading and supporting role of investment, mainly for projects such as geophysical information collection and construction equipment and upgrading of drilling rigs.

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

As at 30 June 2019, the Group's total assets were RMB 66,064,838,000 and total liabilities were RMB 59,479,984,000. The total equity attributable to shareholders of the Company was RMB 6,584,854,000. Compared with the consolidated statement of financial position as at 31 December 2018 ("Compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB 66,064,838,000, increased by RMB 5,160,123,000 compared with that of the end of last year, including that (i) current assets were RMB 37,159,701,000, increased by RMB 5,117,217,000 compared with that of the end of last year, mainly due to the significant increase in workload in the first half of the year, resulting in an increase in contract assets of RMB 5,201,463,000. (ii) non-current assets were RMB 28,905,137,000, increased by RMB 42,906,000 compared with that of the end of last year, mainly due to the increase of Group's other non-current assets by RMB 62,780,000.

The total liabilities were RMB 59,479,984,000, increased by RMB 4,353,679,000 compared with that of the end of last year, including that (i) current liabilities were RMB 56,847,060,000, increased by RMB 3,856,658,000 compared with that of the end of last year, mainly due to an increase of RMB 2,271,851,000 of notes and trade receivables, an increase of RMB 1,822,763,000 of short-term loans from related parties in the first half of the year. (ii) non-current liabilities were RMB 2,632,924,000, increased by RMB 497,021,000 compared with that of the end of last year which is mainly due to the implementation of the new IFRS16 "Leases" in the first half of the year represented the condensed consolidated statement of financial position resulting in additional non-current lease liabilities of RMB 636,906,000.

Total equity attributable to shareholders of the Company was RMB 6,584,854,000, increased by RMB 806,444,000 compared with that of the end of last year. It mainly due to profit attributable to shareholders of the Company for the first half of 2019 was RMB 803,913,000.

As at 30 June 2019, the ratio of total liabilities to assets was 90.0%, comparing with 90.5% as at 31 December 2018.

In the first half of 2019, the Group's net cash outflow from operating activities was RMB 709,159,000, representing a decrease of cash outflow by RMB 2,805,883,000 as compared with the corresponding period of last year. This was mainly due to the increase in the workload of the Group, which led to an increase in the net cash inflow from project settlements in the first half of 2019.

In first half of 2019, the Group's net cash outflow from investing activities was RMB 697,409,000, an increase of cash outflow by RMB 419,582,000 as compared with the corresponding period of last year. It was mainly due to the increase cash paid for the acquisition of long-term assets such as fixed assets in the first half of 2019.

In the first half of 2019, the Group's net cash inflow from financing activities was RMB 1,116,539,000, a decrease of cash inflow by RMB 2,197,695,000 compared with the corresponding period of last year. It was mainly due to the receipt of the funds raised by the non-public placement in the first half of last year and the use of part of the raised funds to repay loans.

As at 30 June 2019, the Group's borrowings from related companies were RMB 19,841,327,000 (as at 31 December 2018: RMB 18,142,373,000). These borrowings include the short-term borrowings of RMB 19,428,845,000 and the long-term borrowings due more than one year of RMB 412,482,000. As at 30 June 2019, approximately 82.9% of the borrowings were denominated in Renminbi (as at 31 December 2018: 80.5%) and approximately 17.1% were denominated in US Dollars (as at 31 December 2018: 19.5%).

As at 30 June 2019, the gearing ratio of the Group was 75.2% (as at 31 December 2018: 74.6%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity).

5.4 Statement of operation by industry

Industry	Operating income for the first half of 2019 RMB '000	Operating cost for the first half of 2019 RMB '000	Gross profit margin (%)	Increase/ (Decrease) in operating income as compared with last year (%)	Increase/ (Decrease) in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	1,869,906	1,776,054	5.0	-26.7	-26.3	Decreased by 0.6 percentage points
Drilling	16,779,456	15,109,872	10.0	35.8	29.6	Increased by 4.3 percentage points
Logging/ Mud logging	1,048,528	831,110	20.7	51.8	23.5	Increased by 18.1 percentage points
Downhole operation	3,197,268	2,946,624	7.8	56.7	51.5	Increased by 3.1 percentage points
Engineering and Construction	6,481,250	5,952,019	8.2	23.3	22.9	Increased by 0.3 percentage points
Other	633,588	635,173	-0.3	48.4	46.9	Increased by 0.9 percentage points
Total	30,009,996	27,250,852	9.2	28.7	24.1	Increased by 3.3 percentage points

5.5 Statement of operation by regions

Region	Operating income for the first half of 2019 RMB '000	Increase/ (decrease) as compared with the corresponding period of last year (%)
Mainland China	24,000,689	39.6
Hong Kong, Macau, Taiwan and overseas	6,009,307	-2.1

5.6 Business prospects

Looking forward to the second half of 2019, the global political and economic uncertainties will increase significantly, and the global economic recovery will slow down. However, the stable and healthy fundamentals of China's economic development remain unchanged, and the overall trend of long-term stable and positive development remains unchanged. The supply and demand in the global crude oil market will generally remain balanced, and it is expected that the international oil price will be more likely to fluctuate between USD 60-70 per barrel. Meanwhile, with the continuous deepening of China's supply-side structural reform in energy industry, the demand for clean energy such as natural gas will maintain rapid growth. Under the requirements of ensuring national energy strategy security, the three major domestic oil companies will continue to increase their capital expenditure in upstream exploration and development. As a result, the oilfield service industry will continue to recover in the second half of the year, and the operating results of the oilfield service industry will continue to improve steadily.

In the second half of 2019, the Company will continue to seize the favorable opportunities arising from the recovery of the oilfield services market, and continue to be market-oriented, to optimize the market layout and fully expand the market. The Company planned to achieve a newly signed contract value over RMB 25 billion, and a completed contract value over RMB 34 billion in the second half of the year. In addition, focusing on efficiency improvement, the Company will strengthen refined management of projects, strengthen technological innovation and application, and improve project operation efficiency; further strengthen cost control, strive to expand operating results and improve the corporate development quality.

5.6.1 Geophysical service

In the second half of 2019, the Company will effectively serve the exploration and development of domestic and overseas oil companies, continue to strengthen the efficiency exploration with project management as the core, and improve the operation efficiency of domestic and overseas projects. In overseas land and offshore markets such as Africa, the Middle East, South America and Southeast Asia, we will strengthen the development, strive for high quality seismic information collection projects and expand its integrated collection and processing projects. In new business markets such as non-seismic, surveying and mapping, measurement, etc., we will actively expand and cultivate business growth points. In the second half of the year, the Company plans to complete the 2D seismic information collection of 8,000 kilometers and the 3D seismic information collection of 12,000 square kilometers.

5.6.2 Drilling service

In the second half of 2019, the Company will strengthen the service of high-efficiency exploration and efficiency development in the upstream of Sinopec Group, strengthen the scientific operation of the team, strengthen the support of production enhancement technology to ultra-deep wells, shale gas, tight oil and gas and the mature oil fields in Eastern China, and make good efforts in the construction of key projects such as Weirong shale gas, West Sichuan marine gas field, Shunbei oil and gas field and North China tight gas field. Leveraging the technological advantages of integrated services, the Company will continue to expand the coverage of both domestic and overseas markets such as PetroChina and CNOOC; continue to expand the market share of domestic shale gas, conventional oil and gas, coalbed methane, etc., and to achieve stable operation in key overseas markets such as the Middle East, Africa and America, continuously expanding market share. In the second half of the year, a drilling footage of 4,800,000 meters is planned to be completed.

5.6.3 Logging/mud logging service

In the second half of 2019, the Company will continue to improve the professional technology system for logging/mud logging service, expand the application of various new technologies for logging/mud logging, and continue to improve the support capacity of exploration and development services. The Company will actively expand the overseas service business of logging/mud logging, accelerate the expansion of scale and effective market based on the existing markets of Central Asia and the Middle East. The Company will also continue to strengthen the promotion and application of multi-level horizontal well perforation and integrated geological orientation of testing, logging and locating, and actively explore the unconventional oil and gas market. In the second half of the year, the Company plans to complete a logging of 120,000,000 standard meters, and a mud logging footage of 3,800,000 meters.

5.6.4 Downhole operation service

In the second half of 2019, the Company will continue to improve its support capabilities of exploration and development services, constantly improve the engineering technology system of special downhole operation; further expand the market of conventional oil and gas and unconventional oil and gas, and develop the market of shale gas pressure cracking in Sichuan and Chongqing, to contribute to the production increase in domestic shale gas; strengthen high-end businesses such as high-pressure operations and intelligent coiled tubing, to further expand the high-end technology service market; continue to expand and strengthen the overseas well repairment market to expand the scale of the international market. In the second half of the year, we plan to complete the 3,500 downhole operations

5.6.5 Engineering and construction service

In the second half of 2019, the Company will effectively promote the construction of key projects under construction, including Qianjiang-Shaoguan natural gas pipeline, Ordos-Anping-Cangzhou natural gas pipeline, Rizhao-Puyang-Luoyang crude oil pipeline, Qingdao-Nanjing gas pipeline and Nanchuan Shuijiang-Fuling Baitao gas pipeline; continue to increase efforts in market expansion of key projects such as domestic oil and gas pipelines and coal chemical by leveraging its technological advantages in oil and gas pipeline construction, striving to sign high quality and efficient projects. The Company will also strengthen management and control over subcontractors and project subcontracting to ensure project progress and efficiency; and actively expand overseas pipeline, station projects and road and bridge projects. In the second half of the year, we plan to sign new contracts valued at RMB 7 billion and complete contracts valued at RMB 8 billion.

5.6.6 International Business

In the second half of 2019, the Company will, as always, vigorously implement the "internationalization" business strategy. In particular, the Company will optimize the layout of overseas markets while steadily expanding the market share of its conventional advantageous projects, actively explore the high-end service market, continue to expand the market size, focusing on the wellbore and engineering construction projects in Saudi Arabia, the well repairment machine service project in Kuwait, the well drilling and completion general contracting service project Ecuador, the wellbore, geophysical and engineering construction projects in Algeria, etc. The Company will also continue to strengthen project supervision, overseas public security and HSE supervision to constantly improve project efficiency. In the second half of the year, we plan to sign new contract valued at USD 480 million and complete contracts valued at USD 1.02 billion.

5.6.7 Technology Research & development

In the second half of 2019, the Company will, closely focusing on the key exploration and development projects such as the construction of production capacity of Shunbei extra-deep oil and gas reservoir, the development of Weirong shale gas and the cooperation of difficult-to-use reserves in Eastern China, strengthen the in-depth integration of engineering and geology, strengthen the in-depth connection between technology and site, focusing on the research and development of key technology for the efficient development of deep shale gas; accelerate the breakthrough of key technology for the deep oil and gas reservoir, strengthen and improve the supporting technology for exploration and development of tight oil and gas reservoir, actively develop the high-precision and high-density seismic exploration technology, and enhance the ability to solve the problems of high-efficiency exploration and efficiency development.

5.6.8 Internal Reform and Management

In the second half of 2019, the Company will continue to deepen the internal reform, clarify the functional positioning and streamline the management relationship in accordance with the overall deployment of "improving governance, strengthening incentives, highlighting main business and enhancing efficiency". The Company will vigorously promote the streamlining of organization and institution and personnel and build a high-quality and efficient organization; optimize the team structure, to establish a market-oriented team management model, improve the service quality and standard of the team, and enhance and strengthen the principal business; promote the optimization and integration of ancillary business to further improve the contractual operation mechanism and promote professional, market-oriented and social operation; strengthen performance assessment, comprehensively promote single-well/project assessment, to further highlight efficiency orientation and form innovation and create synergy for all employees. The Company will unswervingly follow the path of project management, to establish and improve the "one body, two wings" project management system, make full use of the two platforms (namely Asset Swap and Leasing Center and Human Resources Allocation Center) to coordinate and optimize the resource allocation, and strive to move towards refined management and lean management. The Company will continue to improve the comprehensive risk management system, comprehensively promote corporate governance according to laws and regulations, and promote the in-depth integration of risk control, internal control and specific business. The Company will also strengthen the cost control of all employees, all elements and the whole process by seizing the key process and key areas and strictly controlling non-production expenses, so as to ensure the smooth realization of the cost reduction target formulated at the beginning of the year.

5.6.9 Capital expenditure

In the second half of 2019, our planned capital expenditure is RMB 2.01 billion. The Company will focus on economic benefits, continue to enhance its service exploration and development capabilities, strengthen resource integration and coordination, focusing on ensuring urgent production needs, enhancing technical service capabilities, upgrading and transformation of equipment with potential safety and environmental protection risks, and adaptability transformation of equipment for the "going global" projects already obtained. By further promoting the transformation of development mode and adjustment of market structure through investment, the Company will cultivate its core competitiveness.

6. SIGNIFCANT EVENTS

6.1 Final dividends for 2018, interim dividends for 2019 and proposal on issue of shares by capitalizing the common reserves

（1）Final dividends for 2018

Due to the fact that the Company's undistributed profit for the year ended 31 December 2018 was negative, as proposed by the Board and approved by shareholders at 2018 annual general meeting held on 26 June 2019, the Company did not distribute any final dividend for the year ended 31 December 2018. Therefore, the Company did not have any profit distribution plan to implement during the reporting period.

（2）Interim dividends for 2019 and proposal on issue of shares by capitalizing the common reserves

In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend would be distributed for the year ended 31 December 2019, and no issue of bonus shares by way of capitalization of common reserves.

6.2 During the reporting period, the Company was involved in material litigation or arbitration.

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

On 15 July 2019 (Brazil Time), the Brazil Subsidiary received a ruling from the Court of Rio on the approval of the judicial reorganization plan of the Brazil Subsidiary. For details, please refer to the "Announcement on Approval of Judicial Reorganization Plan of an indirectly wholly-owned overseas subsidiary by overseas Court" (P. 2019-032) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", www.sse.com.cn on 19 July 2019 and disclosed at www.hkexnews.hk on 18 July 2019.

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

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

6.5 Information on material connected transactions

The Company's material connected transactions entered into during the six months ended 30 June 2019 were as follows:

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

The nature of the transaction classification	Connected parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials	China Petrochemical Corporation and its subsidiaries	4,519,246	35.1
Sales of products	China Petrochemical Corporation and its subsidiaries	67,337	30.2
Rendering engineering services	China Petrochemical Corporation and its subsidiaries	18,199,681	60.7
Receiving of community services	China Petrochemical Corporation and its subsidiaries	181,912	100
Rental expenses	China Petrochemical Corporation and its subsidiaries	8,311	1.1
Interest expenses	China Petrochemical Corporation and its subsidiaries	384,288	78.7
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	16,917,831	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	15,224,918	100
Safety and insurance fund expenses	China Petrochemical Corporation	40,321	100

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

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

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

Unit: RMB'000

Connected parties	Connected relation	Funds provided to connected party			Funds provided to the Company by connected party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	7,729,550	-1,425,536	6,304,014	6,249,664	2,101,395	8,351,059

Sinopec Finance Company Limited	Subsidiary companies of the controlling shareholders	-	-	-	9,600,000	340,000	9,940,000
Sinopec Century Bright Capital Investment Limited	Subsidiary companies of the controlling shareholders	-	-	-	3,542,373	-141,046	3,401,327
Total		7,729,550	-1,425,536	6,304,014	19,392,037	2,300,349	21,692,386
Causes of connected claims and debts		Normal production and operation					
Influence of connected claims and debts on the Company’s performance and financial situation		No material adverse effects					

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

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

6.6 Material contracts and performance

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

（b）Leasing Matters

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

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

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

（c）Guarantees 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	-1,426,953
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	12,580,914
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total Guarantees（A+B）	12,580,914
Total Amount of Guarantees as a Percentage of the Company’s Net Asset (%)	191.1
Among them:	
Amount of Guarantees provided to Subsidiaries, Actual Controllers and their related Parties (C)	0
Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	12,580,914
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	9,288,487
Sum of the three Guarantees above (C+D+E)	21,869,401
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.

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

6.7 **Analysis of investment situation**

（a）Investment in securities

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

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

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

（c）Equities of financial institutions held by the Company

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

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

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

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

6.8 The special undertakings made by the Company and its shareholders holdings more than 5% and the performance of the undertakings as of 30 June 2019:

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

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

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

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

7. INTERIM FINANCIAL REPORT

7.1 Interim financial report prepared in accordance with IFRS

The following financial information has been extracted from the Company's unaudited interim financial report, prepared in accordance with IFRS, for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	**30,256,030**	23,653,002
Cost of sales and taxes and surcharges		**(27,318,498)**	(22,160,834)
Gross profit		**2,937,532**	1,492,168
Selling expenses		**(25,300)**	(23,531)
General and administrative expenses		**(1,060,520)**	(1,082,012)
Research and development expenses		**(479,782)**	(240,196)
Finance expenses – net	5	**(455,088)**	(163,624)
Reversal of expected credit loss – net	6	**4,188**	121,880
Share of profit/(loss) from joint ventures		**9,410**	(2,969)
Operating profit		**930,440**	101,716
Other income	7	**127,629**	685,275
Other expenses	8	**(20,807)**	(23,143)
Profit before income tax	9	**1,037,262**	763,848
Income tax expense	10	**(233,349)**	(148,117)
Profit for the period		**803,913**	615,731
Other comprehensive income for the period, net of tax		**-**	-
Profit attributable to owners of the Company and total comprehensive income for the period		**803,913**	615,731
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	11		
Basic and diluted		**0.042**	0.034

Note:
The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.1.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	**22,247,644**	24,206,172
Right-of-use assets	15	**2,089,301**	-
Other non-current assets		**3,717,292**	3,654,512
Prepaid land leases	16	**-**	118,335
Intangible assets		**79,970**	118,940
Interests in joint ventures		**228,223**	218,813
Interests in associates		**12,903**	14,010
Financial assets at fair value through other comprehensive income		**39,011**	39,011
Deferred tax assets		**490,793**	492,438
Total non-current assets		**28,905,137**	28,862,231
Current assets			
Inventories	20	**1,254,681**	1,217,323
Notes and trade receivables	17	**15,398,756**	16,111,200
Prepayments and other receivables	18	**4,309,737**	3,444,501
Contract assets	19	**14,267,482**	9,066,019
Restricted cash		**43,171**	29,861
Cash and cash equivalents		**1,885,874**	2,173,580
Total current assets		**37,159,701**	32,042,484
Total assets		**66,064,838**	60,904,715

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

	Notes	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Equity			
Share capital	21	**18,984,340**	18,984,340
Reserves		**(12,399,486)**	(13,205,930)
Total equity		**6,584,854**	5,778,410
Liabilities			
Non-current liabilities			
Long term borrowings	25	**1,891,006**	1,377,909
Deferred income		**132,552**	139,594
Deferred tax liabilities		**21,662**	22,658
Provisions		**587,704**	595,742
Total non-current liabilities		**2,632,924**	2,135,903
Current liabilities			
Notes and trade payables	23	**29,331,355**	27,059,504
Other payables	24	**3,858,206**	3,523,748
Contract liabilities	19	**3,362,264**	4,390,293
Short term borrowings	25	**19,933,543**	17,755,104
Current income tax payable		**361,692**	261,753
Total current liabilities		**56,847,060**	52,990,402
Total liabilities		**59,479,984**	55,126,305
Total equity and liabilities		**66,064,838**	60,904,715
Net current liabilities		**(19,687,359)**	(20,947,918)
Total assets less current liabilities		**9,217,778**	7,914,313

Note:
The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.1.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21)							
At 1 January 2019	18,984,340	11,622,283	88,480	200,383	300,609	11,676	(25,429,361)	5,778,410
Profit and total comprehensive income for the period	-	-	-	-	-	-	803,913	803,913
Transactions with owners:								
Appropriation of specific reserve	-	-	-	-	501,235	-	(501,235)	-
Utilisation of specific reserve	-	-	-	-	(206,750)	-	206,750	-
Equity settled share-based transaction (Note 22)	-	-	2,531	-	-	-	-	2,531
Total transactions with owners	-	-	2,531	-	294,485	-	(294,485)	2,531
At 30 June 2019 (Unaudited)	18,984,340	11,622,283	91,011	200,383	595,094	11,676	(24,919,933)	6,584,854

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

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

CONDSENDED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash flows used in operations	**(655,622)**	(3,352,315)
Interest received	**79,224**	35,114
Income tax paid	**(132,761)**	(197,841)
Net cash used in operating activities	**(709,159)**	(3,515,042)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(717,565)**	(308,535)
Purchases of intangible assets	**(370)**	-
Proceeds from disposal of property, plant and equipment	**10,210**	16,272
Proceeds from disposal of other non-current assets	**9,020**	14,436
Dividends received from joint venture	**1,296**	-
Net cash used in investing activities	**(697,409)**	(277,827)
Cash flows from financing activities		
Proceeds from borrowings	**16,917,831**	17,059,753
Repayments of borrowings	**(15,224,918)**	(17,343,880)
Payment of lease liabilities/ finance lease liabilities	**(171,426)**	(17,965)
Interests paid	**(404,948)**	(302,487)
Proceeds from issuance of new shares	**-**	7,637,715
Payment for Sinopec Group capital restructuring funds	**-**	(2,600,000)
Payment for profit arising during major assets restructuring	**-**	(1,118,902)
Net cash generated from financing activities	**1,116,539**	3,314,234
Net decrease in cash and cash equivalents	**(290,029)**	(478,635)
Effect of foreign exchange rate changes on cash and cash equivalents	**2,323**	167,484
Cash and cash equivalents at the beginning of the period	**2,173,580**	2,523,356
Cash and cash equivalents at the end of the period	**1,885,874**	2,212,205

1 General information and the Reorganisation

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

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

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

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

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

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 interim financial information 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 2.2 for the details.

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 27 August 2019.

2 BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

As at 30 June 2019, the Group had net current liabilities of approximately RMB19,687,359,000 (31 December 2018: RMB20,947,918,000) and capital commitments of approximately RMB219,269,000; and it had a net profit of RMB803,913,000 for the period then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In April 2019, the Group obtained a line of credit of RMB14 billion and USD0.6 billion (Total: approximately RMB18.2 billion), and line of credit promissory note of RMB7 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements, and considered that going concern basis is appropriate for the preparation of this interim financial information.

2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

On 28 December 2018, Sinopec Oilfield Service Co., Ltd. ("SOSC"), a wholly-owned subsidiary of the Company, and Nanjing Weinuo Oil & Gas Well Logging Engineering Co., Ltd. ("Nanjing Weinuo") entered into an equity transfer agreement (the "Agreement"). Pursuant to the Agreement, SOSC agreed to acquire and Nanjing Weinuo agreed to dispose of the entire equity interest in Jiangsu Oilfield Service and Construction Corporation ("Jiangsu Oilfield") for a cash consideration of approximately RMB7,388,000. The acquisition was completed on 31 December 2018. As SOSC and Jiangsu Oilfield are ultimately controlled by Sinopec Group, the business combination was regarded as under common control. The consolidated financial statements of the Group have been prepared using the merger accounting basis as if the current group structure had been in existence throughout the periods presented. Since financial statements of Jiangsu Oilfield as at 30 June 2018 does not have material impact to the interim financial information, the comparative information in this interim financial information has not been restated.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

3.1 Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's interim financial information:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

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

<u>IFRS 16 "Leases"</u>

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations IFRIC-Int 4 "Determining whether an Arrangement contains a Lease", SIC – Int 15 "Operating Leases-Incentives" and SIC – Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of equity for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC-Int 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC-Int 4. The Group has already reclassified assets under finance lease and prepaid land leases for leasehold land where the Group is a lessee to "right-of-use assets".

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Group has applied the practical expedient not to recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.83%.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.1 Application of new and amendments to IFRSs (Continued)

IFRS 16 "Leases" (Continued)

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (note 26(ii)) to the lease liabilities recognised at 1 January 2019:

	At 1 January 2019
	RMB'000
Total operating lease commitments disclosed at 31 December 2018（Note 26(ii)）	382,990
Less: Recognition exemptions:	
- Leases with remaining lease term of less than 12 months	(144,507)
Add: Extension option reasonably certain to be exercised	825,742
Total minimum lease payment under IFRS 16 at 1 January 2019	1,064,225
Less: Total future interest expenses	(119,746)
	944,479
Add: Minimum lease payment of finance lease liabilities at 31 December 2018	990,640
Lease liabilities recognised under IFRS 16 at 1 January 2019	1,935,119

Lease liabilities	**RMB'000**
Current	459,324
Non-current	1,475,795
Lease liabilities recognised under IFRS 16 at 1 January 2019	1,935,119

The following table summarises the impact of transition to IFRS 16 on the Group's condensed consolidated statement of financial position:

	Carrying amount on 31 December 2018	Capitalisation of operating lease	Reclassification	Carrying amount on 1 January 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	-	944,479	1,115,660	2,060,139
Property, plant and equipment	24,206,172	-	(997,325)	23,208,847
Prepaid land leases	118,335	-	(118,335)	-
Total non-current assets	28,862,231	944,479	-	29,806,710
Short term borrowings (note (a))	17,755,104	310,302	-	18,065,406
Current liabilities	52,990,402	310,302	-	53,300,704
Long term borrowings (note (b))	1,377,909	634,177	-	2,012,086
Non-current liabilities	2,135,903	634,177	-	2,770,080
Total equity	5,778,410	-	-	5,778,410

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.1 Application of new and amendments to IFRSs (Continued)

<u>IFRS 16 "Leases" (Continued)</u>

Note:

(a) At 31 December 2018, finance leases liabilities under "Short term borrowings"(note 25) amounting to RMB149,022,000 had been reclassified to lease liabilities under "Short term borrowings"(note 25).

(b) At 31 December 2018, finance leases liabilities under "Long term borrowings" (note 25) amounting to RMB841,618,000 had been reclassified to lease liabilities under "Long term borrowings" (note 25).

3.2 Significant accounting policies

The interim financial information have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2018, except for the effects of applying IFRS 16.

Leases

(i) The Group as a lessee

<u>Applicable from 1 January 2019</u>

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

(i) the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

(ii) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

(iii) the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

3.2 Significant accounting policies (Continued)

Leases (Continued)

(i) The Group as a lessee (Continued)

Applicable from 1 January 2019(Continued)

Measurement and recognition of leases as a lessee (Continued)

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

3.2 Significant accounting policies (Continued)

Leases (Continued)

(i) The Group as a lessee (Continued)

Applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets, are included in "property, plant and equipment" and the corresponding liabilities, net of finance charges, are recorded as "finance lease liabilities".

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

3.2 Significant accounting policies (Continued)

Leases (Continued)

(i) The Group as a lessee (Continued)

Applicable before 1 January 2019(Continued)

Operating leases

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

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

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Geophysics	**1,869,906**	2,552,187
Drilling engineering	**16,779,456**	12,390,817
Logging and mud logging	**1,048,528**	695,110
Special downhole operations	**3,197,268**	2,043,192
Engineering construction	**6,481,250**	5,291,485
Others	**879,622**	680,211
	30,256,030	23,653,002

Segment information

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

Five reportable operating segments are as follows:

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

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

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

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

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

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 six months ended 30 June 2019 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2019 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,869,906	16,779,456	1,048,528	3,197,268	6,481,250	879,622	-	30,256,030
Inter-segment revenue	3,876	782,349	273,910	146,431	121,828	679,375	(2,007,769)	-
Reportable segment revenue	1,873,782	17,561,805	1,322,438	3,343,699	6,603,078	1,558,997	(2,007,769)	30,256,030
Reportable segment (loss)/profit	(36,158)	1,215,590	142,319	128,386	75,372	(595,069)	-	930,440
Other income	4,118	37,128	1,211	801	52,600	31,771	-	127,629
Other expenses	(2,411)	(6,065)	(5,163)	(1,539)	(4,710)	(919)	-	(20,807)
(Loss)/Profit before income tax	(34,451)	1,246,653	138,367	127,648	123,262	(564,217)	-	1,037,262
Income tax expense								(233,349)
Profit for the period								803,913

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

For the six months ended 30 June 2019 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2019 (Unaudited)								
Supplementary information								
Depreciation and amortisation								
-- Property, plant and equipment	169,518	791,275	85,533	190,521	96,500	105,635	-	1,438,982
-- Right-of-use assets	14,539	93,631	8,186	46,994	20,930	31,099	-	215,379
-- Other non-current assets	20,817	622,477	18,707	68,472	5,913	53,460	-	789,846
-- Intangible assets	9	32,610	852	290	3,434	2,145	-	39,340
Capital expenditure								
-- Property, plant and equipment	436,573	26,097	1,046	22,156	3,263	3,995	-	493,130
-- Right-of-use assets	504	56,311	9,016	97,655	60,575	20,194		244,255
-- Intangible assets	-	-	-	370	-	-	-	370
(Reversal of provision)/ Provision for ECL on trade receivables, net	(358)	25,702	(9,536)	(6,042)	(67,936)	1,480	-	(56,690)
(Reversal of provision)/ Provision for ECL on other receivables, net	(30)	6,496	87	367	30,610	87	-	37,617
(Reversal of provision)/ Provision for ECL on contract assets	(485)	5,909	861	1,230	3,165	4,205	-	14,885
As at 30 June 2019 (Unaudited)								
Assets								
Segment assets	4,732,609	40,662,886	2,996,913	7,314,510	22,946,351	23,120,590	(35,709,021)	66,064,838
Liabilities								
Segment liabilities	3,454,012	28,817,367	1,779,903	4,036,474	22,846,579	34,254,670	(35,709,021)	59,479,984

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

As at 31 December 2018 and for the six months ended 30 June 2018, the segment results, assets and liabilities were as follows:

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

As at 31 December 2018 and for the six months ended 30 June 2018, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2018 (Unaudited)								
Supplementary information								
Depreciation and amortization								
-- Property, plant and equipment	209,323	818,751	84,407	196,708	96,406	109,157	-	1,514,752
-- Other non-current assets	24,265	563,190	15,096	50,814	5,424	19,304	-	678,093
-- Prepaid land leases	-	214	208	934	224	-	-	1,580
-- Intangible assets	177	32,187	570	318	2,784	2,947	-	38,983
Capital expenditure								
-- Property, plant and equipment	9,530	14,635	280	24,499	8,864	4,105	-	61,913
(Reversal of provision) / Provision for ECL on trade receivables, net	(3,889)	(10,830)	(3,753)	(1,751)	(131,400)	4,180	-	(147,443)
(Reversal of provision) / Provision for ECL on other receivables, net	(1,224)	4,104	235	162	20,697	1,589	-	25,563
As at 31 December 2018 (Audited)								
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)

(b) Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	**24,246,723**	17,499,389
Middle East	**3,481,141**	3,555,372
Other countries	**2,528,166**	2,598,241
	30,256,030	23,653,002

	Specified non-current assets	
	As at 30 June 2019	As at 31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	**22,987,213**	24,470,738
Other countries	**5,388,120**	3,860,044
	28,375,333	28,330,782

(c) Major customer

For the six months ended 30 June 2019 and 2018, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	**18,336,908**	13,273,478

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction accounted for 61% (2018: 56%) of the Group's revenue.

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

(d) Analysis on revenue from contracts

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

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:							
– At a point in time	**-**	**16,359**	**-**	**-**	**18,077**	**209,912**	**244,348**
– Over time	**1,869,906**	**16,763,097**	**1,048,528**	**3,197,268**	**6,463,173**	**669,710**	**30,011,682**
Total	**1,869,906**	**16,779,456**	**1,048,528**	**3,197,268**	**6,481,250**	**879,622**	**30,256,030**

For the six months ended 30 June 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 and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:							
– At a point in time	-	8,768	-	2,292	1,922	99,781	112,763
– Over time	2,552,187	12,382,049	695,110	2,040,901	5,289,563	580,429	23,540,239
Total	2,552,187	12,390,817	695,110	2,043,193	5,291,485	680,210	23,653,002

5 FINANCE EXPENSES - NET

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income		
- Sinopec Group's subsidiaries	**1,390**	702
- Third-party and other financial institutions	**77,834**	34,412
Exchange gains, net	**-**	115,868
	79,224	150,982
Finance expenses		
Interest expenses on loans wholly repayable within 5 years		
- Sinopec Group and its subsidiaries	**(375,754)**	(275,566)
- Third-party and other financial institutions	**(56,427)**	(1,827)
Interest expenses on lease liabilities/((2018: Interest expenses on finance lease liabilities)		
- Sinopec Group and its subsidiaries	**(8,534)**	-
- Associates and joint ventures of Sinopec Group	**(47,445)**	(6,071)
Exchange losses, net	**(18,761)**	-
Bank and other charges	**(27,391)**	(31,142)
	(534,312)	(314,606)
	(455,088)	(163,624)

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reversal of ECL on trade and other receivables, net	**(19,073)**	(121,880)
ECL on contract assets	**14,885**	-
	(4,188)	(121,880)

7 OTHER INCOME

	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Gain on disposal of other non-current assets, net	**1,238**	2,714
Government grants (Note)	**26,194**	515,849
Waived payables	**14,709**	10,001
Penalty income	**3,845**	664
Compensation received	**3,466**	329
Gain on debt restructuring	**75,509**	147,330
Others	**2,668**	8,388
	127,629	685,275

Note:

For the six months ended 30 June 2019 and 2018, government grants primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

8 OTHER EXPENSES

	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Loss on disposal of property, plant and equipment, net	**2,675**	1,819
Loss on scraps of assets	**87**	418
Penalty	**4,074**	2,911
Compensation	**2,310**	7,320
Others	**11,661**	10,675
	20,807	23,143

9 PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs, including directors and supervisors emoluments	**7,479,293**	6,811,475
Retirement benefit plan contribution (including in the above mentioned staff costs)		
—Municipal retirement scheme costs	**646,194**	622,855
—Supplementary retirement scheme costs	**173,261**	165,038
Share options granted to directors and employees (including in the above mentioned staff costs)	**2,531**	-
Changes in inventories of finished goods and work in progress	**59,369**	50,985
Raw materials and consumables used	**8,373,042**	5,350,016
Depreciation and amortisation		
—Property, plant and equipment	**1,438,982**	1,514,752
—Right-of-use assets (note)	**215,379**	-
—Other non-current assets	**789,846**	678,093
—Prepaid land leases (note)	**-**	1,580
—Intangible assets	**39,340**	38,983
Operating lease expenses		
—Property, plant and equipment held under operating leases (note)	**-**	682,308
—Short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16	**780,946**	-
Provision/(Reversal of provision) for ECL - net		
—Trade and other receivables	**(19,073)**	(121,880)
—Contract assets	**14,885**	-
Rental income from property, plant and equipment after relevant expenses	**(19,470)**	(12,263)
Loss on disposal/write-off of property, plant and equipment, net	**2,675**	1,819
Gain on disposal/write-off of other non-current assets, net	**(1,238)**	(2,714)
Exchange losses/ (gains), net	**18,761**	(115,868)

Note:

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.1.

10 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax	**40,073**	17,161
Overseas enterprise income tax	**192,627**	131,952
	232,700	149,113
Deferred tax		
Origination and reversal of temporary difference	**649**	(996)
Income tax expense	**233,349**	148,117

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2019 and 2018 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the six months ended 30 June 2019 and 2018, the majority of the companies of the Group are subject to 25% income tax rate.

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

11 EARNINGS PER SHARE

(a) Basic

For the six months ended 30 June 2019 and 2018, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company (RMB'000)	**803,913**	615,731
Weighted average number of ordinary shares in issue (Shares)	**18,984,340,033**	18,352,229,243
Basic earnings per share (RMB)	**0.042**	0.034

(b) Diluted

For the six months ended 30 June 2019 and 2018, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares during the periods.

12 DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2019 (2018: Nil).

13 EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**6,657,307**	6,023,582
Retirement benefit plan contribution (note)		
－Municipal retirement scheme costs	**646,194**	622,855
－Supplementary retirement scheme costs	**173,261**	165,038
Share options granted to directors and employees (note 22)	**2,531**	-
	7,479,293	6,811,475

Note:

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2019, the Group and the employees pay 20% and 8% (31 December 2018: 20% and 8%) of salary respectively to basic defined contribution plan.

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

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

14 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2019

	Buildings	Oil engineering equipment and others	Construction in progress	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost				
Balance at 1 January 2019	1,545,881	59,218,964	437,148	61,201,993
Adjustment under IFRS 16 (note 3.1)	-	(1,326,667)	-	(1,326,667)
Additions	-	60,369	432,761	493,130
Disposals/ Write-off	(1,069)	(201,960)	-	(203,029)
Transferred from construction in progress	-	67,806	(67,806)	-
At 30 June 2019	**1,544,812**	**57,818,512**	**802,103**	**60,165,427**
Accumulated depreciation				
Balance at 1 January 2019	500,517	35,042,629	-	35,543,146
Adjustment under IFRS 16 (note 3.1)	-	(329,342)	-	(329,342)
Depreciation	26,038	1,412,944	-	1,438,982
Disposals/ Write-off	(1,037)	(185,960)	-	(186,997)
At 30 June 2019	**525,518**	**35,940,271**	**-**	**36,465,789**
Accumulated impairment loss				
Balance at 1 January 2019	8,436	1,372,505	71,734	1,452,675
Disposals/ Write-off	-	(681)	-	(681)
At 30 June 2019	**8,436**	**1,371,824**	**71,734**	**1,451,994**
Carrying amounts				
At 30 June 2019 (Unaudited)	**1,010,858**	**20,506,417**	**730,369**	**22,247,644**
At 31 December 2018 (Audited)	**1,036,928**	**22,803,830**	**365,414**	**24,206,172**

For the six months ended 30 June 2018

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

15 RIGHT-OF-USE ASSETS

The Group leases assets including buildings, oil engineering equipment and others, lands and prepaid land leases. Information about leases for which the Group is a lessee is presented below.

	Buildings RMB'000	Oil engineering equipment and others RMB'000	Lands RMB'000	Prepaid land leases RMB'000	Total RMB'000
At 1 January 2019 (adjustment under IFRS 16) (note (a))	439,690	1,385,348	116,766	118,335	2,060,139
Reclassification	-	-	4,549	(4,263)	286
Additions	111,207	129,193	3,855	-	244,255
Depreciation	(89,311)	(105,626)	(18,926)	(1,516)	(215,379)
At 30 June 2019 (Unaudited)	**461,586**	**1,408,915**	**106,244**	**112,556**	**2,089,301**

Note ：

(a) The Group has initially applied IFRS 16 at 1 January 2019 to adjust the opening balance, by using the modified retrospective approach.

(b) During the six months ended 30 June 2019, the recognised right-of-use assets include related party transactions: Sinopec Group and its subsidiaries amounting at RMB15,624,000, the associates and joint ventures of Sinopec Group amounting at RMB92,241,000.

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

16 PREPAID LAND LEASES

	2019 RMB'000	2018 RMB'000
At 1 January	**118,335**	118,540
Reclassification to right-of-use assets (note 15)	**(118,335)**	-
Amortisation	**-**	(1,580)
At 30 June (Unaudited)	**-**	116,960

17 NOTES AND TRADE RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables		
- Sinopec Group and its subsidiaries	**6,039,062**	7,539,486
- Joint ventures and associates of the Group	**5,347**	14,854
- Joint ventures and associates of Sinopec Group	**161,477**	128,187
- Third parties	**10,827,819**	10,472,668
	17,033,705	18,155,195
Less: ECL allowance	**(2,466,797)**	(2,525,191)
Trade receivables – net	**14,566,908**	15,630,004
Notes receivables	**831,848**	481,196
Notes and trade receivables - net	**15,398,756**	16,111,200

As at 30 June 2019 and 31 December 2018, the Group's notes and trade receivables were approximately their fair values.

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

As at 30 June 2019 and 31 December 2018, none of the Group's notes receivables were pledged as collateral or overdue.

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

17 NOTES AND TRADE RECEIVABLES (CONTINUED)

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	**13,889,349**	14,438,847
1 to 2 years	**1,111,173**	1,098,807
2 to 3 years	**288,652**	377,106
Over 3 years	**109,582**	196,440
	15,398,756	16,111,200

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

	2019 RMB'000	2018 RMB'000
At 1 January	**2,525,191**	2,320,747
ECL allowance	**182,164**	745,861
Reversal	**(238,854)**	(893,304)
Receivables written-off as uncollectable	**(1,704)**	-
At 30 June (Unaudited)	**2,466,797**	2,173,304

18 PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Prepayments (note (a))	**801,745**	460,949
Other receivables (note (b))		
Petty cash funds	**24,353**	22,440
Guarantee deposits	**697,730**	668,383
Disbursement of funds	**818,452**	676,630
Temporary payment	**742,914**	622,173
Escrow payments	**9,370**	9,738
Deposits	**46,572**	40,709
Export tax refund receivables	**13,231**	28,671
Excess value-added tax paid	**1,025,763**	827,769
Value added tax to be certified	**60,837**	29,772
Prepaid value-added tax	**445,628**	353,291
Prepaid income tax	**7,287**	7,203
Others	**268,188**	311,489
	4,962,070	4,059,217
Less: ECL allowance	**(652,333)**	(614,716)
Prepayments and other receivables – net	**4,309,737**	3,444,501

Note:

(a) As at 30 June 2019, the prepayments include related party balances: Sinopec Group and its subsidiaries amounting at RMB98,295,000 (31 December 2018: RMB28,064,000) and the joint ventures and associates of the Group amounting at RMB111,000 (31 December 2018: Nil) and the joint ventures and associates of Sinopec Group amounting at RMB14,364,000 (31 December 2018: Nil).

(b) As at 30 June 2019, the other receivables include related party balances: Sinopec Group and its subsidiaries amounting at RMB166,657,000 (31 December 2018: RMB162,000,000), the joint ventures and associates of the Group amounting at RMB10,919,000 (31 December 2018: RMB11,015,000) and the joint ventures and associates of Sinopec Group amounting at RMB16,450,000 (31 December 2018: RMB15,510,000).

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

(d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2019 and 31 December 2018 approximate their fair values.

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

	2019 RMB'000	2018 RMB'000
At 1 January	**614,716**	629,319
ECL allowance	**115,480**	148,737
Reversal	**(77,863)**	(123,174)
At 30 June (Unaudited)	**652,333**	654,882

19 CONTRACT ASSETS/ CONTRACT LIABILITIES

(a) Contract assets

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Contract assets arising from construction and service contracts	**14,308,892**	9,092,544
Less: ECL allowance	**(41,410)**	(26,525)
	14,267,482	9,066,019

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction and service contracts include payment schedules which require progress payments over the construction period once certain specified milestones are reached. Approximate 5% of progress billings of engineering construction service would be retained as quality guarantee. This amount is included in contract assets and the Group's entitlement to this final payment until the end of guarantee period.

The amount of contract assets that is expected to be recovered after more than one year is RMB318,735,000 (31 December 2018: RMB218,966,000).

(b) Contract liabilities

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Contract liabilities arising from construction and service contracts	**3,362,264**	4,390,293

Note:

The balance of contract liabilities as at 1 January 2019 is RMB4,390,293,000, in which RMB2,846,063,000 was recognised as revenue during the period.

Unsatisfied performance obligation:

The group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 30 June 2019, part of the Group's petroleum engineering and technical service and construction engineering contracts were still in the process, and the total transaction price apportioned to the unsatisfied performance obligation was RMB24.49 billion, the amount of which was related to the progress of the performance of each contract, and will be recognised as revenue in accordance with the percentage of work performed in the future, which is expected to be completed in the coming 60 months.

20 INVENTORIES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Raw materials	**1,110,577**	1,136,487
Finished goods	**187,581**	124,201
Work in progress	**7,371**	11,986
Turnover materials	**10,310**	8,734
	1,315,839	1,281,408
Less: Provision for impairment/Write off	**(61,158)**	(64,085)
	1,254,681	1,217,323

For the peirods ended 30 June 2019 and 2018, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB8,432,411,000 and RMB5,401,001,000 respectively. For the six months ended 30 June 2019, no provision for inventories (for the six months ended 30 June 2018: Nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB2,927,000 (31 December 2018: RMB8,371,000).

21 SHARE CAPITAL

	As at 30 June 2019		As at 31 December 2018	
	Number of shares (Share)	Share capital RMB'000 (Unaudited)	Number of shares (Share)	Share capital RMB'000 (Audited)
Registered, issued and paid:				
- Domestic non-public legal person shares of RMB1.00 each	**11,786,045,218**	**11,786,046**	11,786,045,218	11,786,046
- Social public A shares of RMB1.00 each	**1,783,333,333**	**1,783,333**	1,783,333,333	1,783,333
- H shares of RMB1.00 each	**5,414,961,482**	**5,414,961**	5,414,961,482	5,414,961
	18,984,340,033	**18,984,340**	18,984,340,033	18,984,340

22 SHARE-BASED PAYMENTS

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

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

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

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

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

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

As at 30 June 2019, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

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

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. At 30 June 2019, the Company have 19,620,000 share options has not been exercised with a total fair value of RMB25,343,000 at the grant date.

The movement of share options are as follows:

	No. of share options
Outstanding shares at 31 December 2017 and 1 January 2018	**34,335,000**
Lapsed during the year	**(14,715,000)**
Outstanding shares at 31 December 2018, 1 January 2019 and 30 June 2019	**19,620,000**

22 SHARE-BASED PAYMENTS (CONTINUED)

The significant inputs into the model were as follows:

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

Share-based payment of RMB2,531,000 have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2019 (For the six months ended 30 June 2018: Nil). For the six months ended 30 June 2019, no share option had been exercised.

As at 30 June 2019, the Company have a total of 19,620,000 (31 December 2018: 19,620,000) outstanding shares under the share option incentive scheme. Under the current capital structure, fully exercise of the outstanding shares will lead to issue of 19,620,000 (31 December 2018: 19,620,000) extra ordinary A share and increase in share capital of RMB19,620,000 (31 December 2018: RMB19,620,000), before issue expenses.

23 NOTES AND TRADE PAYABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade payables		
- Sinopec Group and its subsidiaries	**1,813,906**	1,208,415
- Joint ventures and associates of the Group	**1,825**	14,950
- Joint ventures and associates of Sinopec Group	**171,320**	75,055
- Third parties	**23,066,214**	21,963,342
	25,053,265	23,261,762
Notes payables	**4,278,090**	3,797,742
	29,331,355	27,059,504

As at 30 June 2019 and 31 December 2018, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	**26,929,235**	22,716,227
1 and 2 years	**1,101,195**	2,564,414
2 and 3 years	**532,376**	752,327
Over 3 years	**768,549**	1,026,536
	29,331,355	27,059,504

24 OTHER PAYABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Salaries payables	**577,534**	510,507
Other tax payables	**532,538**	791,724
Output valued-added tax to be certified	**-**	917
Interest payables (note (a))	**30,934**	12,893
Other payables (note (b))		
Guarantee deposits	**742,684**	724,468
Deposits	**58,772**	64,712
Disbursement of funds	**936,444**	601,140
Temporary receipts	**571,502**	458,704
Escrow payments	**57,052**	66,355
Withheld payments	**22,934**	48,657
Others	**327,812**	243,671
	3,858,206	3,523,748

Note:

(a) As at 30 June 2019 and 31 December 2018, the interest payables was the related party balances with Sinopec Group and its subsidiaries.

(b) As at 30 June 2019, the other payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB37,153,000 (31 December 2018: RMB41,249,000).

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

25 BORROWINGS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Current liabilities		
Loans from Sinopec Finance Company Limited (note (a))	**9,940,000**	9,600,000
Loans from Sinopec Century Bright Capital Investment Company Limited (note (a))	**2,988,845**	3,006,082
Loans from Sinopec Group (note (a))	**6,500,000**	5,000,000
Lease liabilities/ Finance lease liabilities (note (b))	**504,698**	149,022
	19,933,543	17,755,104
Non-current liabilities		
Loans from Sinopec Century Bright Capital Investment Company Limited (note (a))	**412,482**	536,291
Lease liabilities/ Finance lease liabilities (note (b))	**1,478,524**	841,618
	1,891,006	1,377,909
	21,824,549	19,133,013

Note:

(a) Loans from related parties

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	**19,428,845**	17,606,082
1 to 2 years	**412,482**	536,291
	19,841,327	18,142,373

As at 30 June 2019, loans from related parties are unsecured and their annual interest rates ranged from 2.24% to 8.80% (31 December 2018: 3.30% to 8.80%).

25 BORROWINGS (CONTINUED)

Note: (Continued)

(b) Lease liabilities/Finance lease liabilities

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Total minimum lease payments		
- Within 1 year	**536,842**	187,009
- 1 to 2 years	**428,235**	167,636
- 2 to 5 years	**935,648**	455,543
- Over 5 years	**323,130**	330,199
	2,223,855	1,140,387
Future finance charges on lease liabilities (2018: Finance lease liabilities)	**(240,633)**	(149,747)
Present value of lease liabilities (2018: Finance lease liabilities)	**1,983,222**	990,640

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Present value of minimum lease payments:		
- Within 1 year	**504,698**	149,022
- 1 to 2 years	**376,970**	135,899
- 2 to 5 years	**804,890**	393,219
- Over 5 years	**296,664**	312,500
	1,983,222	990,640
Less: Portion due within one year included under current liabilities	**(504,698)**	(149,022)
Portion due after one year included under non-current liabilities	**1,478,524**	841,618

Note:

(a) For the six months ended 30 June 2019, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 31 years (31 December 2018: 1 to 24 years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. With the effective of lease agreements, the Group recognised right-of-use assets including buildings, oil engineering equipment and others, lands and prepaid land leases and lease liabilities amounting to RMB244,255,000.

For the six months ended 30 June 2019, total cash outflow for the lease payment is RMB404,948,000.

(b) As at 30 June 2019, above lease liabilities/finance lease liabilities include related party balances: joint ventures and the associates of Sinopec Group amounting to RMB892,245,000 (31 December 2018: RMB959,900,000).

26 COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2019 and 31 December 2018 not provided for in the interim financial information are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Contracted but not provided for	**219,269**	136,467

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 1 year	**262,587**	322,639
1 to 2 years	**-**	16,633
2 to 3 years	**-**	14,187
Over 3 years	**-**	29,531
Total	**262,587**	382,990

As at 30 June 2019, the Group leases various residential properties, office and equipments with a lease period of 6 to 12 months, which are qualified to be accounted for under short-term lease exemption under IFRS 16.

As at 31 December 2018, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 24 years, with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

(c) Investment commitments

As at 30 June 2019, the Group has outstanding commitments of RMB129,625,000 (31 December 2018: RMB129,625,000) in respect of its investment in in joint ventures.

(d) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2019.

27 CONTINGENCIES

In preparing this interim financial information, there were no further developments of those contingencies as at 30 June 2019, which were disclosed in the 2018 annual report.

28 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2019 and 2018.

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

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

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchases of materials		
- Sinopec Group and its subsidiaries	**4,519,246**	2,029,979
Sales of products		
- Sinopec Group and its subsidiaries	**67,337**	7,798
Rendering of engineering services		
- Sinopec Group and its subsidiaries	**18,199,681**	13,265,680
Receiving of engineering services		
- Sinopec Group and its subsidiaries	**208,480**	-
Receiving of community services		
- Sinopec Group and its subsidiaries	**181,912**	464,445
Receiving of integrated services		
- Sinopec Group and its subsidiaries	**42,208**	-
Rendering of technology research and development services		
- Sinopec Group and its subsidiaries	**69,604**	83,000
Rental income – Buildings		
- Sinopec Group and its subsidiaries	**286**	-
Rental expenses – Lands and properties		
- Sinopec Group and its subsidiaries	**4,395**	12,907
Rental expenses – Equipments and vehicles		
- Sinopec Group and its subsidiaries	**3,916**	-
Deposits interest income		
- Sinopec Group's subsidiaries	**1,390**	702
Loans interest expenses		
- Sinopec Group and its subsidiaries	**375,754**	275,566
Interest expenses on lease liabilities		
- Sinopec Group and its subsidiaries	**8,534**	-
Borrowings obtained		
- Sinopec Group and its subsidiaries	**16,917,831**	16,559,753

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Borrowings repaid		
- Sinopec Group and its subsidiaries	**15,224,918**	17,343,880
Safety and insurance fund expenses		
- Sinopec Group	**40,321**	41,550
Safety and insurance fund refund		
- Sinopec Group	**25,681**	24,489

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
- Associates and joint ventures of the Group	**-**	43
Rendering of engineering services		
- Associates and joint ventures of the Group	**21,383**	-
Receiving of engineering services		
- Associates and joint ventures of the Group	**788,510**	391,869

28 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of products		
- Associates and joint ventures of Sinopec Group	**3**	-
Rendering of engineering services		
- Associates and joint ventures of Sinopec Group	**367,752**	-
Receiving of engineering services		
- Associates and joint ventures of Sinopec Group	**553,637**	-
Rental expenses – Equipments and vehicles		
- Associates and joint ventures of Sinopec Group	**3,735**	-
Interest expenses on lease liabilities (2018: Finance lease liabilities)		
- Associates and joint ventures of Sinopec Group	**47,445**	6,071

(d) Remuneration of key management personnel

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee	**400**	300
Salaries, allowances and bonus	**4,802**	4,257
Contributions to pension plans	**241**	260
Share-based payments	**2,531**	-
	7,974	4,817

29 POST BALANCE SHEET EVENTS

On 13 August 2019, the Company's wholly-owned subsidiary, Sinopec Oilfield Service Co., Ltd. ("SOSC"), completed an acquisition of 45% equity interest in SinoFTS Petroleum Services Limited ("SinoFTS") from FTS Netherlands International Company Limited for a cash consideration of USD26,902,400 (tax exclusive, equivalent to RMB189,952,500). Applicable taxes in the PRC with respect to the transactions amounting to RMB1,738,500 was borne and paid by SOSC. Therewith, SinoFTS became a wholly-owned subsidiary of SOSC.

7.2 Interim financial report prepared in accordance with the PRC ASBE

The following financial information has been extracted from the Company's unaudited interim financial report, prepared in accordance with the PRC ASBE, for the six months ended 30 June 2019.

Consolidated balance sheets
(Expressed in thousands of RenminbiYuan)

Assets	30 June 2019	31 December 2018
Current assets:		
Cash at bank and on hand	1,929,045	2,203,441
Bills receivable	831,848	481,196
Accounts receivable	14,566,908	15,630,004
Prepayments	801,728	444,749
Other receivables	1,944,476	1,712,575
Inventories	1,641,130	1,411,638
Contract assets	13,881,033	8,871,704
Non-current assets due within one year	-	40,477
Other current assets	1,539,515	1,218,035
Total current assets	**37,135,683**	**32,013,819**
Non-current assets:		
Available-for-sale financial assets	-	-
Long-term receivables	-	-
Long-term equity investments	241,126	232,823
Other equity instrument investments	39,011	39,011
Fixed assets	22,410,517	23,842,767
Construction in progress	730,369	365,414
Right-of-use assets	1,086,739	-
Intangible assets	192,526	237,275
Long-term prepaid expenses	3,738,074	3,681,168
Deferred tax assets	490,793	492,438
Total non-current assets	**28,929,155**	**28,890,896**
Total assets	**66,064,838**	**60,904,715**

Consolidated balance sheets (continued)

(Expressed in thousands of renminbiyuan)

Liabilities and shareholders' equity		
Current liabilities:		
Short-term loans	19,265,502	17,606,082
Bills payable	4,278,090	3,797,742
Accounts payable	25,053,265	23,261,762
Contract liabilities	3,362,264	4,390,293
Employee benefits payable	577,534	510,507
Taxes payable	894,230	1,053,477
Other payables	2,646,308	2,186,009
Non-current liabilities due within one year	673,748	156,559
Other current liabilities	-	917
Total current liabilities	**56,750,941**	**52,963,348**
Non-current liabilities:		
Long-term loans	412,482	536,291,
Lease liabilities	728,524	-
Long-term payables	846,119	868,672
Provisions	587,704	595,742
Deferred income	132,552	139,594
Deferred income tax liabilities	21,662	22,658
Total non-current liabilities	**2,729,043**	**2,162,957**
Total liabilities	**59,479,984**	**55,126,305**
Shareholders' equity:		
Share capital	18,984,340	18,984,340
Capital reserve	11,713,294	11,710,763
Other comprehensive income	11,676	11,676
Specific reserve	595,094	300,609
Surplus reserve	200,383	200,383
Undistributed profits	-24,919,933	-25,429,361
Total equity attributable to shareholders of the Company	6,584,854	5,778,410
Minority interests		
Total shareholders' equity	**6,584,854**	**5,778,410**
Total liabilities and shareholders' equity	**66,064,838**	**60,904,715**

Consolidated income statements
(Expressed in thousands of RenminbiYuan)

	For the six months ended 30 June	
	2019	**2018**
1.Revenue	30,256,030	23,650,777
Less: Cost of sales	27,487,631	22,258,048
Taxes and surcharges	125,352	117,568
Selling and distribution expenses	25,300	23,531
General and administrative expenses	1,060,520	1,082,012
Research and development expenses	479,782	240,196
Finance costs	455,088	163,624
Including: Interest expense	488,160	283,464
Interest income	79,224	35,114
Add: Other income	102,036	518,074
Investment income ("-" for loss)	9,410	-2,969
Including: Share of loss of a joint venture	9,410	-2,969
Credit impairment loss	4,188	121,880
Gains from disposal of non-current asset (("-" for loss)	-1,437	895
2.Operating profit ("-" for loss)	**736,554**	**403,678**
Add: Non-operating income	24,355	166,712
Less: Non-operating expenses	18,132	21,324
3.Profit before income tax("-" for loss)	**742,777**	**549,066**
Less: Income tax expenses	233,349	148,117
4.Net profit for the period("-" for loss)	**509,428**	**400,949**
Profit for the period attributable to:		
- Shareholders of the company	509,428	400,949
- Minority interests	-	-
5.Earnings per share("-" for loss):		
Basic earnings per share (in RMB)	0.03	0.02
Diluted earnings per share (in RMB)	0.03	0.02
6.Other comprehensive income for the period	-	-
7.Total comprehensive income for the period	**509,428**	**400,949**
Total comprehensive income for the period attributable to:		
- Shareholders of the Company	509,428	400,949
- Minority shareholders	-	-

Consolidated cash flow statement
(Expressed in thousands of renminbiyuan)

	For the six months ended 30 June	
	2019	**2018**
1.Cash flows from operating activities:		
Cash received from sale of goods	24,882,423	20,161,035
Refund of taxes	124,854	82,209
Cash received from other operating activities	1,274,279	1,202,578
Sub-total of cash inflows	26,281,556	21,445,822
Cash paid for goods and services	17,744,728	16,466,696
Cash paid to and for employees	6,534,925	5,948,147
Cash paid for all types of taxes	811,637	724,656
Cash paid relating to other operating activities	1,899,425	1,821,365
Sub-total of cash outflows	26,990,715	24,960,864
Net cash inflow from operating activities(“-” for outflow)	**-709,159**	**-3,515,042**
2.Cash flows from investing activities:		
Cash received from the investment income	1,296	-
Net cash received from disposal of fixed assets	19,230	30,708
Sub-total of cash inflows	20,526	30,708
Cash paid for acquisition of fixed assets,intangible assets and other long term assets	717,935	308,535
Sub-total of cash outflows	717,935	308,535
Net cash inflow from investing activities(“-” for outflow)	**-697,409**	**-277,827**
3.Cash flows from financing activities:		
Cash received from the acquisition of investments	-	7,639,698
Cash received from borrowings	16,917,831	16,559,753
Cash received from other financing-related activities	-	500,176
Sub-total of cash inflows	16,917,831	24,699,627
Cash paid for repayments of borrowings	15,224,918	17,343,880
Cash paid for distribution of dividend, profit or payments of interests	394,391	280,230
Cash paid for other financing activities	181,983	3,761,283
Sub-total of cash outflows	15,801,292	21,385,393
Net cash inflow from financing activities	**1,116,539**	**3,314,234**
4.Effect of foreign exchange rate changes on cash and cash equivalents	2,323	167,484
5.Net (decrease)/increase in cash and cash equivalents	-287,706	-311,151
Add: Cash and cash equivalents at the beginning of the period	2,173,580	2,523,356
6.Cash and cash equivalents at the end of the period	1,885,874	2,212,205

Consolidated Statement of changes in shareholders' equity

(Expressed in thousands of Renminbi Yuan)

Items	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	(Accumulated losses)/Retained earnings	Minority interests	Total shareholders equity'
Balance at 31 December 2018	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410
Add:Changes in accounting policies	-	-		-	-	−	-	-
Adjustment for the business combination under common control	-	-		-	-	-	-	-
Balance at 1 January 2019	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410
Changes during the period (decrease in "-")	-	2,531		294,485	-	509,428	-	806,444
Total comprehensive income	-	-		-	-	509,428		509,428
Increase or decrease of capital	-	2,531		-	-	-	-	2,531
Transfer of equity	-	-		-	-	-	-	-
Net loss	-	-		-	-	-	-	-
Distribution of profits	-	-		-	-	-	-	-
Special reserve-provided during the period	-	-		501,235	-	-	-	501,235
Special reserve-used during the period (expressed in "-")	-	-		-206,750	-	-	-	-206,750
Balance at 30 June 2019	**18,984,340**	**11,713,294**	**11,676**	**595,094**	**200,383**	**-24,919,933**	**-**	**6,584,854**
Balance at 31 December 2017	14,142,661	8,907,868	-	202,477	200,383	-25,571,417	-1,372	-2,119,400
Adjustment for the business combination under common control	-	-		-	-	-	-	-
Balance at 1 January 2018	14,142,661	8,907,868	-	202,477	200,383	-25,571,417	-1,372	-2,119,400
Changes during the period (decrease in "-")	4,841,679	2,794,664	-	214,782	-	400,949	1,372	8,253,446
Total comprehensive income								
Increase or decrease of capital								
Transfer of equity	-	-		-	-	-	-	-
Net loss	-	-		-	-	-	-	-
Distribution of profits	-	-		-	-	-	-	-
Special reserve-provided during the period	-	-		347,266	-	-	-	347,266
Special reserve-used during the period (expressed in "-")	-	-		-132,484	-	-	-	-132,484
Balance at 30 June 2018	**18,984,340**	**11,702,532**	**-**	**417,259**	**200,383**	**-25,170,468**	**-**	**6,134,046**

As at 1 January 2019, impacts from the Group's first implementation of the New Lease Standard on the Group's assets, liabilities and shareholders' equity were summarized as follows:

Consolidated Balance Sheet

Item	2018.12.31 RMB'000	2019.01.01 RMB'000	Adjustment RMB'000
Current assets::			
Cash at bank and on hand	2,203,441	2,203,441	
Bills receivable	481,196	481,196	
Accounts receivable	15,630,004	15,630,004	
Prepayments	444,749	444,749	
Other receivables	1,712,575	1,712,575	
Including: Interest receivable			
Dividend receivable	188	188	
Inventories	1,411,638	1,411,638	
Contract assets	8,871,704	8,871,704	
Non-current assets due within one year	40,477	40,477	
Other current assets	1,218,035	1,218,035	
Total current assets	**32,013,819**	**32,013,819**	
Non-current assets:			
Long-term equity investments	232,823	232,823	
Other equity instrument investments	39,011	39,011	
Fixed assets	23,842,767	23,771,168	-71,599
Construction in progress	365,414	365,414	
Right-of-use assets		1,020,627	1,020,627
Intangible assets	237,275	232,726	-4,549
Long-term deferred expenses	3,681,168	3,681,168	
Deferred tax assets	492,438	492,438	
Total non-current assets	**28,890,896**	**29,835,375**	**944,479**
Total assets	**60,904,715**	**61,849,194**	**944,479**
Current liabilities:			
Short-term loans	17,606,082	17,606,082	
Bills payable	3,797,742	3,797,742	
Accounts payable	23,261,762	23,261,762	
Contract liabilities	4,390,293	4,390,293	
Employee benefits payable	510,507	510,507	
Taxes payable	1,053,477	1,053,477	
Other payables	2,186,009	2,186,009	
Including: Interest payable	12,893	12,893	

Item	2018.12.31 RMB'000	2019.01.01 RMB'000	Adjustment RMB'000
Dividend payable			
Non-current liabilities due within one year	156,559	466,861	310,302
Other current liabilities	917	917	
Total current liabilities	**52,963,348**	**53,273,650**	**310,302**
Non-current liabilities:			
Long-term loans	536,291	536,291	
Lease liabilities		663,295	663,295
Long-term payables	868,672	839,554	-29,118
Provisions	595,742	595,742	
Deferred income	139,594	139,594	
Deferred tax liabilities	22,658	22,658	
Total non-current liabilities	**2,162,957**	**2,797,134**	**634,177**
Total liabilities	**55,126,305**	**56,070,784**	**944,479**
Shareholders' equity			
Share capital	18,984,340	18,984,340	
Capital reserve	11,710,763	11,710,763	
Other comprehensive income	11,676	11,676	
Specific reserve	300,609	300,609	
Surplus reserve	200,383	200,383	
Retained earnings	-25,429,361	-25,429,361	
Total equity attributable to shareholders of the Company	5,778,410	5,778,410	
Minority interests			
Total shareholders' equity	**5,778,410**	**5,778,410**	
Total liabilities and shareholders' equity	**60,904,715**	**61,849,194**	**944,479**

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

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

	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	For the six months ended 30 June			
	2019	2018	At 30 June 2019	At 1 January 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts under PRC ASBE	509,428	400,949	6,584,854	5,778,410
Adjustments under IFRS:	-	-	-	-
Specific reserve (a)	294,485	214,782	-	-
Amounts under IFRS	803,913	615,731	6,584,854	5,778,410

a. Specific reserve

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

8. OTHER EVENTS

8.1 Compliance with the Corporate Governance Code

For the six months ended 30 June 2019, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except that:

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

The Company held the seven meeting of the Audit Committee of the ninth session of the Board on 23 August 2019, during which the interim financial statements of the Company for the reporting period was reviewed.

8.2 Compliance with the Model Code

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

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

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

By order of the Board
Li Honghai
Secretary to the Board

27 August 2019
Beijing, The PRC

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

+ Non-Executive Director

 # Executive Director
** Independent Non-Executive Director*