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Sinopec Oilfield Service Corporation
(a joint stock limited company established in the People's Republic of China)
(Stock code:1033)

Announcement on Annual Results in 2019

The Board of Directors (“**the Board**”) and the Supervisory Committee of Sinopec Oilfield Service Corporation (“**the Company**”) and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this announcement and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this announcement. The content of the annual results is extracted from the 2019 annual report (the “Annual Report”). In order to understand the full content, the investors should read the Annual Report for more details.

The Board of the Company has pleasure in presenting the audited annual results of the Company and its subsidiaries (“**the Group**”) for the year ended 31 December 2019.

1.COMPANY PROFILE

- | | |
|---|---|
| (1). Legal name: | Sinopec Oilfield Service Corporation
中石化石油工程技術服務股份有限公司 |
| Abbreviation: | SSC
石化油服 |
| (2). Legal representative: | Mr. Chen Xikun |
| (3). Registered address: | 22#, Chaoyangmen North Street, Chaoyang District, Beijing,
P.R.China |
| Office address: | 9#, Jishikou Road, Chaoyang District, Beijing, P.R. China |
| Postal code: | 100728 |
| Telephone: | 86-10-59965998 |
| Fax: | 86-10-59965997 |
| Internet website: | http://ssc.sinopec.com |
| E-mail: | ir.ssc@sinopec.com |
| (4). Secretary to the Board: | Mr. Li Honghai |
| Securities affairs representative: | Mr. Shen Zehong |
| Address: | 9#, Jishikou Road, Chaoyang District, Beijing, P.R.China |

Telephone: The Office of the Board of Director
86-10-59965998
Fax: 86-10-59965997
E-mail: ir.ssc@sinopec.com

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

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

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

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

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

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

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

2. PRINCIPAL FINANCIAL INFORMATION AND FINANCIAL INDICATORS

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

Unit: RMB'000

	As at 31 December				
	2019	2018	2017 (Restated)	2016 (Restated)	2015
Total assets	62,069,378	60,904,715	62,089,315	74,794,669	85,307,777
Total liabilities	55,305,506	55,126,305	64,190,633	66,343,412	60,670,824
Equity attributable to owners of the Company	6,763,872	5,778,410	(2,099,946)	8,452,533	24,638,094
Net assets per share attributable to owners of the Company ³ (RMB)	0.36	0.31	(0.15)	0.60	1.74
Equity ratio of owners	10.90%	9.50%	(3.39%)	11.30%	28.88%
Return on net assets	14.59%	4.16%	(503.02%)	(191.64%)	(0.05%)
	For the year ended 31 December				
	2019	2018	2017 (Restated)	2016	2015
Revenue	69,870,147	58,409,078	48,593,948	42,923,500	60,349,334
Profit/(Loss) before income tax	1,428,397	613,769	(10,324,177)	(15,887,181)	469,719
Income tax expense	441,524	373,581	239,034	311,196	481,421
Profit/(Loss) attributable to owners of the Company	986,873	240,188	(10,563,115)	(16,198,242)	(11,543)
Basic and diluted earnings/(loss) per share(RMB)	0.052	0.013	(0.747)	(1.145)	(0.001)

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

2.1 Principal financial information

Unit: RMB’000

	For the year ended 31 December 2019	For the year ended 31 December 2018	Increase/ (Decrease) (%)	For the year ended 31 December 2017
Operating income	69,870,147	58,409,078	19.6	48,593,948
Operating profit (“-” for losses)	1,251,242	852,278	46.8	-10,202,891
Profit before income tax (“-” for losses)	1,355,768	515,637	162.9	-10,350,586
Net profit attributable to equity shareholders of the Company (“-” for losses)	914,244	142,056	543.6	-10,589,524
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company (“-” for losses)	503,704	37,951	1,227.2	-10,399,296
Net cash inflow from operating activities (“-” for outflow)	1,377,053	-2,939,789	Not Applicable	404,761
	As at 31December 2019	As at 31December 2018	Year-on-year change (%)	As at 31December 2017
Total equity attributable to equity shareholders of the Company	6,763,872	5,778,410	17.1	-2,099,946
Total assets	62,069,378	60,904,715	1.9	62,089,315

2.2 Principal financial indicators

	For the year ended 31 December 2019	For the year ended 31 December 2018	Year-on-year change (%)	For the year ended 31 December 2017
Basic earnings per share (RMB) (“-” for losses)	0.048	0.008	500.0	-0.749
Diluted earnings per share (RMB) (“-” for losses)	0.048	0.008	500.0	-0.749
Basic earnings per share deducted extraordinary gain and loss (RMB) (“-” for losses)	0.027	0.002	1,250.0	-0.735
Weighted average return on net assets (%)	14.66	2.86	Increased by 11.8 percentage points	-335.35
Weighted average return on net assets deducted extraordinary gain and loss (%)	8.08	0.76	Increased by 7.32 percentage points	-329.32

2.3 Extraordinary gain and loss items and amounts

Unit: RMB’000

Extraordinary gain and loss item	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Gain and loss on disposal of non-current assets	67,044	278	-172,607

Government grants recognised in profit or loss during the year	170,446	472,569	150,674
Gain and loss from debt restructuring	154,539	395,261	14,481
Net profit or loss from the beginning to the merger date of the subsidiary of the business combination under common control	-	-2,385	-6,983
Profits and losses arising from matters unrelated to the normal business of the Company	-	-475,276	-
Gain and loss from external entrusted loans	-	-	67
Gains or losses on previously held equity interests re-measured at acquisition date	27,474	-	-
Other non-operating income and expenses excluding the aforesaid items	104,526	-257,894	-162,195
Other gains and losses that meet the definition of non-recurring profit and loss	-1,292	-	-
Tax effect	-112,197	-28,448	-13,665
Total	410,540	104,105	-190,228

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

Unit: RMB'000

	Net profit attributable to owners of the Company		Total equity attributable to owners of the Company	
	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2018
PRC ASBE	914,244	142,056	6,763,872	5,778,410
IFRS	986,873	240,188	6,763,872	5,778,410

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

3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(1) Changes in the Company's share capital

During the reporting period, the Company's total number of shares and its share capital structure have not been changed.

(2) Information on shareholders

2.1 Number of shareholders

As at 31 December 2019, the number of shareholders of the Company was 129,812, including 129,465 holders of A shares and 347 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Listing Rules of the HKSE.

As at 29 February 2020, the number of shareholders of the Company was 128,756, including 128,410 holders of A shares and 346 registered holders of H shares.

2.2 The shareholdings of the top ten shareholders of the Company

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Number of shares held increased/decreased¹ by (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation ²	State-owned legal person	0	10,727,896,364	56.51	1,503,568,702	0
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”) ³	Overseas legal person	-167,234	5,401,943,744	28.45	2,595,786,987	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
China Minsheng Bank Corp., Ltd. Hohhot Branch	Domestic non-state legal person	127,447,400	127,447,400	0.67	0	0
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.35	0	0
Donghai Fund-Xingye Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan	Others	0	66,666,666	0.35	0	0
Changjiang Pension Insurance Co., Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund ⁴	Others	0	23,148,854	0.12	23,148,854	0
Hong Kong Securities Clearing Company Limited ⁵	Others	19,807,152	19,807,152	0.10	0	0
China Merchants Bank Co., Ltd.-Bosera CSI Central Enterprise Innovation Driven Trading Open Index Securities Investment Fund	Others	14,654,900	14,654,900	0.08	0	0
Bank of China Co., Ltd.-Harvest China Securities Central Enterprise Innovation Driven Trading Open Index Securities Investment Fund	Others	14,087,600	14,087,600	0.07	0	0
Shareholdings of top ten shareholders of shares without selling restrictions						
Name of shareholders					Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
China Petrochemical Corporation					9,224,327,662	A Share
HKSCC (Nominees) Limited					2,806,156,757	H Share
CITIC Limited					1,035,000,000	A Share
China Minsheng Bank Corp., Ltd. Hohhot Branch					127,447,400	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
Hong Kong Securities Clearing Company Ltd.,					19,807,152	A Share
China Merchants Bank Co., Ltd.-Bosera CSI Central Enterprise Innovation Driven Trading Open Index Securities Investment Fund					14,654,900	A Share
Bank of China Co., Ltd.-Harvest China Securities Central Enterprise Innovation Driven Trading Open Index Securities Investment Fund					14,087,600	A Share
Huaan Fund-Xingye Bank-China Foreign Economy and Trade Trust Co., Ltd.					13,333,300	A Share

Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan” and “Donghai Fund-Xingye Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan” belong to Donghai Fund Management Limited Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.
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Note1: As compared with the number of shares held as of 31 December 2018 ;

Note2: Apart from directly holding 10,727,896,364 A shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H shares through its wholly-owned subsidiary Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares.

Note3: “HKSCC (Nominees) Limited” is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the company on behalf of other companies or individual shareholders.

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

Note5: “HKSCC Limited” is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold A shares of the company on behalf of investors of the Hong Kong Stock Exchange.

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

As at 31 December 2019, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company’s shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”).

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

Note1: China Petrochemical Corporation held 2,595,786,987 H shares of the Company through its wholly-owned subsidiary Sinopec Century Bright Capital Investment, Ltd.. China Petrochemical Corporation is deemed to have H shares held by Sinopec Century Bright Capital Investment, Ltd..

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2019, no other person had an interest or short position in the Company’s shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) of the Company.

(4) The controlling shareholder

Name of the controlling shareholder: China Petrochemical Corporation, holding 70.18% of the Company’s shares

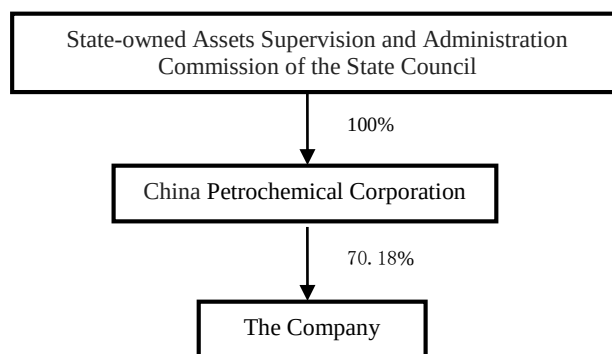
Legal representative: Zhang Yuzhuo

Date of establishment: 14 September 1983
Registered capital: RMB 326.547 billion
Principal activities: Upon the reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.
During the reporting period, the controlling shareholder of the Company did not change.

(5) The actual controller

The actual controller is still China Petrochemical Corporation.

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



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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB)(before taxation)	Whether get payment from related party of the Company
Chen Xikun	Chairman	Male	55	19 December 2019	7 February 2021	0	0	No Change	889,080	No
	Director			8 February 2018						
	Former Deputy General Manager			8 February 2018	20 May 2019					
Yuan Jianqiang	General Manager	Male	56	20 May 2019	7 February 2021	0	0	No Change	511,631	No
	Director			26 June 2019						

Lu Baoping	Non-Excutive Director	Male	58	8 February 2018	7 February 2021	0	0	No Change	-	Yes
Fan Zhonghai	Non-Excutive Director	Male	54	8 February 2018	7 February 2021	0	0	No Change	-	Yes
Wei Ran	Non-Excutive Director	Male	52	20 June 2018	7 February 2021	0	0	No Change	-	No
Jiang Bo	Independent Non-Excutive Director	Female	64	9 February 2015	7 February 2021	0	0	No Change	200,000	No
Pan Ying	Independent Non-Excutive Director	Male	50	16 December 2015	7 February 2021	0	0	No Change	200,000	No
Chen Weidong	Independent Non-Excutive Director	Male	64	20 June 2018	7 February 2021	0	0	No Change	200,000	No
Dong Xiucheng	Independent Non-Excutive Director	Male	58	20 June 2018	7 February 2021	0	0	No Change	200,000	No
Ma Xiang	Chairman of the Supervisory Board	Male	58	19 December 2019	7 February 2021	0	0	No Change	67,270	No
Du Jiangbo	Supervisor	Male	55	16 June 2015	7 February 2021	0	0	No Change	-	Yes
Zhai Yalin	Supervisor	Male	56	26 June 2019	7 February 2021	0	0	No Change	-	Yes
Zhang qin	Supervisor	Female	57	9 February 2015	7 February 2021	0	0	No Change	-	Yes
Zhang Jianbo	Supervisor	Male	57	8 February 2018	7 February 2021	0	0	No Change	-	Yes
Zhang Hongshan	Employee Representative Supervisor	Male	59	23 February 2017	7 February 2021	0	0	No Change	851,988	No
Chen Weiguo	Employee Representative Supervisor	Male	56	30 May 2019	7 February 2021	0	0	No Change	452,830	No
Zhang Yongjie	Deputy General Manager	Male	56	9 February 2015	7 February 2021	0	0	No Change	910,331	No
Zuo Yaojiu	Deputy General Manager	Male	57	27 June 2017	7 February 2021	0	0	No Change	831,234	No
Zhang Jinhong	Deputy General Manager	Male	56	28 April 2015	7 February 2021	0	0	No Change	770,951	No
Xiao Yi	Chief Financial Manager	Male	50	19 December 2019	7 February 2021	0	0	No Change	-	No
	Non-Excutive Director			26 June 2019	19 December 2019					
Li Honghai	Secretary to the Board	Male	56	9 February 2015	7 February 2021	0	0	No Change	615,364	No
Liu Zhongyun	Former Chairman	Male	57	24 December 2018	9 December 2019	0	0	No Change	-	Yes
Sun Qingde	Former Vice Chairman	Male	58	6 June 2016	10 May 2019	0	0	No Change	370,451	No

	Former General Manager			11 March 2016						
Li Wei	Former Chairman of the Supervisory Board	Male	42	27 June 2017	19 December 2019	0	0	No Change	702,796	No
Zou Huiping	Former Supervisor	Male	59	9 February 2015	30 May 2019	0	0	No Change	-	Yes
Li Tian	Former Chief Financial Manager	Male	45	29 August 2017	19 December 2019	0	0	No Change	736,767	No

Note:

1. Mr.Chen Xikun, Mr.Zhang Hongshan, Mr.Zhang Yongjie, Mr.Zuo Yaojiu, Mr.Zhang Jinhong, Mr.Li Honghai and Mr.Li Tian all received 12 months of salary in 2019. Mr.Yuan Jianqiang started to serve as General Manager on 20 May 2019, and as Director on 26 June 2019, received 7 months of salary. Mr. Ma Xiang started his position of the Supervisory Board Chairman on 19 December, 2019, received 1 month of salary. Mr. Chen Weiguo started to serve as Employee Representative Supervisor on 30 May 2019, received 7 months of salary. Mr. Xiao Yi started his position of Chief Financial Manager on 19 December 2019, did not receive salary in 2019. Mr.Sun Qingde left the position of vice Chairman and General Manager on 10 May 2019, received 5 months salary. Mr. Li Wei left the position of the Supervisory Board Chairman on 19 December 2019, received 11 months salary in 2019.
2. Ms.Jiang Bo, Mr.Pan Ying, Mr. Chen Weidong and Mr.Dong Xiucheng received 12 months of directors's fee.

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

Unit: shares

Name	Position	Number of share options held at the beginning of 2019	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (RMB/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period (RMB/share)
Zhang Yongjie	Deputy General Manager	133,000	0	0	-57,000	5.63	76,000	2.34
Liu Rushan	Deputy Party Secretary	133,000	0	0	-57,000	5.63	76,000	2.34
Zuo Yaojiu	Deputy General Manager	126,000	0	0	-54,000	5.63	72,000	2.34
Zhang Jinhong	Deputy General Manager	126,000	0	0	-54,000	5.63	72,000	2.34
Li Honghai	Secretary to the Board	98,000	0	0	-42,000	5.63	56,000	2.34
Sun Qingde	Former Vice Chairman, Former	147,000	0	0	-147,000	5.63	0	2.34

	General Manger							
Total	/	763,000	0	0	-411,000	/	352,000	/

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by certain directors, supervisors, senior management and other core management personnel of the Group. The number of subscribers shall not exceed 198, and the subscription amount is RMB 60.65 million in total. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB 1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018, and the first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period.

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

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

(4) Changes in Directors, Supervisors and Senior Management

Name	Position	Change	Reasons for change
Chen Xikun	Chairman	Elected	Elected by the Board of Directors

Yuan Jianqiang	General Manager	Appointed	Appointed by the Board of Directors
Yuan Jianqiang	Director	Elected	Elected by the Shareholders' Meetings
Xiao Yi	Director	Elected	Elected by the Shareholders' Meetings
Ma Xiang	Employee Representative Supervisor	Elected	Elected by the Employee Representatives' Meeting
Ma Xiang	Supervisory board chairman	Elected	Elected by the Board of Supervisors
Zhai Yalin	Supervisor	Elected	Elected by the Shareholders' Meetings
Chen Weiguo	Employee Representative Supervisor	Elected	Elected by the Employee Representatives' Meeting
Xiao Yi	Chief Financial Manager	Appointed	Appointed by the Board of Directors
Liu Zhongyun	Chairman	Resigned	Change of work
Chen Xikun	Deputy General Manager	Resigned	Change of work
Sun Qingde	Vice Chairman、General Manager	Resigned	Change of work
Zou Huiping	Supervisor	Resigned	Change of work
Li Wei	Supervisory board chairman	Resigned	Change of work
Xiao Yi	Director	Resigned	Change of work
Li Tian	Chief Financial Manager	Resigned	Change of work

The Company held the 13th Meeting of the 9th session of the Board on 20 May, 2019. Nominated by the Chairman, Mr.Yuan Jianqiang was appointed as General Manager by the Board of Directors, and term of office started from 20 May, 2019 to the expiry of the 9th session of the Board (February 2021).

After the election of the company's Shareholders' Meeting in 2018 on 26 June 2019, Mr.Yuan Jianqiang, Mr.Xiao Yi were appointed as the directors of the 9th session of the Board, and term of office started from 26 June, 2019 to the expiry of the 9th session of the Board (February 2021). Mr. Zhai Yalin was appointed as Supervisor of the 9th session of the Supervisory Board, and term of office started from 26 June, 2019 to the expiry of the 9th session of the Supervisory Board (February 2021). After the election of the company's Employee Representatives' Meeting on 30 May, 2019, Mr. Chen Weiguo was appointed as the Employee Representative Supervisor of the 9th session of the Supervisory Board, and term of office started from 30 May, 2019 to the expiry of the 9th session of the Supervisory Board (February 2021).

The company held 18th Meeting of the 9th session of the Board on 19 December 2019. After deliberation, Mr. Chen Xikun was elected as the Chairman of the 9th session of the Board by the Board of Directors, and term of office started from 19 December, 2019 to the expiry of the 9th session of the Board (February 2021). Nominated by the General Manager, Mr. Xiao Yi was appointed as the company's Chief Financial Manager by the Board of Directors, and term of office started from 19 December, 2019 to the expiry of the 9th session of the Board (February 2021).

After the election of the company's Employee Representatives' Meeting on 19 December, 2019, Mr. Ma Xiang was appointed as the Employee Representative Supervisor of the 9th session of the Supervisory Board, and term of office started from 19 December, 2019 to the expiry of the 9th session of the Supervisory Board (February 2021). The company held 12th Meeting of the 9th session of the Supervisory Board on 19 December 2019. After deliberation, Mr.Ma Xiang was elected as the Chairman of the 9th session of the

Supervisory Board by the Board of Supervisors, and term of office started from 19 December, 2019 to the expiry of the 9th session of the Supervisory Board (February 2021).

Mr. Sun Qingde, vice Chairman, General Manager of the company, ceased to serve as vice Chairman, Directors, Deputy Chairman of the Strategy Committee of the Board, General Manager since 10 May, 2019, due to change in his work positions. Mr. Chen Xikun, Deputy General Manager of the company, ceased to serve as Deputy General Manager since 20 May, 2019, due to change in his work positions. Mr. Zou Huiping, Supervisor, ceased to serve as Supervisor of the company since 30 May, 2019, due to change in his work positions. Mr. Liu Zhongyun, Chairman of the Board, ceased to serve as Chairman of the Board, non-exclusive Directors, Chairman of the Strategy Committee of the Board of the company since 9 December, 2019, due to change in his work positions. Mr. Li Wei, Chairman of the Supervisory Board, Mr. Xiao Yi, Director of the Board and Mr. Li Tian, Chief Financial Manager, ceased to serve since 19 December, 2019 due to change in their work positions.

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

As at 31 December 2019, none of the Directors or Supervisors of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors and Supervisors pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Listing Rules.

5 REPORT OF THE BOARD

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

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

1.1 Annual Results

In 2019, the Company's consolidated revenue was RMB 69,870,147,000, representing a year-on-year increase of 19.6%, and net profit attributable to shareholders of the Company amounted to RMB 914,244,000, representing a year-on-year increase of 543.6%. Basic earnings per share was RMB 0.048, representing a year-on-year increase of 500.0%.

In 2019, the Company achieved substantial growth in its operating results, mainly benefiting from the company seized the favorable opportunity of the continuous recovery of the operating environment of the oil service industry, actively leveraged the role of the main force of oil and gas exploration and development, stepped up efforts in market development, coordinated and optimized the market layout, and strengthened the fine management of projects. The workload in the main profession and revenue from principal operations for the year increased year-on-year. Meanwhile, the Company strengthened cost and expense control, tapped potential and increased efficiency. The operating cost per RMB 100 revenue for the year decreased by RMB 0.34 year-on-year.

1.2 Market review

In 2019, the global economic growth slowed down in general, and the economic operation in China continued the development trend of being generally stable, progressing while maintaining stability. The major macroeconomic indicators were maintained within a reasonable range. The gross domestic product (GDP) increased by 6.1% over the previous year, but risk challenges at home and abroad increased substantially. International crude oil prices showed a wide range of fluctuations. The annual average Europe Brent Spot Price was USD 64.3 per barrel, representing a decrease of 9.8% as compared to 2018. Global upstream exploration and development capital expenditure increased. In particular, the domestic demand for oil and gas exploration and development increased substantially. Tendering and bidding became increasingly active, and the oilfield service market continued to recover.

In 2019, the Company achieved remarkable results in market expansion, the total newly signed contracts amounted to RMB 69.5 billion, representing a year-on-year increase of 10.7%. In particular, the newly signed contracts in the Sinopec market amounted to RMB 38.4 billion, representing a year-on-year increase of 3.5%. The newly signed contracts in domestic external markets amounted to RMB 14.5 billion, representing a year-on-year increase of 23.9 %. The newly signed contracts in overseas markets amounted to RMB 16.6 billion, representing a year-on-year increase of 7.2%.

1.3 Operations Review

In 2019, the Company actively seized market opportunities for the recovery of the demand for oil and gas exploration and development at home and abroad, coordinated the allocation of resources in both domestic and overseas markets, made positive contributions to stepping up efforts in oil and gas exploration and development in China, and continued to promote the high-quality development of overseas operations. The Company made every effort to advance reform and innovation, paid close attention to cost control and risk management, and continuously improved overall competitiveness. In 2019, the Company achieved positive results in management reform, market development, technological development, and operating results, laying a decisive foundation for achieving overall and sustainable development in 2020.

1.3.1 Geophysical services

In 2019, the Company's operation revenue from the principal business of geophysical service was RMB 4,219,721,000, a decrease of 17.8% than the same period of the previous year, for which the figure was RMB 5,131,649,000. The completed 2D seismic accumulated for 18,903 kilometers in the year, a decrease of 37.6% than the previous year; while the 3D seismic accumulated for 14,103 square kilometers, an increase of 4.9% than the previous year. The Company improved the quality of seismic data continuously, with 2D and 3D records reaching quality rate of 100%. The Company vigorously promoted advanced technologies such as high-density seismic exploration and high-precision seismic exploration in complex mountainous areas to comprehensively enhance its oil and gas exploration capabilities; maintained a good cooperative relationship with China Geological Survey and the Chinese Academy of Geological Sciences, and won the bids for 29 seismic collection projects, with a contract value of RMB 170 million. The Company continued to expand the new business market for CPC's soil pollutant survey, with a newly signed contract value of RMB 150 million, representing a year-on-year increase of 64.7%.

1.3.2 Drilling service

In 2019, the Company's operation revenue from the principal business of drilling service was RMB 36,487,700,000, an increase of 22.1% than the same period of the previous year, for which the figure was RMB 29,883,121,000. Its completed drilling footage reached 9,990 kilometers, representing a year-on-year increase of 15.0%. The average utilization rate of domestic drilling teams reached over 82%. The Company served CPC's exploration and development tasks in a high-quality and efficient manner, and made every effort to promote the improvement of the quality, service speed, efficiency and production in "North China, Northwest China, Sichuan and Chongqing". The average drilling cycle No. 1 fault zone, the central region and the northern region of No. 5 fault zone in the Shunbei construction area was reduced by 13%, 58% and 17% respectively, and the average drilling cycle of Weirong shale gas in the Sichuan-Chongqing construction area was reduced by 35%. The Company successfully completed the task of capacity construction of oil and gas fields such as eastern old oil fields, Fuling shale gas field, Shunbei super deep oil and gas field, tight gas fields in North China, gas fields in western Sichuan, and Weirong shale gas. High-quality markets such as PetroChina and CNOOC further expanded, 55 drilling rigs successively entered PetroChina's southwestern shale gas market.

1.3.3 Logging/Mud logging service

In 2019, the Company's operation revenue from the principal business of logging/mud logging service was RMB 2,503,262,000, an increase of 24.8% than the same period of the previous year, for which the figure was RMB 2,006,180,000. Its completed logging projects have accumulated for 278,040,000 standard meters, an increase of 14.4% than the previous year. Its completed mud logging projects have accumulated for 9,310 kilometers, an increase of 24.6% than the previous year. The pass rate of logging/mud logging data was 100%. In 2019, the Company made full efforts to meet domestic oil companies' market demand for oil stabilization, gas increase and cost reduction, and actively improve its logging/mud logging service capabilities, providing high-quality and effective guarantee for the production stabilization and increase task of Sinopec Group's key regions in "North China, Northwest China, Sichuan and Chongqing" and eastern old oil fields and witnessing the scale of domestic and foreign markets, including CNPC's southwest shale gas, China Geological Survey, and local coal bed methane, continuing to expand steadily.

1.3.4 Downhole operation service

In 2019, the Company's operation revenue in downhole operation was RMB 7,657,148,000, an increase of 35.7% than the same period of the previous year, for which the figure was RMB 5,644,308,000. It completed downhole operation for 6,876 wells, an increase of 15.5% than the previous year. The qualified rate of one-time downhole special operation was 98.5%. In 2019, the Company strived to increase its support for domestic oil and gas exploration and development. It has made remarkable results in large-scale deep and atmospheric pressure shale gas fracturing, completion testing of ultra-high temperature, ultra-high pressure and ultra-deep oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs and other aspects. It further expanded the cooperative development of difficult-to-use reserves with Sinopec Group, which has cumulatively increased crude oil output by about 118,000 tons throughout the year, and continued

to expand domestic and foreign markets and international markets with superior technologies and equipment. Its unique technical service capabilities in coiled tubing, multi-stage perforated and high-pressure operations, and high-end business service capabilities continued to improve.

1.3.5 Engineering and construction service

In 2019, the Company's operation revenue in engineering and construction service was RMB 16,381,730,000, an increase of 24.7% than the same period of the previous year, for which the figure was RMB 13,132,857,000. In 2019, the cumulative value of newly signed contracts was RMB18.4 billion, a increase of 1.8% than the same period of the previous year; its completed contracts valued RMB17.1 billion, an increase of 17.9% than the same period of the previous year. We vigorously expand the market and successively undertook Qingdao-Nanjing Gas Pipeline Project, the 1 million tons per annum ethylene and refinery expansion project of Sinochem Quanzhou, southern Sichuan to Fuling pipeline and a number of EPC projects with an annual EPC contract amount of RMB6.65 billion. We actively explored new market and new area and successively won bids for the first and second phases of Zhoushan Subsea Pipeline Project, with a cumulative bid of RMB 670 million; actively expanded the local gas pipeline and municipal road and bridge markets, of which a total of RMB1.32 billion was newly signed for the East Guangdong natural gas pipeline companies. The Company also further strengthened the construction of project management and control capabilities. The directional drilling set of north Zhanjiang pipeline set a new record over the directional drilling going through the longest traversing distance and the largest pipe diameter in the country, and the completed first phase of the Jiaoshiba block capacity construction project won the "Golden Prize of National High-Quality Project".

1.3.6 International business

In 2019, the Company's operation revenue in international business service was RMB 12,875,129,000, a decrease of 1.8% than the same period of the previous year, for which the figure was RMB 13,111,312,000. The revenue contributed by the international business accounted for 18.7% of the whole revenue, with a year-on-year decrease of 4.2 percentage point. In 2019, our two rigs won the longest 10-year extended service contract on Saudi Aramco's daily fee contract extension in the Saudi Arabia market, and six rigs won the full workload of the first unconventional daily fee rig tender; newly signed Saudi Arabia S84 3D geophysical project with a contract value of USD176 million; newly signed Saudi Arabia MIP Pipeline project with a contract value of USD265 million; successfully signed service contracts for hydrogen sulfide testing, coiled tubing and pre-drilling engineering. In the Kuwait market, we won 11 1+1 year service projects and 7 logging team service projects, expanded the market for deep well drilling, work-over, comprehensive logging, and drill bit services, and won 24 qualification certifications from Kuwait Petroleum Company (KOC) in aspects of drilling, orientation, enhanced mining rate, geophysical prospecting, etc.. Besides, we signed a contract for the drilling of 41 wells in Ecuador, and signed 3 geophysical prospecting data acquisition projects in the Algerian market, with a total contract value of USD 140 million. The ILY project in Ecuador and the EBANO project in Mexico have progressed steadily, and the overseas equity oil and increased oil production have reach 995,000 tonnes.

1.3.7 Research and development

In 2019, the Company continued to promote the development of R&D system and technological innovation, integrated and optimized scientific research resources, and built a platform for the transformation of results. Two R&D centers and 10 technology centers were successively established. During the year, the Company applied 711 domestic and foreign patents, and was granted authorization of 351 domestic and foreign patents. The self-developed drilling rotation steering system has successfully tested and made breakthrough progress. The jointly developed 185°C high temperature MWD instrument was successfully applied in the Shunbei Industrial Zone. The new generation of network imaging logging system, broadband acceleration detector and node seismic acquisition instrument have reached the international advanced level. The SICP technical solution passed the review, and the popularity of the ERP system as well as the steadily advancing

information construction has effectively improved the level of group management and control and refined management.

1.3.8 Internal reform and management

In 2019, the Company continued to deepen its internal reforms, and various reform measures came into effect. It continued to streamline the organizational structure, standardized the establishment of organs at all levels, and reduced the number of administrative personnel by 10.4% over the previous year. The team structure was optimized by using labour in a project-based manner, and grassroots forces were rationally supplemented. The proportion of employees in the principal business reached a year-on-year increase of 5%. The Company continued to promote the professional development of auxiliary services, fully implemented contracting operations. The performance evaluation mechanism was further improved, ergonomics and performance evaluation measures were revised and improved, and the difference assessment performance, was further intensified to strengthen the assessment of single well/project, and the performance evaluation of all employees were further improved. It coordinated and optimized regional resources, and established work coordination groups in the key industrial zones in the western, northern and southwest China, which improved the Company's overall efficiency and effectiveness, and further protected the exploration and development in key industrial zones. The quality control was continuously promoted in all aspect, and the engineering quality was further improved. The downhole failures decreased by 45 from the same period last year, and the loss time decreased significantly by 474 days. Both the wellbore quality qualification rate and the cementing quality qualification rate reached 100%. The Company vigorously tapped potential and increased efficiency, and reduced a total cost of RMB 620 million for the whole year.

1.3.9 Capital Expenditures

In 2019, the Company actually had a capital expenditure of RMB 2.87 billion. In 2019, taking the guarantee of oil and gas exploration and development and the enhancement of core technology leadership and market competitiveness as the starting point, the improvement of the Company's efficiency as the focus, and the Company's sustainability as the goal, the Company prioritized strategic and global projects and projects that were under transformation and upgrading to promote the Company's comprehensive and sustainable development by strictly controlling non-production and non-principal business projects. The investment is mainly made for the transformation of 15 drilling rigs, 24 sets of top-drive guiding devices, 6 sets of fracturing trucks (crowbars), 88,000 seismic acquisition equipment, 52 controllable seismic sources, 22 sets of rig network electrical equipment, 28 high-pressure mud pumps, 1 set of rotary guidance equipment, 4 sets of coiled tubing equipment, and investment projects such as safety hazard management and environmental protection.

1.4 Financial analysis (Prepared in accordance with IFRS)

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

1.4.1 Assets, liabilities and equity analysis

Total assets were RMB 62,069,378,000, representing an increase of RMB 1,164,663,000 from that at the end of 2018, of which: Current assets were RMB 30,547,900,000, representing a decrease of RMB 1,494,584,000 from that at the end of 2018. The decrease was mainly due to a decrease in notes and trade receivables of RMB 4,114,345,000, an increase in financial assets at fair value through other comprehensive income of RMB 1,446,389,000, an increase in contract assets of RMB 641,269,000, an increase in prepayment and other receivables of RMB 1,235,565,000 and a decrease in cash and cash equivalents of

RMB 522,848,000. Non-current assets were RMB 31,521,478,000, representing an increase of RMB 2,659,247,000 from that at the end of 2018, which was mainly due to the combined impact of the increase in the property, plant and equipment of RMB 1,169,459,000 and the increase of RMB 1,720,269,000 in other non-current assets due to the purchase of special tools for petroleum engineering.

Total liabilities were RMB 55,305,506,000, representing an increase of RMB 179,201,000 from that at the end of 2018, of which: Current liabilities were RMB 52,438,357,000, a decrease of RMB 552,045,000 as compared with the end of 2018, which was mainly due to comprehensive impact of a decrease in notes and trade payables of RMB 2,257,278,000, contract liabilities of RMB 814,639,000, other payables of RMB 725,911,000, an increase in short-term borrowings of RMB 3,183,346,000. Non-current liabilities were RMB 2,867,149,000, an increase of RMB 731,246,000 compared with the end of 2018, which was mainly due to the increase of long-term borrowings of RMB 929,919,000.

Total equity attributable to owners of the Company was RMB 6,763,872,000, an increase of RMB 985,462,000 as compared with the end of 2018, mainly due to the profit attributable to equity holders of the Company in 2019 achieved RMB 986,873,000.

As at 31 December 2019, the ratio of total liabilities to total assets was 89.1%, and 90.5% as at 31 December 2018.

1.4.2 Cash flow analysis

During the year ended 31 December 2019, the Group's net cash inflow from operating activities was RMB 1,377,053,000, representing an increase of cash inflow by RMB 4,316,842,000 as compared with last year. This was mainly due to the increase in operating income in 2019 and the expedited cleanup and recovery of receivables.

During the year ended 31 December 2019, the Group's net cash outflow from investing activities was RMB 3,178,757,000, an increase of cash outflow by RMB 2,004,286,000 as compared with last year. It was mainly due to increased investment in equipment upgrades in 2019, and the acquisition of equity of SinoFTS Petroleum Services Limited ("SinoFTS") held by foreign shareholders.

During the year ended 31 December 2019, the Group's net cash inflow from financing activities was RMB 1,249,626,000, presenting a decrease of cash inflow by RMB 2,369,159,000 compared with last year. It was mainly due to the completion of the non-public placement of A shares and H shares in January 2018 and the company received net proceeds of RMB 7,637,715,000.

1.4.3 Affiliated company borrowings

As at 31 December 2019, the Company's affiliated borrowings were RMB 20,877,457,000 (31 December 2018: RMB 18,142,373,000). These borrowings included the short-term borrowings in RMB 20,403,075,000, and the long-term borrowings due more than one year of RMB 474,382,000; the fixed-rate loans were RMB 18,080,000,000 and the floating rate loans were RMB 2,797,457,000. As at 31 December 2019, the balance of RMB borrowings accounted for approximately 86.6% and the balance of US dollar borrowings accounted for 13.4%.

1.4.4 Assets pledge

As at year ended 31 December 2019, there was no pledge on the Group's assets.

1.4.5 Gearing ratio

As at 31 December 2019, the gearing ratio of the Group was 76.1% (2018: 74.6%). The gearing ratio is

computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

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

Industries	Operating income for 2019 RMB'000	Operating cost for 2019 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	4,219,721	4,003,334	5.1	-17.8	-15.5	Decreased by 2.6 Percentage points
Drilling	36,487,700	33,141,819	9.2	22.1	21.4	Increased by 0.6 Percentage points
Logging/Mud Logging	2,503,262	1,983,237	20.8	24.8	0.8	Increased by 18.9 Percentage points
Downhole Operation	7,657,148	7,217,640	5.7	35.7	41.4	Decreased by 3.9 Percentage points
Engineering and Construction	16,381,730	15,342,862	6.3	24.7	28.3	Decreased by 2.6 Percentage points
Other	1,537,664	1,548,718	-0.7	2.6	0.2	Increased by 2.4 Percentage points
Total	68,787,225	63,237,610	8.1	20.1	20.2	Decreased by 0.1 Percentage points

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

Region	Operating income for 2019 RMB'000	Operating cost for 2019 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Mainland China	55,912,096	51,897,200	7.2	26.5	26.0	Increased by 0.4 Percentage points
Hong Kong, Macau, Taiwan, and overseas	12,875,129	11,340,410	11.9	-1.8	-0.9	Decreased by 0.9 Percentage points

1.7 Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	RMB 12,881,403,000	Percent of total purchases	30.4%
Aggregate sales amounts to the top five largest customers	RMB 53,170,304,000	Percent of total sales	76.1%

(2) Prospects

2.1 Competitive Industry Structure and Development Trend

Looking forward to 2020, the process of world economic recovery will slow down, especially since the beginning of 2020, the novel coronavirus pneumonia epidemic will have a certain impact on the global economy. While international oil prices are greatly affected by the demand side, uncertain and unstable factors remain. It is expected that the fluctuation of international oil prices will increase; the downward pressure on China's economy is increasing, but the basic trend of growth amid stability and long-term improvement remain unchanged, and the basic trend of rigid growth in oil and gas demand remain unchanged. The total capital expenditure from global oil and gas exploration and development will continue to increase, especially the three major domestic oil companies are expected to continue to increase investment in upstream exploration and development driven by the security of national energy strategy; against the background of rising domestic and foreign market demand, the domestic oil service industry will be active and of full opportunity. At the same time, requirements of oil companies for improving the quality and speed of oil service business and increasing production and reducing costs are more intense and urgent.

2.2 Business Strategy in 2020

In 2020, the Company will actively take favourable opportunities of continued recovery of demand in oil field service sector, and continue to leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and expand external markets outside Sinopec in order to make profits. It plans to sign new contract to reach a yearly value of over RMB 68.0 billion, in which RMB 39.6 billion will be from Sinopec's internal market, RMB 13.0 billion from domestic external market, and RMB 15.4 billion from overseas market. It will continue to deepen internal reforms, strengthen management innovation, deepen resources optimization and integration, overall structure optimization and adjustment, continuous brand image optimization, and development quality improvement, to promote the Company move toward mid-to-high end and strive to achieve comprehensive and sustainable development. The Company puts emphasis on the following aspects:

2.2.1 Geophysical service

In 2020, the Company will vigorously promote the application of high-density and high-precision seismic exploration technologies in oil and gas exploration, and continuously improve construction efficiency and data quality. It will continue to efficiently serve the exploration and deployment of Sinopec, and do a good job in oilfield exploration in the Tarim Basin, eastern fault depressions and Junggar Basin, and natural gas exploration in Sichuan Basin and Ordos Basin; continue to strengthen strategic cooperation with key customers such as China Geological Survey system and Yanchang Group; promote the integration of acquisition, processing, and interpretation service capabilities, and maintain the position as the largest international geophysical contractor in Algeria. It completed annual acquisition of 2D seismic data reaching 17,700 kilometers, and 3D of 23,780 sq. kilometre.

2.2.2 Drilling Service

In 2020, the Company will closely focus on the production requirements of "efficient exploration and profitable development" of upstream of Sinopec Group, based on the positioning of engineering technology support center, strengthen the services and guarantees of oil and gas exploration and development, and consolidate the internal market share; select high quality team to efficiently serve the construction of production capacity in key industrial areas such as the Shunbei ultra-deep oil and gas field, Southwest natural gas, Ordos tight oil and gas, and southern Sichuan deep shale gas, helping Sinopec Group to stabilize oil, increase gas output and reduce costs to achieve better results, and serve the development of benefits. In the domestic and foreign markets, it will actively take advantage of the Company's industrial chain integration advantages, and pay close attention to the capacity construction of key areas such as shale gas at southern Sichuan, Tarim and Karamay, and major exploration and development projects such as CNOOC Bohai Bay, Beibu Gulf, and the South Yellow Sea to continue to optimize the layout of external resources,

consolidate well-established high-quality markets such as PetroChina and CNOOC, and lay a solid foundation for revenue and efficiency in external markets. The Company plans to complete drilling footage accumulated for 10,010 kilometers in 2020.

2.2.3 Logging/Mud logging service

In 2020, the Company will continue to focus on exploration and development. It will enhance and expand share in Sinopec Group's internal market while actively increasing income from external market. For Sinopec Group's internal market, the Company will ensure the implementation of key district projects in "North China, Northwest China, Sichuan and Chongqing". For external market, the layout will be further optimized and emphasis will be on market expansion in southwest of CNPC, Ordos and Yanchang Oilfield. It will continue to optimize the allocation of internal resources such as crews, equipment and staff. It will perfect and strengthen its business in logging/mud logging service. The Company plans to complete logging footage accumulated for 280,000 kilometers in 2020, while the mud logging footage accumulated for 9,350 kilometers.

2.2.4 Downhole operation service

In 2020, taking opportunities of the time when the state puts more in oil and gas exploration and development, the Company will constantly refine the construction technology system of special downhole operation, put effort into raising its support capability in exploration service, promote oil and gas development and improve quality, speed, efficiency and production, with a focus to ensure the exploration and development and the increase in reserves and production of the Fuling shale gas field in the Sichuan Basin and the Weirong shale gas field, Ordos tight oil and gas, Shunbei super deep oil and gas reserves, and offshore oil and gas fields. The Company will continue to expand the domestic shale gas market and strengthen its ability to support green energy sources including share gas; accelerate the expansion of the industrial chain and increase the intensity of cooperation and development of difficult-to-use reserves; improve and strengthen high-end business such as high-pressure operations and smart tubing business, and continue to develop new businesses such as anhydrous fracturing and smart completion. In 2020, the Company plans to complete downhole operation service for 6,960 wells.

2.2.5 Engineering and construction service

In 2020, the Company will focus on enhancing project management, control project risks and promote capabilities of making profits. It will make good preparation for the construction of some key projects, such as focusing on the construction of Qingdao-Nanjing Gas Pipeline Project, Nanchuan-Fuling Pipeline Project, East Guangdong Natural Gas Pipeline and other key projects; consolidate and increase the market share of CPC, and focus on the development of key projects including new gas pipeline Guangxi Branch and Trunk Line Project, Qianjiang-Henan Province Gas Storage Gas Pipeline Project, Long Kou-Linyi-Puyang Natural Gas Pipeline, E'ancang Project, and Su-yu Outer Pipeline Project, to continuously increase the market share of long-distance pipelines. The Company will also establish rescue teams, keeping an eye on the national oil and gas pipeline market, closely tracking key central and local government gas, water conservancy, and municipal projects, and expanding new businesses and markets such as solid waste, hazardous waste disposal, and soil remediation. In 2020, the Company plans to sign new contracts valued RMB15.6 billion and complete contracts valued RMB 15.5 billion.

2.2.6 International business

In 2020, the Company will focus on strengthening unified and standardized management in international business, optimizing market layout, efficiently integrating resources, accelerating transformation and upgrading, strictly preventing and controlling risks, and striving to achieve sustainable and high-quality development. It will consolidate and expand key markets including Saudi Arabia, Kuwait, Ecuador, and Mexico, and give play to the role of a drilling "leader" to drive "going out" of business including logging & mud logging, cementing and completion, directional wells, drilling fluids, coiled tubing, fracturing and other businesses and advance overseas high-end business; strictly organize the Saudi S84 project to expand

the three-dimensional seismic market; promote the construction of Saudi MIP pipeline projects, pay close attention to comprehensive reservoir integration service projects in Ecuador, Kuwait, and Mexico, and strive for new breakthroughs. In Algeria, Nigeria, Iraq and other markets, we will consolidate and expand drilling, geophysical and surface businesses; track the Russian offshore drilling market; and expand the offshore oilfield disposal market. In 2020, the Company plans to sign new contracts valued USD 2.2 billion.

2.2.7 Technology development

In 2020, the Company will continue to accurately satisfy the exploration and development and market needs, and continuously improve the supporting technologies for exploration and development projects such as deep oil and gas, shale gas, tight oil and gas, and old oilfields in the east; continue to improve service capabilities to meet the needs of oil companies to accelerate their exploration and development and improve their quality and efficiency to help stabilize oil, increase gas output, and reduce costs; continue to improve the construction of 4 research and development platforms, cultivate offshore engineering technology centers, and promote the construction of key laboratories such as measurement while drilling, wellbore working fluids, and high-temperature and high-pressure oil and gas testing. It will also intensify research on overcoming technology difficulties, accelerate breakthroughs in high-end areas such as downhole measurement and control, logging and testing, and accelerate the realization of autonomous controllability of key technologies such as low-frequency and high-energy controllable seismic sources and drilling rotation guidance, creating a “weapon” for petroleum engineering; accelerate the promotion of nodal seismic acquisition industrialization, long-distance pipeline electrical control integration, etc., accelerate the matching of reservoir integration service technology, cultivate new business and create new value with new technologies.

2.2.8 Internal reform and management

In 2020, the Company will continue to deepen reforms, deeply optimize and integrate resources, vigorously optimize the market, team, equipment, and business structure, and accelerate the development to the mid-to-high end; deepen the management system reform, promote the management of “small institutions and large departments”, and implement “release management services” reforms, optimize business processes, standardize the organization of functions at all levels, and reduce the administrative staff by 10%; promote the optimization of market structure, establish a market-oriented resource allocation mechanism, and focus on improving the security capabilities of Sinopec, consolidate the development of domestic scale and efficient markets, and make every effort to promote the high-quality development of overseas business; promote the optimization of business structure, enlarge and strengthen the principal business, refine and improve the auxiliary business, accelerate the development of technical service business, and innovate and coordinate the development of emerging business; promote the team structure optimization and control the total number of employees and the team to improve team quality, continue to improve the utilization rate of the team and the labor productivity of the entire staff; and put more efforts on the performance evaluation, implement the performance evaluation of the entire staff, and promote income increase or decrease. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2020, the reduced cost and fees are expected to be RMB 0.3 billion.

2.2.9 Capital expenditures

In 2020, the Company plans to arrange capital expenditure of RMB 3.4 billion on fixed assets. The investment is mainly used for the following key projects: the first is to arrange the supporting transformation of deep well rigs in key industrial areas, the rig electrification and grid electrification, and the purchase of electric fracturing pumps, based on the main line of the exploration and development of Sinopec; the second is to ensure the renovation and reconstruction of construction equipment required for the development of key markets in Saudi Arabia and Kuwait based on the main line of exploring overseas high-end markets; the third is to arrange the automation of rigs, seismic node equipment, and the investment in laboratory infrastructure based on the main line of improving scientific research and industrialization projects to improve technical service capabilities; the fourth is to arrange the investment of safety and environmental

protection projects based on the main line of improving safety; and the fifth is to arrange the construction of an integrated production and operation coordination platform (SICP) based on the main line of building a digital oilfield service company. In 2020, the Company will highlight the awareness of return on investment, strengthen budget management, strictly control off-plan investments, and strictly control non-production and non-main business projects, thereby enhancing the Company's technical service capabilities, cultivating its core competitiveness, and strongly improve investment efficiency.

(3) Profit distribution plan

The net profit to equity shareholders of the Company was RMB 914,244,000 in accordance with the PRC ASBE (the net profit to equity shareholders of the Company was RMB 986,873,000 in accordance with the IFRS) for the year 2019 has been audited by Grant Thornton (Special General Partnership). At the end of 2019, the undistributed profit of the Patent Company was RMB -1,496,212,000. Due to the accumulated net profit in Parent Company was negative value at the end of 2019, the Board proposed not to distribute any dividend nor capitalize any reserve for the year 2019. The above proposed profit distribution scheme shall be submitted for approval at the 2019 Annual General Meeting.

6 SIGNIFICANT EVENTS

(1)Material litigation or arbitration or events commonly disputable by the media during this reporting period
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 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 at www.hkexnews.hk on 18 July 2019.

On 8 October 2014, the Ecuador Banya Duri Company (厄瓜多爾斑尼亞杜麗公司), an indirectly wholly-owned subsidiary of the Company (the "Banya Duri Company") entered into the Contract for I-L-Y Oilfield Comprehensive Service Projects in Ecuador (the "I-L-Y Oilfield Projects Contract") with Corporacion Estatal Petrolera Ecuatoriana (the "PAM"). The Banya Duri Company is a project company established by the Company in Ecuador to engage in I-L-Y oilfield comprehensive service with 90% and 10% of its shares held by Sinopec International Petroleum Service Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Service Corporation Ecuador Subsidiary respectively. During the implementation of the projects, the parties had disputes on the payments for some increased oil production. After repeated unsuccessful negotiations, in April 2019, the Banya Duri Company served the Notice of Application for Legal Arbitration to the PAM in relation to such contract disputes in accordance with the relevant provisions of the I-L-Y Oilfield Projects Contract, recommending the Permanent International Court of Arbitration in Hague as the arbitration institution to conduct arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition). the Banya Duri Company requests made by the Applicant include: the PAM should pay an invoice amount of US\$63.29 million for the increased oil production with interest, confirm the Y-12 well would

operate with optimized production capacity and pay US\$8.13 million, as well as pay the losses brought to the Applicant due to the default of the PAM and relevant charges for the legal arbitration.

At present, Banya Duri Company and PAM has recommended one arbitrator and jointly appointed one presiding arbitrator to form the arbitration tribunal, which will initiate arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition).

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

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

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

Reviewed and approved by the 12th meeting of the ninth session of the Board held on 25 April 2019, SOSC, a wholly-owned subsidiary of the company, has conditionally agreed to purchase 45% equity interest of SinoFTS Petroleum Services Ltd. (“SinoFTS”) held by FTS International Netherlands, B.V. (“FTSI”), at a purchase price of US\$26,902,400 (tax exclusive). For details please refer to the “Possible Disclosable Transaction Acquisition of the 45% Equity Interest of SINOFTS” announcement (P.2019-020) published on China Securities, Shanghai Securities News, Securities Times on 26 April 2019 and on www.hkexnews.hk on 25 April 2019.

On 10 May 2019, the buyer, Sinopec Oilfield Service Co., Limited (“SOSC”), the wholly-owned subsidiary of the company, and the seller, FTSI, entered into the buyout agreement. The buyout agreement became effective on 10 May 2019. Please refer to the Announcement “Progress Update Announcement on Disclosable Transaction” (P.2019- 022) published on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 11 May 2019 and on www.hkexnews.hk on 10 May 2019 for details.

As at 13 August 2019, the related transfer procedure of 45% equity interest of SinoFTS has been completed, the business registration of SinoFTS has been completed. So far, SinoFTS has become a wholly-owned subsidiary of SOSC.

(4) Information on connected transactions

The Company’s significant connected transactions entered into during the year ended 31 December 2019 are as follows:

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

The nature of the transaction classification	Related parties	Amount of transaction RMB’000	Proportion of the same type of transaction (%)
Purchase of materials and equipments	China Petrochemical Corporation and its subsidiaries and/or associates	10,973,226	25.9

Rendering engineering services	China Petrochemical Corporation and its subsidiaries and/or associates	39,874,446	57.1
Receiving of community services	China Petrochemical Corporation and its subsidiaries	392,571	100
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	149,848	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	191,215	99.1
Rental expenses	China Petrochemical Corporation and its subsidiaries	205,628	38.3
Interest expenses	China Petrochemical Corporation and its subsidiaries and/or associates	816,987	83.3
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	38,367,042	100
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	35,715,939	100
Safety and insurance fund expenses	China Petrochemical Corporation	80,643	100
Safety and insurance fund refund	China Petrochemical Corporation	113,180	100

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

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

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

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

Unit: RMB '000

Connected parties	Funds provided to connected party	Funds provided to the Company by connected party
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	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	11,554,879	-1,755,995	9,789,884	9,908,343	259,914	10,168,257
Sinopec Finance Company Limited	-	-	-	9,600,000	2,480,000	12,080,000
Sinopec Century Bright Capital Investment Limited	-	-	-	3,542,373	-744,916	2,797,457
Total	11,554,879	-1,755,995	9,789,884	23,050,716	1,994,998	25,045,714
Causes of connected claims and debts	Normal production and operation					
Influence of connected claims and debts on the Company	No material adverse effect					

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

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

√Applicable □Not Applicable

Unit:RMB

Lessor	Lessee	Leased Assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income The impact of leasing process	The impact of leasing process on the company	Is it a connected transaction?	Connected relation
TSFL	Shengli Petroleum Engineering Company	machines and equipment used for drilling and downhole operations	RMB 1 billion	8 February 2018	8 February 2026	RMB -174 million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the company
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd.	semi-submersible rig (Exploration IV)	RMB38.47 million	6 November 2019	5 November 2022	RMB -5.65 million (before renovation)	at the daily rental of no more than RMB15,500 per day	No significant impact	Yes	Shanghai Offshore Petroleum Bureau is a wholly-owned subsidiary of the controlling shareholder of the company

(7) Guarantee of the company during the reporting period

Unit: RMB '000

External Guarantee of the Company (excluding Guarantees for Subsidiaries)	
Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries)	0
Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries)	0
The Guarantee of the Company and its Subsidiaries to the Subsidiaries	

Total Amount of Guarantees paid to Subsidiaries during the Reporting Period	-555,481
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	13,452,386
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total guarantee (A+B)	13,452,386
Total Amount of Guarantees as a Percentage of the Company's Net Assets (%)	198.9
Among them:	
Amount of Guarantee provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantee Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	13,452,386
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	10,070,451
Sum of the three Guarantee above (C+D+E)	23,522,837
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the company are all provided by the guarantees for the performance of the performance guarantee letters issued by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting of the company for 2018.

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

Whether or not change the accounting firm	No
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	6
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The audit period for the overseas accounting firm	6
The remuneration of the domestic and overseas accounting firm	RMB 9,800,000
The name of the internal control accounting firm	Grant Thornton (Special General Partnership)
The remuneration of the internal control accounting firm	RMB 2,000,000

Note: Grant Thornton Hong Kong Limited provided the Company tax services on Hong Kong profit tax declaration in 2019, and the compensation was HKD 10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company's audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2019. The Proposal has been approved by the Shareholders at the annual general meeting of 2018 on 26 June 2019.

On 24 March 2020, the Board of the Company has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor of the Company for the year 2020. The proposal shall be subject to the approval by the shareholders at the Company's 2019 annual general meeting.

(9) The special undertakings by the Company and its shareholders with holdings of more than 5% and the implementation of commitments for the year ended 31 December 2019:

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

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

According to the letter issued by Sinopec, the controlling shareholder of the company, regarding the fulfillment of the relevant commitments of the Exploration IV Drill Rig, In order to safeguard the interests of the company and minority shareholders, based on the actual situation of the Exploration IV Drill Rig. On 27 August 2019, the 15th meeting of the ninth session of the Board of Directors and the 10th meeting of the ninth session of Supervisory Committee of the Company considered and approved “Proposal on the implementation of relevant commitments related to Exploration IV Drill Rig by lease” and “Proposal to lease the Exploration IV Drill Rig to China petrochemical corporation” .

On 6 November 2019 , The first extraordinary general meeting in 2019 of the Company considered and approved “Proposal on the implementation of relevant commitments related to Exploration IV Drill Rig by lease” .For details, please refer to the “Connected transaction Lease of the exploration iv drill rig” (P.2019-037) disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 28 August 2019 at www.hkexnews.hk on 27 August 2019.

Sinopec undertakes to dispose the Exploration IV Drill Rig when appropriate within the 5 years after the completion of the Major Assets Reorganisation, the above commitments have been fulfilled.

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

a. The grant date and quantity

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

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

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

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

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

d. Exercise price of the Proposed Grant

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

e. Validity Period and Exercise Arrangement under the Proposed Grant

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

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

f. Exercise of the Proposed Grant during the reporting

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

1st exercise period which have been granted to but not yet been exercised by the Participants of the A Share Option Incentive Scheme.

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

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

The performance of the Company has not fulfilled the exercise conditions for exercise of Option during the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme. On 28 October 2019, the Company convened the 17th meeting of the 9th session of the Board at which the "Resolution relating to non-fulfillment of the exercise conditions for the 2nd exercise period under the First Grant of the A Share Option Incentive Scheme" was considered and approved. After consideration, the Board will cancel the 13,788,000 Share Options corresponding to the 2nd exercise period which have been granted but not yet been exercised under the First Grant of the A Share Option Incentive Scheme.

Meanwhile, In view of a total of 30 Participants of the Company's A Share Option Incentive Scheme came across matters such as retirement, change in job positions, resignation and death, etc., according to the Share Incentive Plan Measures and the relevant provisions of the Share Option Scheme, as the above Participants have not met the qualifications, the Company proposes to cancel a total of 1,300,000 Share Options that have been granted to but not yet been exercised by the above-mentioned personnel. After this adjustment, the Participants of the Company's A Share Option Incentives were adjusted from 453 to 423, and the number of A Share Options which have been granted but not yet been exercised were adjusted from 18,384,000 to 17,084,000. For details, please refer to the "Announcement relating to Non-fulfillment of Exercise Conditions for the Second Exercise Period and Adjustment to the List of Participants and the Number of Share Options Under the First Grant of the A Share Option Incentive Scheme I." (P.2019-044) disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 29 October 2019 at www.hkexnews.hk on 28 October 2019.

(11) Other major issues

On 27 August 2019, Ocean Petroleum Engineering (a subsidiary of the Company) entered into a Lease Agreement with Shanghai Offshore Petroleum Bureau in relation to the Exploration IV Drill Rig for a term of 3 years. In accordance with IFRS 16, the Group is required to recognise the Expedition IV Drill Rig as a right-of-use asset. Therefore, the Lease Agreement and the Lease contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules. Shanghai Offshore Petroleum Bureau is a connected person of the Company under the Listing Rules as it is a subsidiary of CPC, the controlling shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the Lease contemplated under the Lease Agreement constitutes a one-off connected transaction of the Company.

According to the terms of the Lease Agreement, the lease term is 3 years, Ocean Petroleum Engineering shall pay rental to the Shanghai Offshore Petroleum Bureau on a monthly basis since the lease commencement date (which shall be the effective date of the Lease Agreement). The rental under the Lease Agreement was determined after arm's length negotiations between Ocean Petroleum Engineering and Shanghai Offshore Petroleum Bureau upon a comprehensive consideration of costs, taxes and management fees, as well as reasonable profits. According to the IFRS, fixed rental payments are capital in nature, and the leased property will be recognised as the right-of-use asset of the Group on the leased property is available for use by lessee.

For details, please refer to the "Connected transaction Lease of the exploration iv drill rig" (P.2019-037) disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 28 August 2019 at www.hkexnews.hk on 27 August 2019.

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

On 25 April 2019, the Company held the twelfth meeting of the ninth session of board of directors to consider and approve the Proposal on the Permanent Replenishment of Working Capital by Using the Remaining Proceeds Raised and Proposal on the Termination of Certain Projects Funded by Proceeds and the Permanent Replenishment of Working Capital by Using Remaining Proceeds Raised.

Given the Fundraising Projects "Kuwait rig project", "Project of purchasing 8000HP multipurpose working vessel" and "Project of purchasing LOGIQ Imaging Logging System" have been completed and generated proceeds balance of the committed investment, in order to reduce its financial expense and capital cost, improve the effectiveness of the proceeds and satisfy the funding requirements for production and operation, the Company intends to use the aggregate balance of the committed proceeds from the above Fundraising Projects of RMB561,258,900 to replenish its working capital for investing in the production and operating activities in relation to the principal business of the Company. Upon consideration of the actual progress of the Company's uncompleted Fundraising Project "Project of purchasing pipe construction equipment", the Company proposes to terminate the "Project of purchasing pipe construction equipment" and to use the balance of the proceeds from such Projects of RMB396,348,500 to replenish the Company's working capital. The aggregate amount of the remaining proceeds from the above Fundraising Projects used to permanently replenish the working capital of the Company is RMB995,208,400 (including net interest income, the final amount is subject to the balance after interest settlement of the bank on the date when the proceeds are transferred out from the special account). For details, please refer to the "Announcement on Permanent replenishment of working capital by using the remaining proceeds raised And Termination of certain projects funded by proceeds raised and permanent replenishment of working capital by using remaining proceeds Reference is made to" (P.2019-019) disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 26 April 2019 at www.hkexnews.hk on 25 April 2019.

On 26 June 2019, the Company held the annual general meeting of the company in 2018 to consider and approve the Proposal on the Permanent Replenishment of Working Capital by Using the Remaining

Proceeds Raised and Proposal on the Termination of Certain Projects Funded by Proceeds and the Permanent Replenishment of Working Capital by Using Remaining Proceeds Raised.

As of 31 December, 2019, the company has used up all of the RMB5,952,516,700 net proceeds raised from the non-public offering of 1,333,333,333 A-shares on February 2015. The company has closed the relevant special account for proceeds raised (Beijing hepingli branch of ICBC: 0200337529200006626). For details, please refer to the “Announcement that the proceeds raised is used up and the proceeds raised account is closed” (P.2019-041) disclosed on China Securities, Shanghai Securities News, Securities Times, www.sse.com.cn on 12 October 2019 at www.hkexnews.hk on 11 October 2019.

7. FINANCIAL REPORT

7.1 Audit Opinion

The financial statements of the Group for the year ended 31 December 2019, prepared in accordance with the PRC ASBE have been audited by Zhang Yaxu and Wang Tao of Grant Thornton (Special General Partnership), which has issued unqualified opinion on 24 March 2020. Also, the financial statements of the Group for the year ended 31 December 2019, prepared in accordance with IFRS have been audited by Grant Thornton Hong Kong Limited, which has issued unqualified opinion on 24 March 2020.

7.2 Financial Statements prepared in accordance with IFRS

The following financial information were extracted from the audited consolidated financial statements of the Company and its subsidiaries (hereinafter referred to as the “Group”) for the year ended 31 December 2019, which were prepared in accordance with the IFRS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4	69,870,147	58,409,078
Cost of sales and taxes and surcharges		(63,908,668)	(53,508,883)
Gross profit		5,961,479	4,900,195
Selling expenses		(63,787)	(64,249)
General and administrative expenses		(2,965,864)	(3,239,084)
Research and development expenses		(1,194,198)	(928,586)
Finance expenses - net	5	(945,344)	(441,190)
Expected credit loss and impairment losses on assets	6	(111,239)	(37,068)
Investment income	7	36,513	600
Share of profit from joint ventures		10,214	24,348
Share of profit from associates		3,685	2,135
Operating profit		731,459	217,101
Other income	8	755,274	1,199,612
Other expenses	9	(58,336)	(802,944)
Profit before income tax	10	1,428,397	613,769
Income tax expense	11	(441,524)	(373,581)
Profit for the year		986,873	240,188
Other comprehensive (expense)/income for the year, net of tax			
Items that will not be reclassified subsequently to profit or loss:			
Net movement in fair value of financial assets at fair value through other comprehensive income (“FVTOCI”)		(5,229)	11,676
Total comprehensive income for the year		981,644	251,864
		RMB	RMB
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	12		
Basic and diluted		0.052	0.013

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		25,375,631	24,206,172
Other non-current assets		5,374,781	3,654,512
Prepaid land leases		-	118,335
Intangible assets		281,497	118,940
Interests in joint ventures		23,791	218,813
Interests in associates		15,927	14,010
Financial assets at FVTOCI		32,847	39,011
Deferred tax assets		417,004	492,438
Total non-current assets		31,521,478	28,862,231
Current assets			
Inventories		1,048,465	1,217,323
Financial assets at FVTOCI		1,446,389	-
Notes and trade receivables	14	11,996,855	16,111,200
Prepayments and other receivables		4,680,066	3,444,501
Contract assets		9,707,288	9,066,019
Restricted cash		18,105	29,861
Cash and cash equivalents		1,650,732	2,173,580
Total current assets		30,547,900	32,042,484
Total assets		62,069,378	60,904,715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Equity			
Share capital		18,984,340	18,984,340
Reserves		(12,220,468)	(13,205,930)
Total equity		6,763,872	5,778,410
Liabilities			
Non-current liabilities			
Long term borrowings		2,307,828	1,377,909
Deferred income		92,211	139,594
Deferred tax liabilities		17,854	22,658
Provisions		449,256	595,742
Total non-current liabilities		2,867,149	2,135,903
Current liabilities			
Notes and trade payables	15	24,802,226	27,059,504
Other payables		2,797,837	3,523,748
Contract liabilities		3,575,654	4,390,293
Short term borrowings		20,938,450	17,755,104
Current income tax payable		324,190	261,753
Total current liabilities		52,438,357	52,990,402
Total liabilities		55,305,506	55,126,305
Total equity and liabilities		62,069,378	60,904,715
Net current liabilities		(21,890,457)	(20,947,918)
Total assets less current liabilities		9,631,021	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION

1.1 General information and the Reorganisation

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

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

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

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

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

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

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

1.2 Basis of presentation

As at 31 December 2019, the Group had net current liabilities of approximately RMB21,890,457,000 (2018:RMB20,947,918,000) and capital commitments of approximately RMB517,738,000; and it had a net profit of RMB986,873,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In December 2019, the Group obtained a line of credit of RMB17 billion and USD0.6 billion (Total: approximately RMB21.2 billion), and line of credit promissory note of RMB7 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

2 BASIS OF PREPARATION

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

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

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

3 NEW AND AMENDED IFRSs

The IASB has issued a number of new and amended IFRSs. The Group has adopted all these new and amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the accounting period beginning on or after 1 January 2019:

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 how the results and financial position for the current and prior periods have been prepared and presented.

IFRS 16 “Leases”

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.

3 NEW AND AMENDED IFRSs (CONTINUED)

IFRS 16 “Leases” (Continued)

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%.

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 to the lease liabilities recognised at 1 January 2019:

	At 1 January 2019 RMB'000
Total operating lease commitments disclosed at 31 December 2018	382,990
Less: Recognition exemptions:	
- Short term Leases with remaining lease term of less than 12	(144,507)
Add: Extension option reasonably certain to be exercised	<u>825,742</u>
Total minimum lease payment under IFRS 16 at 1 January 2019	1,064,225
Less: Total future interest expenses	<u>(119,746)</u>
	944,479
Add: Minimum lease payment of finance lease liabilities at 31 December	<u>990,640</u>
Lease liabilities recognised under IFRS 16 at 1 January 2019	<u><u>1,935,119</u></u>
 Lease liabilities	 RMB'000
Current	459,324
Non-current	<u>1,475,795</u>
Lease liabilities recognised under IFRS 16 at 1 January 2019	<u><u>1,935,119</u></u>

3 NEW AND AMENDED IFRS (CONTINUED)

IFRS 16 “Leases” (Continued)

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

Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:	Carrying amount on 31 December 2018 RMB’000	Capitalisation of operating lease RMB’000	Reclassification RMB’000	Carrying amount on 1 January 2019 RMB’000
Property, plant and equipment	24,206,172	944,479	118,335	25,268,986
Prepaid land leases	118,335	-	(118,335)	-
Total non-current	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

Note:

- (a) At 31 December 2018, finance leases liabilities under “Short term borrowings” amounting to RMB149,022,000 had been reclassified to lease liabilities under “Short term borrowings”.
- (b) At 31 December 2018, finance leases liabilities under “Long term borrowings” amounting to RMB841,618,000 had been reclassified to lease liabilities under “Long term borrowings”.

3 NEW AND AMENDED IFRSs (CONTINUED)

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2019 which are relevant to the Group but the Group has not early adopted are set out below:

Amendments to IAS 1 and IAS 8

Amendments to IFRS 9, IAS 39 and IFRS 7
IFRS 17

Amendments to IAS 1

Amendments to IFRS 10 and IAS 28

Amendments to IFRS 3

Definition of Material¹

Interest Rate Benchmark Reform¹

Insurance Contracts³

Definition of current and non-current
liabilities²

Sale or Contribution of Assets between an
Investor and its Associate or Joint
Venture⁴

Definition of a Business⁵

¹ Accounting periods beginning on or after 1 January 2020

² Accounting periods beginning on or after 1 January 2022

³ Accounting periods beginning on or after 1 January 2023

⁴ Effective date not yet been determined

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

The directors of the Company anticipate that the application of these new and amended IFRSs will have no material impact on the results and the financial position of the Group.

4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	2019 RMB'000	2018 RMB'000
Geophysics	4,305,555	5,132,418
Drilling engineering	36,941,274	30,086,180
Logging and mud logging	2,535,982	2,044,752
Special downhole operations	7,675,950	5,671,037
Engineering construction	16,603,211	13,242,985
Others	1,808,175	2,231,706
	69,870,147	58,409,078

Segment information

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

Five reportable operating segments are as follows:

- Geophysics, which provides terrestrial and marine geophysical exploration, development and technical services;
- Drilling engineering, which provides customers with land and ocean drilling design, construction, technical services and drilling instrumentation;
- Logging and mud logging, which provides land and ocean project contracting and technical services for collection, monitoring, transmission, processing and interpretation and evaluation of wellbore oil and gas, geology and engineering information;
- Special downhole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments; and

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 2019 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
During the year ended 31 December 2019								
Segment revenue and results								
Revenue from external customers	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	-	69,870,147
Inter-segment income	7,550	1,521,809	1,435,830	517,391	75,077	931,941	(4,489,598)	-
Segment revenue	4,313,105	38,463,083	3,971,812	8,193,341	16,678,288	2,740,116	(4,489,598)	69,870,147
Reportable segment (loss)/revenue	(148,431)	1,392,858	169,062	149,472	(137,298)	(694,204)	-	731,459
Other income	41,012	280,732	7,446	28,076	270,943	127,065	-	755,274
Other expenses	(4,426)	(19,053)	(2,731)	(4,260)	(22,331)	(5,535)	-	(58,336)
(Loss)/Profit before income tax	(111,845)	1,654,537	173,777	173,288	111,314	(572,674)	-	1,428,397
Income tax expense								(441,524)
Profit for the year								986,873

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

For the year ended 31 December 2019 and as at that date, the segment results, assets and liabilities were as follows: (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
During the year ended 31 December 2019								
Supplementary information								
Depreciation and amortisation								
--Property, plant and equipment	381,511	1,743,357	179,951	576,034	235,388	294,770	-	3,411,011
-- Other non-current assets	72,907	1,511,365	38,751	207,394	15,066	2,067	-	1,847,550
-- Intangible assets	26	64,265	1,641	11,792	7,423	4,487	-	89,634
Capital expenditure								
--Property, plant and equipment (Note)	719,255	1,393,448	108,445	611,283	239,285	531,804	-	3,603,520
-- Intangible assets (Note)	-	187,094	-	55,929	7,017	2,151	-	252,191
-- Other non-current assets (Note)	-	-	-	10,543	-	-	-	10,543
Provision /(Reversal of provision) for ECL on trade receivables, net	17,559	(11,992)	(6,894)	35,331	(34,704)	(430)	-	(1,130)
Provision /(Reversal of provision) for ECL on other receivables, net	1,673	(5,876)	188	(3,886)	108,503	(890)	-	99,712
(Reversal of provision)/Provision for ECL on contract assets	(1,020)	13,483	42	555	(468)	65	-	12,657
As at 31 December 2019								
Assets								
Segment assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	(38,075,970)	62,069,378
Liabilities								
Segment liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	(38,075,970)	55,305,506

Note: Capital expenditure includes additions resulting from an acquisition through business combinations.

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

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

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Eliminated RMB'000	Total RMB'000
During the year ended 31 December 2018								
Segment revenue and results								
Revenue from external customers	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706	-	58,409,078
Inter-segment income	-	183,139	819,793	441,421	80,190	332,146	(1,856,689)	-
Segment revenue	<u>5,132,418</u>	<u>30,269,319</u>	<u>2,864,545</u>	<u>6,112,458</u>	<u>13,323,175</u>	<u>2,563,852</u>	<u>(1,856,689)</u>	<u>58,409,078</u>
Reportable segment revenue/(loss)	36,015	632,486	(289,656)	232,278	(105,231)	(288,791)	-	217,101
Other income	38,644	343,983	21,246	47,141	607,719	140,879	-	1,199,612
Other expenses	<u>(30,630)</u>	<u>(39,439)</u>	<u>(3,543)</u>	<u>(8,467)</u>	<u>(520,938)</u>	<u>(199,927)</u>	<u>-</u>	<u>(802,944)</u>
Profit/(Loss) before income tax	44,029	937,030	(271,953)	270,952	(18,450)	(347,839)	-	613,769
Income tax expense								<u>(373,581)</u>
Profit for the year								<u>240,188</u>

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

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

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

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	2019 RMB'000	2018 RMB'000
The PRC	56,894,888	45,268,611
Middle East	7,894,085	7,362,296
Other countries	5,081,174	5,778,171
	69,870,147	58,409,078
	Specified non-current assets	
	2019 RMB'000	2018 RMB'000
The PRC	26,705,971	24,470,738
Other countries	4,365,656	3,860,044
	31,071,627	28,330,782

(c) Major customer

For the years ended 31 December 2019 and 2018, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2019 RMB'000	2018 RMB'000
Customer A	40,177,581	36,885,294

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

4 SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the years ended 31 December 2019 and 2018, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction service :

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Total RMB'000
During the year ended 31 December 2019							
Timing of revenue recognition:							
– At a point in time	17,708	258,233	14,761	4,736	270,573	325,965	891,976
– Over time	4,287,847		2,521,221	7,671,214	16,332,638	1,482,210	68,978,171
Total	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	69,870,147
During the year ended 31 December 2018							
Timing of revenue recognition:							
– At a point in time	-	25,886	594	26,755	81,577	274,882	409,694
– Over time	5,132,418	30,060,294	2,044,158	5,644,282	13,161,408	1,956,824	57,999,384
Total	5,132,418	30,086,180	2,044,752	5,671,037	13,242,985	2,231,706	58,409,078

5 FINANCE EXPENSES- NET

	2019 RMB'000	2018 RMB'000
Finance income		
Interest income		
- Sinopec Group's subsidiaries	2,289	1,878
- Third-parties and other financial institutions	101,210	86,008
	<u>103,499</u>	<u>87,886</u>
Finance expenses		
Interest expenses on borrowings wholly repayable within 5 years		
- Sinopec Group and its subsidiaries	(768,972)	(582,557)
- Third-parties and other financial institutions	(87,273)	(49,732)
Interest expenses on lease liabilities (2018: Interest expenses on finance lease)		
- Sinopec Group and its subsidiaries	(32,800)	-
- Sinopec Group's associates and joint ventures	(76,455)	(30,154)
- Third-parties	(14,963)	-
Exchange (loss)/gain, net	(7,444)	173,931
Bank and other charges	(60,936)	(40,564)
	<u>(1,048,843)</u>	<u>(529,076)</u>
	<u>(945,344)</u>	<u>(441,190)</u>

6 EXPECTED CREDIT LOSS ("ECL") AND IMPAIRMENT LOSSES ON ASSETS

	2019 RMB'000	2018 RMB'000
ECL on trade and other receivables, net	98,582	10,543
ECL on contract assets	12,657	26,525
	<u>111,239</u>	<u>37,068</u>

7 INVESTMENT INCOME

	2019 RMB'000	2018 RMB'000
Investment income from financial assets at FVTOCI	600	600
Gain on remeasurement of previously held equity interests of SinoFTS	27,474	-
Gain on bargain purchase	8,439	-
	<u>36,513</u>	<u>600</u>

8 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Gain on disposal of property, plant and equipment, net	61,442	-
Gain on disposal of other non-current assets, net	5,602	7,447
Gain on debt restructuring	154,539	395,916
Government grants (Note)	367,080	730,048
Waived payables	122,414	29,969
Penalty income	2,636	3,566
Compensation received	11,724	581
Insurance claims	15,221	11,451
Asset surplus	470	5,534
Others	14,146	15,100
	<u>755,274</u>	<u>1,199,612</u>

Note:

For the years ended 31 December 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.

9 OTHER EXPENSES

	2019 RMB'000	2018 RMB'000
Loss on disposal of property, plant and equipment, net	-	7,446
Discount of trade receivables	-	655
Loss on scraps of assets	1,976	8,837
Penalty	9,418	13,593
Donation	1,197	610
Compensation	8,354	8,227
Expected loss on pending litigations	286	10,241
Expected loss on judicial reorganisation	-	475,276
Others	37,105	278,059
	<u>58,336</u>	<u>802,944</u>

10 PROFIT BEFORE INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Staff costs, including directors and supervisors emoluments	15,742,653	15,005,096
Retirement benefit plan contribution (included in the above mentioned staff costs)		
— Municipal retirement scheme costs	1,259,833	1,266,328
— Supplementary retirement scheme costs	562,219	338,736
Share options granted to directors and employees (included in the above mentioned staff costs)	3,818	-
Changes in inventories of finished goods and work in progress	(70,540)	49,769
Raw materials and consumables used	20,802,619	15,237,065
Depreciation and amortisation		
— Property, plant and equipment	3,411,011	3,074,468
— Other non-current assets	1,847,550	1,559,809
— Prepaid land leases	-	3,261
— Intangible assets	89,634	65,979
Operating lease expenses		
— Property, plant and equipment held under operating leases	-	1,982,429
— Short term leases with lease term of 12 months or less	927,772	-
ECL, net		
— Trade and other receivables	98,582	10,543
— Contract assets	12,657	26,525
Rental income from property, plant and equipment less relevant expenses	(27,684)	(54,043)
(Gains)/Losses on disposal/write-off of property, plant and equipment, net	(61,442)	7,446
Gains on write-off of other non-current assets, net	(5,602)	(7,447)
Auditors' remuneration	9,800	6,988
Exchange losses/(gains), net	7,444	(173,931)

11 INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC enterprise income tax	86,047	28,480
Overseas enterprise income tax	283,912	369,522
	<u>369,959</u>	<u>398,002</u>
Deferred tax		
Origination and reversal of temporary difference	71,565	(24,421)
Income tax expense	<u>441,524</u>	<u>373,581</u>

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

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	<u>1,428,397</u>	<u>613,769</u>
Taxation calculated at the statutory tax rate	357,099	153,442
Income tax effects of:		
Difference in overseas profits tax rates	111,699	255,179
Non-deductible expenses	58,494	74,355
Effect of utilisation of unrecognised tax losses and deductible temporary differences	(122,189)	(220,689)
Effect of unrecognised tax losses and deductible temporary differences	60,717	210,514
Adjustments of current tax in previous years	16,643	3,719
Equity method accounting for the joint ventures and associates' profit or loss	(3,442)	(6,730)
Effect on opening deferred tax balances arising from change in tax rates during the year	65,659	(368)
Tax effect on research and development expenses	(103,156)	(95,841)
Income tax expense	<u>441,524</u>	<u>373,581</u>

12 EARNINGS PER SHARE

(a) Basic

For the years ended 31 December 2019 and 2018, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	2019	2018
Profit for the year attributable to owners of the Company (RMB'000)	986,873	240,188
Weighted average number of ordinary shares in issue (Shares)	18,984,340,033	18,670,882,354
Basic earnings per share (RMB)	0.052	0.013

(b) Diluted

For the years ended 31 December 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 in the both years.

13 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the years ended 31 December 2019 and 2018.

14 NOTES AND TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables		
- Sinopec Group and its subsidiaries	4,760,085	7,539,486
- Joint ventures	13,848	14,854
- Sinopec Group's joint ventures and associates	111,715	128,187
- Third parties	9,624,697	10,472,668
	14,510,345	18,155,195
Less: ECL allowance	(2,513,990)	(2,525,191)
Trade receivables - net	11,996,355	15,630,004
Notes receivables	500	481,196
Notes and trade receivables - net	11,996,855	16,111,200

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

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

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

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

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

	2019 RMB'000	2018 RMB'000
Within 1 year	10,515,700	14,438,847
1 to 2 years	1,002,971	1,098,807
2 to 3 years	322,870	377,106
Over 3 years	155,314	196,440
	11,996,855	16,111,200

14 NOTES AND TRADE RECEIVABLES (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	2,525,191	2,331,815
Acquisition (Note)	-	167,766
ECL allowance	407,122	517,168
Reversal	(408,252)	(489,947)
Receivables write-off as uncollectible	(10,071)	(1,611)
At 31 December	<u>2,513,990</u>	<u>2,525,191</u>

Note:

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

15 NOTES AND TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables		
- Sinopec Group and its subsidiaries	1,148,614	1,208,415
- Joint ventures	19,723	14,950
- Sinopec Group's joint ventures and associates	1,311	75,055
- Third parties	18,898,646	21,963,342
	<u>20,068,294</u>	<u>23,261,762</u>
Notes payables	4,733,932	3,797,742
	<u>24,802,226</u>	<u>27,059,504</u>

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

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

	2019 RMB'000	2018 RMB'000
Within 1 year	24,029,249	22,716,227
1 to 2 years	377,839	2,564,414
2 to 3 years	61,377	752,327
Over 3 years	333,761	1,026,536
	<u>24,802,226</u>	<u>27,059,504</u>

42 BUSINESS COMBINATION

On 13 August 2019 (“Acquisition Date”), the Company’s wholly-owned subsidiary, Sinopec Oilfield Service Co., Ltd. (“SOSC”), completed an acquisition of 45% equity interest in SinoFTS Petroleum Services Limited (“SinoFTS”) from FTS Netherlands International Company Limited for purchase consideration of RMB181,959,000. Before the transaction, SOSC held 55% equity interest in SinoFTS. After the transaction, SOSC hold 100% equity interest in SinoFTS. Therewith, SinoFTS became a wholly-owned subsidiary of SOSC.

SinoFTS is principally engaged in the provision of petroleum service and is allocated to special downhole operations segment.

Based on the purchase price allocation performed, details of the purchase consideration, the net assets and gain on bargain purchase acquired are as follows:

	RMB’000
Purchase consideration:	
Acquisition Date	
- Cash consideration for the purchase of 45% equity interest acquired	181,959
- Acquisition-date fair value of the 55% equity interest held before the acquisition	232,710
Total purchase consideration	414,669
	Fair value
	RMB’000
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash and cash equivalents	50,486
Trade receivables	113,324
Prepayments and other receivables	40,774
Inventories	24,061
Total current assets	228,645
Property, plant and equipment	222,546
Intangible assets	8,211
Other non-current assets	10,543
Total non-current assets	241,300
Total assets	469,945
Trade payables	39,076
Contract liabilities	7,534
Other payables	227
Total current liabilities	46,837
Net assets acquired	423,108
Gain on bargain purchase	(8,439)

SinoFTS contributed revenue of RMB110,763,000 and net profit of RMB23,365,000 to the Group for the period from the Acquisition Date to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and profit for the year ended 31 December 2019 would have been RMB69,982,698,000 and RMB995,312,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

7.3 Financial statements prepared in accordance with PRC ASBE

The following financial information has been extracted from the Company's audited financial statements, prepared in accordance with PRC ASBE for the year ended 31 December 2019.

Consolidated Balance sheet

(Expressed in thousands of Renminbi Yuan)

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash at bank and on hand	1,668,837	2,203,441
Bills receivable	500	481,196
Accounts receivable	11,996,355	15,630,004
Accounts receivable financing	1,446,389	-
Advances to suppliers	553,726	444,749
Other receivables	2,365,418	1,712,575
Inventories	1,185,504	1,411,638
Contract assets	9,570,249	8,871,704
Non-current assets due within one year		40,477
Other current assets	1,742,338	1,218,035
Total current assets	30,529,316	32,013,819
Non-current assets:		
Available-for-sale financial assets	-	-
Long-term receivable	-	-
Long-term equity investments	39,718	232,823
Other equity instrument investments	32,847	39,011
Fixed assets	23,516,427	23,842,767
Construction in progress	213,819	365,414
Right-of-use assets	1,547,822	-
Intangible assets	392,947	237,275
Long-term prepaid expenses	5,379,478	3,681,168
Deferred tax assets	417,004	492,438
Total non-current assets	31,540,062	28,890,896
Total assets	62,069,378	60,904,715

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

Liabilities and shareholders' equity	<u>2019</u>	<u>2018</u>
Current liabilities :		
Short-term loans	20,403,075	17,606,082
Bills payable	4,733,932	3,797,742
Accounts payable	20,068,294	23,261,762
Contract liabilities	3,575,654	4,390,293
Employee benefits payable	421,938	510,507
Taxes payable	843,715	1,053,477
Other payables	1,770,597	2,186,009
Non-current liabilities due within one year	535,475	156,559
Other current liabilities	—	917
Total current liabilities	52,352,680	52,963,348
Non-current liabilities:		
Long-term loans	474,382	536,291
Lease liabilities	1,134,746	—
Long-term payables	784,377	868,672
Provisions	449,256	595,742
Deferred income	92,211	139,594
Deferred income tax liabilities	17,854	22,658
Total non-current liabilities	2,952,826	2,162,957
Total liabilities	55,305,506	55,126,305
Shareholders' equity:		
Share capital	18,984,340	18,984,340
Capital reserve	11,714,581	11,710,763
Other comprehensive income	6,447	11,676
Specific reserve	373,238	300,609
Surplus reserve	200,383	200,383
Retained earnings	-24,515,117	-25,429,361
Equity attributable to the owners of the Company	6,763,872	5,778,410
Minority interests	—	—
Total shareholders' equity	6,763,872	5,778,410
Total liabilities and shareholders' equity	62,069,378	60,904,715

Consolidated Income statements
(Expressed in thousands of RenminbiYuan)

	<u>2019</u>	<u>2018</u>
1.Revenue	69,870,147	58,409,078
2.Less:Cost of sales	63,695,235	53,320,296
Business taxes and surcharges	286,062	286,719
Selling and distribution expenses	63,787	64,249
General and administrative expenses	2,965,864	3,239,084
Research and development expenses	1,194,198	928,586
Financial costs	945,344	441,190
Including: Interest expense	980,463	662,443
Interest income	103,499	87,886
Add: Other income	370,829	733,308
Investment income	204,951	27,083
Including: Investment income from investment in association and joint venture	13,899	26,483
Gains from derecognition of financial assets measured at amortized cost	154,539	-
Credit impairment losses (loss in “-”)	-111,239	-37,068
Gains from disposal of non-current assets (loss in “-”)	67,044	1
3.Operating profit (loss in “-”)	1,251,242	852,278
Add: Non-operating income	162,862	458,857
Less: Non-operating expenses	58,336	795,498
4. Profit before income tax (loss in “-”)	1,355,768	515,637
Less: Income tax expenses	441,524	373,581
5.Net profit for the year (loss in “-”)	914,244	142,056
Classified by business sustainability:		
-Profit from continuing operations	914,244	142,056
-Profit from discontinued operations	-	-
Classified by ownership :		
- The owners’ of the Company	914,244	142,056
- Minority interests	-	-
6.Earnings per share :		
(1) Basic earnings per share (in RMB)	0.048	0.008
(2) Diluted earnings per share (in RMB)	0.048	0.008
7.Other comprehensive income for the year	-5,229	11,676
Other comprehensive income (net of tax) attributable to shareholders of the company	-5,229	11,676
8.Total comprehensive income for the year	909,015	153,732
Total comprehensive income for the year/period attributable to:		
- The owners’ of the Company	909,015	153,732
- Minority shareholders	-	-

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

	Note	<u>2019</u>	<u>2018</u>
1. Cash flows from operating activities:			
Cash received from sale of goods		65,122,758	57,450,008
Refund of taxes		331,262	375,483
Cash received from other operating activities		<u>3,661,508</u>	<u>2,612,319</u>
Sub-total of cash inflows		<u>69,115,528</u>	<u>60,437,810</u>
Cash paid for goods and services		47,732,202	43,257,951
Cash paid to and for employees		15,638,635	14,701,830
Cash paid for all types of taxes		1,860,359	1,615,629
Cash paid relating to other operating activities		<u>2,507,279</u>	<u>3,802,189</u>
Sub-total of cash outflows		<u>67,738,475</u>	<u>63,377,599</u>
Net cash inflow from operating activities	(1)	<u>1,377,053</u>	<u>-2,939,789</u>
2. Cash flows from investing activities :			
Cash received from disposal of investment		-	-
Cash received from the investment income		2,368	1,306
Net cash received from disposal of fixed assets		167,338	104,024
Cash received relating to other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash inflows		<u>169,706</u>	<u>105,330</u>
Cash paid for acquisition of fixed assets and intangible assets		3,208,997	1,272,413
Cash paid for investment in a joint venture		-	-
Net cash paid for acquisition of subsidiaries and other business units		139,466	7,388
Cash paid for other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash outflows		<u>3,348,463</u>	<u>1,279,801</u>
Net cash outflow from investing activities		<u>-3,178,757</u>	<u>-1,174,471</u>

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

	Note	<u>2019</u>	<u>2018</u>
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		-	7,639,698
Cash received from borrowings		38,367,042	35,585,650
Cash received for other financing activities		4,211	500,520
		<u>38,371,253</u>	<u>43,725,868</u>
Sub-total of cash inflows			
Cash paid for repayments of borrowings		35,715,939	35,608,897
Cash paid for distribution of dividend, profit or		855,364	613,895
payments of interests			
Cash paid for other financing activities		550,324	3,884,291
		<u>37,121,627</u>	<u>40,107,083</u>
Sub-total of cash outflows			
Net cash inflow from financing activities		<u>1,249,626</u>	<u>3,618,785</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>29,230</u>	<u>135,618</u>
5.Net decrease in cash and cash equivalents	(1)	-522,848	-359,857
Add: Cash and cash equivalents at the beginning of the year		<u>2,173,580</u>	<u>2,533,437</u>
6.Cash and cash equivalents at the end of the year		<u>1,650,732</u>	<u>2,173,580</u>

Notes to cash flow statements
(Expressed in thousands of renminbi yuan)

(1) Supplement to cash flow statement

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

<u>Item</u>	<u>2019</u>	<u>2018</u>
Net profit	914,244	142,056
Add: Impairment loss on assets	-	-
Impairment of credit losses	111,239	37,068
Depreciation of fixed assets	3,407,719	3,074,468
Amortisation of intangible assets	92,926	69,240
Amortisation of long-term prepaid expenses	1,847,550	1,559,809
Losses/(gains) from disposal of fixed assets	-67,044	-1
Losses/(gains) on retirement of fixed assets	1,976	8,837
Financial income	1,032,708	538,286
Investment losses	-50,412	-27,083
Decrease/(Increase) in deferred tax assets	75,434	-20,254
Increase/(Decrease) in deferred tax liabilities	-3,869	-4,167
Decrease in gross inventories	235,444	6,582,590
Decrease in operating receivables	558,047	-6,704,432
Increase in operating payables	-6,855,356	-8,294,338
Safety costs	72,629	98,132
Unexercised share-based payment	3,818	-
Net cash inflow from operating activities	<u>1,377,053</u>	<u>-2,939,789</u>

(b) Changes in cash and cash equivalents:

<u>Item</u>	<u>2019</u>	<u>2018</u>
Cash at the end of the year	1,650,732	2,173,580
Less: Cash at the beginning of the year	<u>2,173,580</u>	<u>2,533,437</u>
Net decrease in cash and cash equivalents	<u>-522,848</u>	<u>-359,857</u>

(2) Details of cash and cash equivalents

<u>Item</u>	<u>2019</u>	<u>2018</u>
Cash on hand	6,792	8,114
Bank deposits available on demand	1,643,824	2,160,530
Other monetary funds available on demand	116	4,936
Closing balance of cash	<u>1,650,732</u>	<u>2,173,580</u>
Add: Restricted cash	<u>18,105</u>	<u>29,861</u>
Closing balance of cash and cash equivalents	<u>1,668,837</u>	<u>2,203,441</u>

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

	<u>2019</u>							
	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
1. Balance at 31 December 2018	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410
Adjustment for the acquisition of the acquired group	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-
2. Balance at 1 January 2019	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410
3 Changes in equity for the year ("-" for decreases)	-	3,818	-5,229	72,629	-	914,244	-	985,462
(1) Total comprehensive income	-	-	-5,229	-	-	914,244	-	909,015
(2) Increase or decrease of capital	-	3,818	-	-	-	-	-	3,818
a. Original stock of surplus reserve	-	-	-	-	-	-	-	-
b. Share payments recognised in equity	-	3,818	-	-	-	-	-	3,818
c. Others	-	-	-	-	-	-	-	-
(3) Appropriation of profits	-	-	-	-	-	-	-	-
a. Appropriation for surplus reserve	-	-	-	-	-	-	-	-
b. Distributions to shareholders	-	-	-	-	-	-	-	-
(4) Transfer of equity	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	72,629	-	-	-	72,629
(a) Accrued	-	-	-	1,437,814	-	-	-	1,437,814
(b) Utilised	-	-	-	-1,365,185	-	-	-	-1,365,185
(6) Others	-	-	-	-	-	-	-	-
4. Balance at 31 December 2019	18,984,340	11,714,581	6,447	373,238	200,383	-24,515,117	-	6,763,872

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

	<u>2018</u>							
	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
1. Balance at 31 December 2017	14,142,661	8,925,950	-	202,477	200,383	-25,571,417	-1,372	-2,101,318
Adjustment for the acquisition of the acquired group	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-
2. Balance at 1 January 2018	14,142,661	8,925,950	-	202,477	200,383	-25,571,417	-1,372	-2,101,318
3 Changes in equity for the year ("-" for decreases)	4,841,679	2,784,813	11,676	98,132	-	142,056	1,372	7,879,728
(1) Total comprehensive income	-	-	11,676	-	-	142,056	-	153,732
(2) Increase or decrease of capital	4,841,679	2,785,110	-	-	-	-	1,372	7,628,161
a. Original stock of surplus reserve	4,841,679	2,796,036	-	-	-	-	-	7,637,715
b. Share payments recognised in equity	-	-	-	-	-	-	-	-
c. Others	-	-10,926	-	-	-	-	1,372	-9,554
(3) Appropriation of profits	-	-	-	-	-	-	-	-
a. Appropriation for surplus reserve	-	-	-	-	-	-	-	-
b. Distributions to shareholders	-	-	-	-	-	-	-	-
(4) Transfer of equity	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	98,132	-	-	-	98,132
(a) Accrued	-	-	-	970,710	-	-	-	970,710
(b) Utilised	-	-	-	-872,578	-	-	-	-872,578
(6) Others	-	-297	-	-	-	-	-	-297
4. Balance at 31 December 2018	18,984,340	11,710,763	11,676	300,609	200,383	-25,429,361	-	5,778,410

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

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

(Expressed in thousands of Renminbi Yuan)

	Net profit attributable to equity shareholders of the Company		Net assets attributable to the shareholders of the Company	
	For the year ended 31 December		At 31 December	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts under PRC ASBE	914,244	142,056	6,763,872	5,778,410
Adjustments under IFRS:				
Specific reserve (a)	72,629	98,132	-	-
Amounts under IFRS	986,873	240,188	6,763,872	5,778,410

(a) Specific reserve

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

8. OTHER ITEMS

(1) Annual Report

The Company will dispatch the 2019 Annual Report to its H shareholders in due course.

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

For the year ended on 31 December 2019, the Company has complied with all the code provisions under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that:

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

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

During the reporting period, the Audit Committee under the Board held four meetings and reviewed the Company's 2018 Financial Statements, Interim Report for 2019 and continuing connected transactions and formed its independent opinion.

The Audit Committee of the ninth session of the Board held the tenth meeting on 20 March 2020 and reviewed and passed the resolution regarding the 2019 Financial Statements, proposed re-appointment of the auditors of the Company and performance report of the Audit Committee of the Company.

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

During the year ended at 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

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

By Order of the Board
Li Honghai
Secretary to the board

24 March 2020, Beijing

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

+ Non-Executive Director

Executive Director

* Independent Non-Executive Director