



中国石化
SINOPEC

中石化石油工程技术服务有限公司
Sinopec Oilfield Service Corporation

(Stock Code A Share : 600871 ; H Share : 1033)

2021

Interim Report



IMPORTANT NOTES

1. The Board and the Supervisory Committee of the Company and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this Interim Report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this Interim Report.
 2. The 2021 Interim Report has been approved at the fifth meeting of the tenth session of the Board. Seven directors of the Company attended the meeting. Mr. Wei Ran and Mr. Fan Zhonghai, Director, were absent from the meeting due to official affairs, but had authorized Mr. Chen Xikun and Mr. Zhou Meiyun to attend the meeting and exercise their rights respectively.
 3. The interim financial statements of the Company for 2021, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("PRC ASBE") and International Financial Report Standards ("IFRS"), are unaudited. But the interim financial statements of the Company for 2021 which have been prepared in accordance with IFRS have been reviewed by BDO Limited.
 4. Mr. Chen Xikun, Chairman, Mr. Yuan Jianqiang, General Manager, Mr. Cheng Zhongyi, Chief Financial Officer, and Mr. Pei Defang, Manager of the Accounting Department of the Company, hereby warranted the authenticity, accuracy and completeness of the interim financial statements contained in the Interim Report.
 5. According to the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2021, and no issue of bonus shares by way of capitalization of common reserves.
 6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Interim Report, the company cannot make a substantive commitment to investors, the Company would ask investors to notice the investment risks.
 7. There was no occupancy of non-operating funds by the controlling shareholder of the Company and its connected parties.
 8. The Company did not provide external guarantees made in violation of required decision-making procedures.
 9. There is no situation where more than half of the directors of the Company cannot guarantee the authenticity, accuracy and completeness of the Company's 2021 Interim Report.
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Section I Definitions

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

Articles of Association	Means	The articles of association of the Company, as amended, modified or supplemented from time to time
A Share	Means	Domestic Shares in the share capital of the Company of par value at RMB1.00 each which are listed on the SSE
Board	Means	The board of Directors of the Company
CCUS	Means	Carbon capture, utilization and storage
Century Bright Company	Means	Sinopec Century Bright Capital Investment, Ltd.
CNOOC	Means	China National Offshore Oil Corporation
CNPC	Means	China National Petroleum Corporation
Company	Means	Sinopec Oilfield Service Corporation (中石化石油工程技术服务有限公司), a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and H Shares are listed on the Main Board of the HKSE (Stock code 1033)
Completion	Means	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
CPC	Means	China Petrochemical Corporation, a wholly State-owned company established in the PRC and the controlling shareholder of the Company
CSRC	Means	China Securities Regulatory Commission
Downhole Operation service	Means	During the oilfield exploration, in accordance with the requirement of the oilfield, using take technical measures, equipment and tools to oil or water wells for the purposed of EOR, increasing the amount of injection and production, improving oil flow conditions, improving well conditions and increasing production rate, etc.
Drilling	Means	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole
Geophysical exploration or geophysical	Means	A method and theory of exploration the underground mineral and researching the geological formations by using physics principles. Such as seismic exploration, electrical and magnetism exploration
Group	Means	The Company and its subsidiaries
HKSE	Means	The Stock Exchange of Hong Kong Limited
Hong Kong	Means	Hong Kong Special Administrative Region of the People's Republic of China
HSE	Means	Health, safety and environment management system
H Share	Means	Overseas listed foreign Share(s) in the share capital of the Company of par value at RMB1.00 each which is(are) listed on the Main Board of the HKSE
Jingwei Company	Means	Sinopec Jingwei Co., Ltd, an indirectly wholly-owned subsidiary of the company
Listing Rules	Means	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Logging	Means	Acquiring, analyzing and interpreting the data related to the geological characteristics and hydrocarbon potential by using special tools or equipment and technology
Model Code	Means	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
Mud Logging	Means	Recording and acquiring the information during the drilling process. Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and various to acquire the downhole information
PipeChina	Means	China Oil & Gas Pipeline Network Corporation
PRC	Means	People's Republic of China
Qi Xin Gong Ying Scheme	Means	Qi Xin Gong Ying Scheme for the management of the Company
Shanghai Offshore Petroleum Bureau	Means	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd., a wholly-owned subsidiary of CPC
Share Option Scheme	Means	A Share Option Incentive Scheme of the Company
Sinopec	Means	China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the HKSE as well as in New York, London and Shanghai, the subsidiary of CPC.
Sinopec Star	Means	Sinopec Star Petroleum Company Limited
SOSC	Means	Sinopec Oilfield Service Company Limited, a subsidiary of the Company
SSE	Means	Shanghai Stock Exchange
This Grant	Means	The grant to the participants of the Share Option Scheme no more than 50,850,000 share options pursuant to the Share Option Scheme by the Company
Three dimensional geophysical	Means	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells
Two dimensional geophysical	Means	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis

Section II Company Profile and Principal Financial Indicators

1. Company Information

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

2. Contact Information

	Secretary to the Board	Company Secretary, Securities Affairs Representative
Name	Cheng Zhongyi	Shen Zehong
Address	Office of the Board of Directors, No.9 Jishikou Road, Chaoyang District, Beijing, PRC	
Telephone	86-10-59965998	
Fax	86-10-59965997	
E-mail	ir.ssc@sinopec.com	

3. The Changes for the Company Profile

Registered address	No.22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC
Historical changes of registered address	The Company's registered address was changed to No.22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC from Yizheng City, Jiangsu Province, PRC in June, 2016
Office address	No.9 Jishikou Road, Chaoyang District, Beijing, PRC
Post Code of Office address	100728
Company Internet Website	http://ssc.sinopec.com
E-mail	ir.ssc@sinopec.com
Query index for the change during the reporting period	There was no change of the basic information of the Company during the reporting period

4. The Changes for the Information Disclosure and Inspection Place

Domestic newspapers disclosing information	China Securities, Shanghai Securities News, Securities Times
Website designated by CSRC to publish the Interim Report	www.sse.com.cn
Website designated by HKSE to disclose information	www.hkexnews.hk
Place where the Interim Report available for inspection	Office of the board of directors of the Company
Query index for the change during the reporting period	There was no change of information disclosure and place for access to information of the Company during the reporting period

5. Stock Information

Share Type	Place of listing	Stock short name	Stock Code	Stock name before altering
A share	SSE	SINOPEC SSC	600871	-
H share	HKSE	SINOPEC SSC	01033	-

Section II Company Profile and Principal Financial Indicators

6. Other Related Information

Auditors

Domestic Auditor:	BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership)
Address:	4th Floor, 61 Nanjing East Road, Shanghai
Overseas Auditor:	BDO Limited
Address:	25th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong

Legal advisors

PRC:	Beijing Haiwen & Partners 20th Floor, Fortune Financial Center, No.5 Dong San Huan Central Road, Chaoyang District, Beijing
Hong Kong:	Zhong Lun Law Firm 4/F, Jardine House, 1 Connaught Place, Central, Hong Kong, China

Share registrars and transfer office

H Share:	Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong
A Share:	China Securities Registration and Clearing Corporation Limited, Shanghai Branch 36th Floor, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai

7. Key financial data and financial indicators of the Company (extracted from the unaudited interim financial report prepared in accordance with the PRC ASBE)

(1) Key financial data

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	Increase/(Decrease)
	RMB' 000	RMB' 000	(%)
Operating income	31,570,061	31,432,437	0.4
Operating profit	430,442	454,574	-5.3
Profit before income tax	450,516	452,870	-0.5
Net profit attributable to equity shareholders of the Company	368,558	298,277	23.6
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	310,618	227,701	36.4
Net cash inflow from operating activities	358,861	281,258	27.6

	As at 30 June 2021	As at 31 December 2020	Increase/(Decrease)
	RMB' 000	RMB' 000	(%)
Total equity attributable to equity shareholders of the Company	7,417,122	6,722,866	10.3
Total assets	63,979,713	61,091,195	4.7

Section II Company Profile and Principal Financial Indicators

(2) Key financial indicators

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	Increase/(Decrease) (%)
Basic earnings per share (RMB/share)	0.019	0.016	18.8
Diluted earnings per share (RMB/share)	0.019	0.016	18.8
Basic earnings per share deducted extraordinary gain and loss (RMB/share)	0.016	0.012	33.3
Weighted average return on net assets	5.34%	4.31%	increased by 1.03 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	4.50%	3.29%	increased by 1.21 percentage points

Explanations for key financial data and key financial indicators

Applicable Not Applicable

8. Differences between the interim financial reports of the Company prepared in accordance with the PRC ASBE and IFRS

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2021 RMB' 000	For the six months ended 30 June 2020 RMB' 000	As at 30 June 2021 RMB' 000	As at 1 January 2021 RMB' 000
PRC ASBE	368,558	298,277	7,417,122	6,722,866
Adjustment of items and amount in accordance with the IFRS:				
Specific reserve (a)	325,688	310,278	–	–
IFRS	694,246	608,555	7,417,122	6,722,866

(a) Specific reserve

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

9. Extraordinary gain and loss items and amount (figures are based on the interim financial report prepared in accordance with the PRC ASBE which is unaudited)

Extraordinary gain and loss items	Amount (RMB' 000)
Disposal of non-current assets	5,500
Government grants recognized in profit or loss during the current period	31,358
Gain or loss on debt restructuring	15,958
Other non-operating income and expenses excluding the aforesaid items	17,744
Effect of income tax	-12,620
Total	57,940

Section II Company Profile and Principal Financial Indicators

10. Key financial data and financial indicators prepared under IFRS (Unaudited)

	As at	As at	Increase/(Decrease)
	30 June 2021	31 December 2020	From last year
	RMB' 000	RMB' 000	(%)
Total assets	63,979,713	61,091,195	4.7
Total liabilities	56,562,591	54,368,329	4.0
Total equity attributable to equity shareholders of the Company	7,417,122	6,722,866	10.3
Net assets per share attributable to equity shareholders of the Company (RMB)	0.39	0.35	11.4

	For the	For the	Increase/(Decrease)
	six months ended	six months ended	From corresponding
	30 June 2021	30 June 2020	period of last year
	RMB' 000	RMB' 000	(%)
Profit attributable to equity shareholders of the Company	694,246	608,555	14.1
Basic and diluted earnings per share	RMB0.037	RMB0.032	15.6
Net cash generated from operating activities	358,861	281,258	27.6
Return on net assets	9.36%	8.25%	increased by 1.11 percentage points
Net cash generated from operating activities per share	RMB0.019	RMB0.015	26.7

Section III Management Discussion and Analysis

1. Description of the Company's industry and main business during the reporting period

With more than 60 years of business operation and rich experience in project execution, the Company is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. As at 30 June 2021, the Company provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with execution in more than 30 countries and regions.

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

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

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

In the first half of 2021, amid the rebound of international crude oil prices, the average spot price of North Sea Brent Crude reached US\$64.95 per barrel, representing an increase of 61.4% over the same period of the previous year. The oil service market started to recover, and the domestic oil service market delivered a stronger recovery than the international market. As China's economy recovered steadily, the economic development showed strengthen and improvement while maintaining steady growth, and the gross domestic product (GDP) expanded by 12.7% over the same period of the previous year; when domestic oil companies have been implementing the "seven-year action plan" and continued to increase exploration and development efforts, the oil and gas exploration and development have continuously made new breakthroughs, and crude oil and natural gas output has achieved steady growth. Meanwhile, amid the persisting severe and complex global pandemic, the international market has encountered difficulties such as cancellation of tender bid or postponement of tender opening by project owners, and hindered shift arrangement of employees. Affected by the differentiated recovery of the oil service market, the Company witnesses valuable development opportunities but is also subject to greater challenges in the aspect of production and operation.

2. Analysis on core competitiveness of the Company during the reporting period

The Company has service capabilities covering the entire oilfield service industry chain. As at 30 June 2021, the Company has 670 onshore drilling rigs (Among them, 313 units above 7,000 meters), 14 offshore drilling platforms, 69 sets of seismic acquisition equipment and 142 sets of imaging logging tools, 435 sets of comprehensive logging instruments, 215 sets of Model 2500 and Model 3000 fracturing trucks and 43 sets of 750 HP and above workover rigs and 1,579 professional teams. The Company has been the largest onshore drilling contractor for Saudi Aramco, Kuwait Petroleum Company and Ecuadorian National Oil Company, and the largest international geophysical contractor in Algeria for many years.

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

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

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

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

During the reporting period, there are no significant changes of core technical team and key technicians of the Company.

3. Discussion and Analysis of Operation

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

Interim results

In the first half of 2021, leveraging on the favorable opportunities of rising international oil prices and the sustained recovery of the domestic oil service market, the Company carried out normalized initiatives in efficiency enhancement, while sparing no efforts in market expansion, production and operation improvement, cost and expense reduction, deepened reform and innovation and optimized allocation of resources. The Company has achieved stable growth in the total cumulative amount of newly signed contracts and turnover, the effective control of key costs and expenses, and the steady growth in net profit over the same period of the previous year. During the first half of 2021, the consolidated revenue of the Company was RMB31,570,061,000, representing an increase of 0.4% over RMB31,432,437,000 in the same period of the previous year; net profit attributable to shareholders of the Company was RMB368,558,000, representing an increase of 23.6% over RMB298,277,000 in same period of the previous year; basic earnings per share was RMB0.019, representing an increase of RMB0.003 over the same period of the previous year; net cash flow from operating activities was RMB358,861,000, representing an increase of 27.6% as compared with RMB281,258,000 in the same period last year.

Section III Management Discussion and Analysis

Operation review

In the first half of 2021, the Company proactively seized the favorable opportunity for domestic oil companies to expand reserves and production, vigorously improved its support capability in engineering and technical services, strengthened cooperation with oil companies for win-win outcomes, while steadily advancing its market development. The total cumulative amount of newly signed contracts reached RMB43.79 billion, representing a year-on-year increase of 1.9%, of which, the newly signed contracts in the Sinopec Group market amounted to RMB27.15 billion, representing a year-on-year increase of 24.3%; the newly signed contracts in domestic external markets amounted to RMB7.77 billion, a year-on-year decrease of 13.4%; the newly signed contracts in overseas markets amounted to RMB8.87 billion, a year-on-year decrease of 27.0%. The Company also successfully guaranteed high-quality and highly efficient service support, and created new records in terms of a hundred of technical indicators. It made breakthrough in a number of technological difficulties and key core technologies. Market layout and resource optimization was promoted in an effective manner, and management have been improved contiguously. It also strengthened its efforts in HSE, while maintaining stable running of the overall production and operation.

A. Geophysical service

In the first half of 2021, the Company's geophysical services business recorded a revenue from principal business of RMB1,800,634,000, representing a decrease of 0.4% from RMB1,808,761,000 in the same period of the previous year. The completed 2D seismic exploration accumulated for 611 kilometers, representing a year-on-year decrease of 90.6%; while the completed 3D seismic exploration accumulated for 7,917 square kilometers, representing a year-on-year decrease of 30.4%. In the first half of the year, the Company vigorously promoted advanced technologies such as high-density seismic exploration, broadband and high-efficiency controllable seismic source exploration, high-precision seismic exploration in complex mountainous areas and nodal seismic acquisition system to comprehensively enhance its oil and gas exploration capabilities. It actively served oil and gas exploration of Sinopec in Junggar, Tarim, southeast Sichuan and other regions. In terms of overseas markets, it continued to focus on the efficient operation of the Saudi S84 project, and entered the geophysical service market of Petroleos Mexicanos by securing newly signed contract for 2D seismic exploration project in the amount of US\$31.7 million; a service lease contract in the amount of RMB120 million was entered into in associate with the geophysical survey vessel Discovery No.6.

B. Drilling service

In the first half of 2021, the Company's drilling services business recorded a revenue from principal business of RMB15,712,885,000, representing a decrease of 7.1% from RMB16,917,552,000 for the corresponding period of last year. The completed drilling footage reached 4,720 kilometers, representing a year-on-year decrease of 3.3%. The average utilization rate of domestic drilling teams reached 83.6%, a year-on-year increase of 3.6 percentage points. The Company continued to optimize the team and market layout, enhanced the production operation and organization, strengthened technical breakthroughs, optimized construction techniques, improved construction quality and operation efficiency of drilling rigs and achieved remarkable results in improvement of the quality, service speed and efficiency. In the first half of the year, on the basis of an increase in the average drilling depth of oil wells by 135 meters "Northwest China, North China, Northeast China and Sichuan" and eastern old oil fields, the drilling cycle has been shortened by 16.0% year-on-year, and the time on complicated failures decreased by 54.6% year on year. The Shunbei 56X well achieved a drilling depth of 9,300 meters, breaking a number of Asian onshore construction records, including the deepest down of the directed well drilling, well testing and drilling-completed well test string. A number of high-quality and high-yield wells were established. Key wells such as Shunbei 41X well and Shunbei 42X well achieved daily output of over 1,000 tons of commercial oil and gas flow, while the Jiaoye 11-S6HF and JPH-489 wells produced over one million cubic meters of high-yield commercial oil and gas flow during well testing, which effectively supported the production capacity development of oil and gas fields such as Shunbei, Fuling and Hangjinqi. The pilot running and promotion of "factory-based mode" drilling in Shengli, Southwest and other industrial areas delivered satisfactory results.

C. Logging and mud logging service

In the first half of 2021, the Company's logging and mud logging services business recorded a revenue from principal business of RMB1,150,738,000, representing an increase of 1.1% from RMB1,138,241,000 for the corresponding period of last year. The completed logging projects accumulated for 136,940,000 standard meters, representing a year-on-year increase of 0.7%. The completed mud logging projects accumulated for 4,840,000 meters, representing a year-on-year increase of 0.2%. The various quality and technical indicators of logging and mud logging services were maintained well and the pass rate of logging and mud logging data was 100%. In Sinopec's "Northwest China, North China, Northeast China and Sichuan" and eastern old oil fields, the Company's logging and mud logging services business, with a focus on the needs of its clients, carried out technical promotion and maintained stable workload for logging and mud logging service. Meanwhile, the Sichuan basin shale gas of CNPC and other domestic external markets also supported the logging and mud logging services business of the Group; Focusing on overcoming the difficulties in respect of improvement of the quality, service speed, efficiency and production, the Company continued to improve its technologies, making a number of new records in multiple indicators such as testing, logging and locating, providing technical support for exploration and development and support for key markets.

D. Downhole operation service

In the first half of 2021, the Company's downhole operation services business recorded a revenue from principal business of RMB3,941,443,000, representing an increase of 4.2% as compared with RMB3,782,642,000 for the corresponding period of last year. The Company has completed downhole operation for 3,306 wells/times, with a year-on-year increase of 6.4%. The shale gas fracturing timeliness was improved by 29.2% year on year. The Company gave full play to the advantages of professionalism and integration in horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-pressure and high temperature well testing and horizontal well repairment, continued to enhance the support for high-quality exploration and profitable development of Sinopec, providing strong technical support in respect of expansion of reserve and output for the Fuling shale gas field, the Weirong deep shale gas field, the Shunbei ultra-deep oil and gas field, and stable production for the eastern old oil fields. In addition, the Company strengthened the cooperative development of difficult-to-use reserves with other oil company, as a result, an output of 1.5 million tons per year has been achieved since the commencement of cooperation.

Section III Management Discussion and Analysis

E. Engineering and construction service

In the first half of 2021, the Company's engineering and construction service delivered a revenue from its principal business of RMB7,868,764,000, representing an increase of 15.8% from RMB6,792,317,000 in the same period last year. In the first half of 2021, the Company has completed projects with contract values of RMB7.89 billion, representing a year-on-year increase of 10.0%; the new contract value amounted to RMB14.46 billion, representing a year-on-year increase of 62.3%. The Company was dedicated to advancing the construction of a variety of key projects, including South Main Gas Pipeline of Shandong Pipeline of China Petrochemical Corporation, Sinopec Shunbei No. 5 Joint Station, gas storage facility, eastern Sino-Russian pipeline section of PipeChina, LNG project at Binghai, Jiangsu, and MIP16 and 17 pipelines in Saudi Arabia; the Company successively won the bid for projects with contract value amounting to approximately RMB1.85 billion, including South Main Gas Pipeline of Shandong Pipeline of China Petrochemical Corporation, general contracting for construction of Northeast Anhui Natural Gas Pipeline, Guangxi branch lines of Xinjiang coal-based gas transmission pipeline project of PipeChina, LNG project at Binghai, Jiangsu and Guangdong pipeline project; the Company also won the bid for several local road and bridge projects including the roadbed construction of Jianhu-Xinghua section of the Funing-Liyang Expressway and JHX-YC2 section of a bridge engineering construction project.

International business

In the first half of 2021, the Company's international business achieved a revenue from principal business of RMB4,356,273,000, representing a decrease of 29.7% from RMB6,195,560,000 in the same period of last year, accounting for 14.0% of the revenue from principal business in the first half of the year. In the first half of the year, amid the general sluggish overseas market, the Company kept a close eye on the project owner's investment plan, continued to solidify its presence in the traditional market, and strived to expand new business and open up new markets. Despite the insufficient workload in connection with SAUDI ARABIAN OIL COMPANY, our Saudi market team has been actively engaged with Halliburton and successfully entered into a coiled tubing service subcontract project with a contract value of US\$16 million; the Company participated in the tender for well-flushing project of SAUDI ARABIAN OIL COMPANY for the first time and won the tender with a contract value of US\$15 million, marking the Company's access to a new technical service field; in terms of the Kuwait market, the Company won the tender for 10 workover rigs service contract for a term of 5 years with one-year extension option of US\$360 million with Kuwait Oil Company, successfully renewed one drilling rig contract for an extended term of one year and it's expected the Company will manage to renew contracts regarding 30 drilling rigs; in terms of the Ecuadorian market, the Company entered into five new drilling rig contracts with a value of US\$30 million, maintaining its market share of 30% in the drilling rig market, the first among all contractors; a major breakthrough was achieved in the engineering and construction business as we won the tender for the general contracting of Uganda oil and gas transmission project with a contract value of US\$610 million.

Technology research & development

In the first half of 2021, the Company persistently improved its R&D system, integrated the R&D efforts in respect of logging and mud logging and measurement while drilling technologies, established a geological measurement and control technology research institute; the Company made utmost efforts to break through technologies confronting difficulties and key core technologies. Also, the Company set up a number of key programs at China Petrochemical Corporation, such as "research and application of rotary geosteering core technology" and "research and application of branch hole drilling technology". In addition, we also reinforced the testing and application of rotary steering devices for drilling, and completed 16 oil wells with a drilling footage of 8,171 meters; research on high-end technologies was making progress in an orderly manner, including high-temperature and high-pressure electrical imaging logging tools, coiled tubing side drilling, full node seismic acquisition, fully automatic pipeline welding. It made more efforts in promoting the application of transformation of scientific and technological achievements, strengthening the construction of product line. In the first half of the year, the Company applied for 369 new patents at home and abroad, of which, 315 patents were granted authorization. Our "one logging method" patent received the Silver Prize of the 22nd China Patent Award.

Internal reform and management

In the first half of 2021, the Company effectively promoted the market layout planning and resource optimization, optimized and shared the materials, equipment, and logistics bases in the Northern, Northwest, and Southwest industrial areas in China, and proactively facilitated the establishment of a collective storage and unified distribution information platform for the Southwest industrial area; the Company developed and implemented guidelines on construction of project-based management system, organized project-based management promotion meetings, proactively built a "two pools, two repositories and one platform" project support and guarantee system, thus making a new step forward in the promotion of project-based management systems; as the Company continued to enhance its professional management, professional reorganization of testing, logging and locating businesses was smoothly carried out, and the establishment, commencement of business, and the transfer business, assets, teams, and equipment of Jingwei Company were completed, thereby achieving the steady transition of the production and operation of testing, logging and locating businesses and maintaining the stability of our workforces; due to efforts in reduction and optimization of workforce in line with workload, the Company achieved real reduction in operating expenses of management agency, wage payment during idle time and expense of project department and service assurance, reducing the major costs and expenses of the abovementioned three items by RMB170 million year on year; the Company continued to improve its financing conditions, strengthen cash flow management, promoted settlement of account receivables and inventories and reduced capital expenditure. In the first half of the year, the Company reduced its comprehensive financing costs to less than 3%, saved interest expenses by RMB126 million and recorded a decline of finance expenses by 16.2% year-on-year.

Capital expenditure

In the first half of 2021, capital expenditure of the Company reached RMB420 million. The Company adhered to the "proactive and prudent" investment principle, optimized investment structure, strengthened resource coordination, and continued to play the leading and supporting role of investment, mainly for the procurement of 6 sets of fully automatic welding standard unit main equipment, 13 sets of rig network electrical equipment, 4 cementing trucks used in oil wells, 1 set of coiled tubing equipment and 6 sets of comprehensive logging instruments, etc.

Significant changes of operation in reporting period, and the matters happened in reporting period that have or will have important impact on the Company operation.

Applicable Not Applicable

Section III Management Discussion and Analysis

4. Statement of main business during the reporting period

(1) Main business analysis of the Company

A. Changes in the relevant items of financial statements

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	Change
	RMB' 000	RMB' 000	(%)
Operating income	31,570,061	31,432,437	0.4
Operating costs	29,497,628	28,654,955	2.9
Selling and distribution expenses	34,037	28,878	17.9
General and administrative expenses	888,531	1,150,692	-22.8
Net financial expense	408,182	487,147	-16.2
Research and development expenditure	349,034	619,803	-43.7
Net cash inflow from operating activities	358,861	281,258	27.6
Net cash inflow from investing activities ("—" for outflow)	-390,632	-439,267	Not applicable
Net cash inflow from financing activities	9,267	523,554	-98.2
Credit impairment loss	58,095	-72,144	Not applicable
Other income	78,231	102,783	-23.9
Investment income	19,295	40,318	-52.1
Non-operating income	35,768	18,226	96.2
Income tax expense	81,958	154,593	-47.0
Asset impairment loss	-17,453	-6,310	Not applicable
Asset disposal income	5,500	3,839	43.3
Non-operating expenses	15,694	19,930	-21.3

Reasons for the changes:

- The change in research and development expenditure was mainly due to the internal reorganization project started to execute later than the same period of last year.
- The change in net cash inflow from operating activities was mainly due to the increase in clearance of inventories and account receivable and settlement in bill payable.
- The change in net cash inflow from investing activities was mainly due to the change of purchasing procedure and reduction of equipment purchase expenses.
- The change in net cash inflow from financing activities was mainly due to the increase in cash payment for debt repayment in the first half of 2021.
- The change in credit impairment loss was mainly due to the account receivables transferred back to the provision for bad debts.
- The change in asset impairment loss was mainly due to the provision for impairment of contract assets increased than last year.
- The change in asset disposal income was mainly due to the increase in fixed asset disposal income.
- The change in investment income was mainly due to the decrease in gains on debt reconstruction in the first half of 2021.
- The change in non-operating income was mainly due to the increase in default compensation income.
- The change in income tax expense was mainly due to the decrease in overseas profit of company in the first half of 2021.

B. The specific information about the change of Company's business type, profit structure or its profit resource

Applicable Not Applicable

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

Applicable Not Applicable

Section III Management Discussion and Analysis

(3). Statement of assets and liabilities analysis

A. Assets and liabilities

Item	Amount at 30 June 2021	Percentage of amount at 30 June 2021 in total assets	Amount at 31 December 2020	Percentage of amount at 31 December, 2020 in total assets	Changes from the end of the preceding year to the end of the reporting period
	RMB' 000	(%)	RMB' 000	(%)	
Cash at bank and on hand	1,502,164	2.3	1,551,458	2.5	-3.2
Accounts receivable	7,857,774	12.3	9,358,385	15.3	-16.0
Receivable financing	1,204,205	1.9	1,323,425	2.2	-9.0
Prepayment	439,728	0.7	441,654	0.7	-0.4
Inventories	1,315,159	2.1	1,033,678	1.7	27.2
Contractual Assets	17,418,054	27.2	11,610,888	19.0	50.0
Other current assets	2,113,873	3.3	1,995,808	3.3	5.9
Long-term equity investments	46,196	0.1	43,046	0.1	7.3
Fixed assets	21,651,937	33.8	22,939,838	37.6	-5.6
Construction in progress	264,455	0.4	284,292	0.5	-7.0
Right-of-use assets	1,169,624	1.8	1,265,583	2.1	-7.6
Intangible assets	452,540	0.7	504,966	0.8	-10.4
Short-term borrowings	19,856,969	31.0	19,370,520	31.7	2.5
Bill payable	9,776,006	15.3	6,305,228	10.3	55.0
Accounts payable	19,487,647	30.5	20,497,509	33.6	-4.9
Contractual liabilities	1,964,150	3.1	3,024,461	5.0	-35.1
Other payables	2,366,480	3.7	1,675,104	2.7	41.3
Tax payable	444,919	0.7	724,389	1.2	-38.6
Non-current liabilities due within one year	396,399	0.6	356,747	0.6	11.1
Long-term borrowings	574,949	0.9	580,716	1.0	-1.0
Long-term payable	52,746	0.1	26,812	0.0	96.7
Deferred income	766,717	1.2	898,469	1.5	-14.7
Deferred income	13,618	0.0	14,186	0.0	-4.0
Specific reserve	584,211	0.9	258,523	0.4	126.0

Reasons for the changes:

- Contractual assets increased by RMB5,807,166,000 compared with the beginning of the fiscal year, mainly because the process of engineering settlement delayed after contract performance.
- The bill payable increased by RMB3,470,778,000 compared with the beginning of the fiscal year, mainly due to the increase in the settlement volume of supplier bills.
- Contractual liabilities decreased by RMB1,060,311,000 compared with the beginning of the fiscal year, mainly due to the completeness of engineering construction and income from contract execution.
- Other payables increased by RMB691,376,000 compared with the beginning of the fiscal year, mainly due to the increase in cash deposit received and developed accounts payable factoring.
- Tax payable decreased by RMB279,470,000 compared with the beginning of the fiscal year, mainly due to pay VAT and corporate income tax.
- Long-term payable increased by RMB25,934,000 compared with the beginning of the fiscal year, mainly due to receive gains return from the Security Fund.
- The special reserve increased by RMB325,688,000 compared with the beginning of the fiscal year, mainly due to the process of safety production expenses payment delayed after accounting process.

B. Situation about overseas assets:

(a) Asset scale

On 30 June 2021, the Company's overseas assets was RMB16,096,603,000, accounting for 25.2% of total assets of the Company.

(b) Relevant statement about overseas assets

Applicable Not Applicable

The company has professional equipments such as land drilling rigs, earthquake collectors, well service rigs which can apply services for engineering construction, overseas oil & gas fields from exploration and development to production. In the first half of 2021, the Company's operating income was RMB4,356,273,000 and achieved net profit with RMB163,769,000.

Section III Management Discussion and Analysis

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

On 30 June 2021, the Company's funds with restricted use such as margin deposit, etc. was RMB8,020,000 (On 31 December 2020: RMB28,106,000).

(4). Analysis of investments

A. Significant equity investment

Applicable Not Applicable

B. Significant non-equity investment

Applicable Not Applicable

C. Information of financial assets measured at fair value

Applicable Not Applicable

(5) Sales of major assets and equity

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

(6) Information of major subsidiaries

Unit : RMB' 000

Name of company	Registered capital	Shareholding percentage	Amount of total assets	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
		%					
SOSC	RMB4,000,000,000	100	63,979,960	60,906,962	3,072,998	369,426	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited *	RMB700,000,000	100	10,344,242	10,187,568	156,674	87,267	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited *	RMB450,000,000	100	11,799,113	11,387,696	411,417	111,558	Petroleum engineering technical service
Sinopec Jiangnan Oil Engineering Company Limited *	RMB250,000,000	100	4,315,796	3,079,957	1,235,840	48,032	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited *	RMB860,000,000	100	4,177,984	3,681,761	496,223	-67,699	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited *	RMB890,000,000	100	4,061,081	2,139,470	1,921,611	30,228	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited *	RMB300,000,000	100	5,675,428	2,192,257	3,483,171	7,981	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited *	RMB300,000,000	100	2,827,931	2,523,240	304,691	24,205	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation *	RMB500,000,000	100	21,617,524	21,291,376	326,149	103,738	Construction
Sinopec Jingwei Company Limited	RMB1,000,000,000	100	3,645,107	2,861,250	783,856	160,412	testing, logging and locating service
Sinopec Shanghai Offshore Oil Engineering Company Limited *	RMB2,000,000,000	100	4,798,861	1,175,365	3,623,496	-58,876	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation *	RMB700,000,000	100	3,206,231	2,163,306	1,042,925	1,782	Petroleum engineering technical service

Section III Management Discussion and Analysis

Name of company	Revenue	Operating profit
	RMB' 000	RMB' 000
SOSC	31,570,061	431,309
Sinopec Shengli Oil Engineering Company Limited*	6,191,747	94,726
Sinopec Zhongyuan Oil Engineering Company Limited *	5,385,043	114,500
Sinopec Jiangnan Oil Engineering Company Limited *	2,846,387	57,038
Sinopec East China Oil Engineering Company Limited *	1,589,375	-67,492
Sinopec North China Oil Engineering Company Limited*	1,819,507	27,922
Sinopec Southwest Oil Engineering Company Limited *	2,419,960	4,460
Sinopec Oil Engineering Geophysical Company Limited *	1,780,697	30,523
Sinopec Oil Engineering and Construction Corporation *	7,950,238	107,143
Sinopec Jingwei Company Limited	2,381,289	204,093
Sinopec Shanghai Offshore Oil Engineering Company Limited *	596,016	-66,576
Sinopec International Petroleum Service Corporation *	360,608	4,608

*Note: The Company holds shares through SOSC.

(7) The structured entity controlled by the Company

Applicable Not Applicable

(8) Statement of the operations by products, industry and regions operating

A. Statement of operation by industry and products

Industry	Operating Income for the first half of 2021	Operating cost for the first half of 2021	Gross Profit Margin	Increase/(decrease) in operating income as compared with last year	Increase/(decrease) in operating cost as compared with last year	Gross profit margin compared with last year
	RMB' 000	RMB' 000	(%)	(%)	(%)	
Geophysical	1,800,634	1,740,778	3.3	-0.4	3.2	decreased by 3.5 percentage points
Drilling	15,712,885	14,684,925	6.5	-7.1	-4.5	decreased by 2.6 percentage points
Logging/Mud logging	1,150,738	936,586	18.6	1.1	4.2	decreased by 2.4 percentage points
Downhole operation	3,941,443	3,716,244	5.7	4.2	6.1	decreased by 1.7 percentage points
Engineering and Construction	7,868,764	7,414,853	5.8	15.8	17.1	decreased by 1.0 percentage point
Other	653,553	740,151	-13.2	4.1	12.8	decreased by 8.8 percentage points
Total	31,128,017	29,233,537	6.1	0.2	2.7	decreased by 2.3 percentage points

B. Statement of operation by regions

Region	Operating income for the first half of 2021	Increase/(decrease) as compared with the corresponding period of last year
	RMB' 000	(%)
Mainland China	26,771,744	7.6
Hong Kong, Macau, Taiwan and overseas	4,356,273	-29.7

5. Market prospects and operation arrangements in the second half of 2021

Market Forecast for the Second Half of 2021

Looking forward to the second half of 2021, opportunities and challenges will coexist in the oil service industry, and we expect to face challenging and complicated overall operating conditions. At present, amid the generally improving global economic recovery and the expected steady recovery of China's economy, the international crude oil prices show a trend of fluctuating at high levels with significantly greater volatility. Further, domestic petroleum companies are deepening the "seven-year action plan", and upstream exploration and development investment continues to increase. All will create a positive environment for the sustained recovery of the domestic oil service market. However, we also see that the next wave of the global pandemic and its derivative effects are still relatively complex, risks in the international political and economic fields continue to accumulate, and there are many external instability and uncertain factors. The recovery of the oil service market will continue to diverge, and the risks and challenges of the stable development of the overseas oil service market will increase significantly.

Operation Plans for the Second Half of 2021

In the second half of 2021, the Company will continue to enhance its capabilities in support for the exploration and development, leverage the advantages of complicated services and special technologies to support exploration and development of Sinopec and continue to optimize the market layout and fully expand the market. The Company expects to achieve a newly signed contract value of RMB26.2 billion, in which RMB17.7 billion will be from China Petrochemical Corporation's internal market, RMB4.8 billion from domestic external market, and RMB3.7 billion from overseas market. In addition, focusing on efficiency improvement, the Company will optimize and integrate internal resources, strengthen technological innovation and application, further strengthen cost control, strive to expand operating results and improve the quality of corporate development.

A. Geophysical service

In the second half of 2021, the Company will effectively serve the exploration and development of oil companies, continue to strengthen the efficient exploration with project management as the core, and improve the operation efficiency of projects. It will explore the establishment of a new cooperation model of sharing risks and interests with oil companies and promote the standardized, mechanized, informationalized and intelligent geophysical construction and jointly solve the difficulties in exploration technology. The Company will increase the tracking and development of the market in the Qiangtang Basin in Tibet. It will make more efforts in the expansion of markets such as Saudi Arabia, Algeria, Ecuador, Bangladesh and Bolivia, and strive to secure more quality seismic acquisition projects. In new business markets such as non-seismic, surveying and mapping, measurement, etc., it will actively expand and cultivate business growth points. In the second half of the year, the Company plans to complete the 2D seismic acquisition of 1,059 kilometers and the 3D seismic acquisition of 13,083 square kilometers.

B. Drilling service

In the second half of 2021, the Company will adhere to the efficient operation coordination mechanism featuring the integration of clients and vendors, geological engineering integration, plan and design integration, production and management integration, and strengthen efforts in making breakthroughs in engineering technologies in respect of continental shale oil and gas, deep and atmospheric shale gas, ultra-deep oil and gas field, speed up the upgrade of drilling rigs in key operation areas such as the "Northwest China, North China, Northeast China and Sichuan". It will further enhance its engineering and technical service support capabilities, and facilitate the efficient exploration and profitable development of the second phase of Weirong shale gas of CPC, Shunbei ultra-deep oil and gas field, as well as Ordos tight gas field, deep marine gas field in western Sichuan and eastern old oil fields. The Company will also continue to expand the coverage of domestic external markets such as CNPC and CNOOC and expand the market share of domestic shale gas, conventional oil and gas, coalbed methane, etc. In the second half of the year, a drilling footage of 4,780,000 meters is planned to be completed.

C. Logging and mud logging service

In the second half of 2021, the Company will continue to improve the professional technology system for logging and mud logging service, expand the application of various new technologies for logging and mud logging, and continue to improve the support capacity of exploration and development services. While maintaining the stable China Petrochemical Corporation market, the Company will actively expand domestic external markets and the overseas service business and accelerate the expansion of scale and effective market. The Company will also promote featured technologies to clients, such as drilling rotation guidance with high build-rate, safe and efficient ultra-deep well logging and smart early warning for engineering, while continuing to break through technologies confronting difficulties, and build technical reserves. In the second half of the year, the Company plans to complete a logging of 142,060,000 standard meters, and a mud logging footage of 4,660,000 meters.

D. Downhole operation service

In the second half of 2021, the Company will continue to improve its capabilities in technical services and support for exploration and development, focus on improving the comprehensive service level of oil reservoirs, and promote the cooperative exploitation of oil reservoirs in eastern old oil fields, Xujiahe tight gas reservoirs in western Sichuan, and difficult-to-use reserves of shale gas in southeastern Sichuan, make dedicated efforts in developing and expanding the market of fracturing for shale gas in Sichuan and Chongqing, tight gas in North China and ultra-deep oil and gas in Northwest China, accelerate the development and application of testing tools for ultra-deep, ultra-high-pressure and ultra-high-temperature oil and gas reservoirs; we continue to expand and strengthen the overseas high-end business market for coiled tubing business in Saudi Arabia. In the second half of the year, the Company plans to complete 3,151 downhole operations.

E. Engineering and construction service

In the second half of 2021, the Company will continue to increase the efforts in the expansion of CPC's oil and gas pipeline market, ensure the smooth operation of the ground engineering of gas storage facility, and consolidate and increase our market share. It will continue to increase its efforts in the growth of various segments, such as the PipeChina, local gas pipeline, oil and gas commercial reserve and local roads and bridges, with a focus on the tank farm and long-distance pipelines of oil storage and transportation project under PipeChina and local port-and-expressway connection projects and other roads and bridges projects; in addition, it will vigorously promote its matured technologies in carbon dioxide capture, professional maritime engineering, wind power projects and full automatic welding for pipeline in particular topographies, and cultivate new market growth points. In the second half of the year, the Company plans to sign new contract valued at RMB4.7 billion and complete contracts valued at RMB7.61 billion.

Section III Management Discussion and Analysis

F. International business

In the second half of 2021, the Company will, as always, vigorously implement the “internationalization” business strategy. As per the general requirements of “strict control of risks, supporting excellent and strong players and improving quality and efficiency” of international business, we will be devoted to the renewal of extension contracts in key markets such as Saudi Arabia and Kuwait, and strive to resume the operation of inactive drilling rigs; the Company will accelerate the full resumption of work and production in Mexico and endeavor to realize higher yield with less wells in I-L-Y oilfield comprehensive service project in Ecuador; we will try our best to secure the contract of general contracting of Ecuador drilling and completion turnkey project in Ecuador as soon as possible; the Company will closely follow a batch of potential projects, including the fracturing general contracting project of SAUDI ARABIAN OIL COMPANY, directional wells of Kuwait Petroleum Company and the 3D seismic project of Petroleos Mexicanos, and enhance and optimize the industrial chain and value chain of overseas business; we will, on one hand, further exploit our potential and enhance our efficiency, and on the other hand, implement risk prevention and control, normalize pandemic prevention and control, and strengthen public safety and HSE management.

G. Technology research & development

In the second half of 2021, the Company will be committed to the implementation of the “14th Five-Year” science and technology development plan and overcoming the difficulties of key core technologies. In line with the demand for increase in oil and gas reserves and production capability in Tarim Basin, the Sichuan Basin and the Junggar Basin, the Company will be dedicated to improve the integrated supporting technologies of petroleum engineering projects designed for deep, ultra-deep layer and shale gas. More efforts will be made to improve speed and efficiency, quality and production and enhance the ability to assure exploration and development services. We will carry out application research in respect of new fields and new types of petroleum engineering integration projects, such as continental shale gas and shale oil, continue to endeavor to overcome high-end technologies which face bottlenecks, such as measurement and control, logging, and testing, facilitate the research on the development path of petroleum engineering under the goal of carbon peak and carbon neutrality and deploy our resources in research on new energy technologies such as CCUS, underground in-situ mining and use of hydrogen energy. We will fully implement the product industrialization plan, develop an assessment and incentive mechanism based on performance associated with product industrialization, enhance coordination and supervision, and promote the large-scale application of superior technology products. The Company will optimize our technological innovation platform, improve key laboratories covering technologies of measurement and control while drilling, deep and ultra-deep wells and CCUS, and the construct technology centers in respect of shale gas and acid gas, fully enhance our independent innovation capabilities and strive to build up a technology-leading petroleum service company.

H. Internal reform and management

In the second half of 2021, the Company will persistently deepen its reform initiatives, devote to accelerating and coordinating its market layout and optimizing resource allocation, continue to integrate internal resources, coordinate market layout, and improve the overall efficiency and effectiveness; the Company will continue to make in-depth and practical efforts to promote professional management, demand its subsidiaries and affiliates to complete the goal of streamlining workforce on basis of regional integration, steadily promote internal integration and restructuring of testing, logging and locating businesses based on different areas, innovate the operating and management system and scientific research mechanism of Jingwei Company, thus leading the Company to develop in a high-end way; we will comprehensively deepen the operation of project-based management system, accelerate the building-up of project-based management system taking project management as the center and “two pools, two repositories and one platform” as the pillar, establish a project-based management platform, promote the in-depth optimization of talents, materials, equipment, funds and other resources, and realize unified procurement, unified warehousing, unified inspection and centralized distribution and delivery of regional materials to reduce the operating costs continuously; the Company will promote the reform of “three systems” in an in-depth manner, improve comprehensively the tenure system and contract-based management at manager level; we will make concrete efforts in exploiting potential of cost reduction, management cost reduction and technological cost reduction, to ensure the smooth realization of the cost reduction target set at the beginning of the year.

I. Capital expenditure

In the second half of 2021, the capital expenditure is expected to be RMB3.08 billion. The Company will focus on economic benefits, continue to enhance its exploration and development service capabilities, strengthen resource integration and coordination, mainly guarantee the satisfaction of urgent production needs, enhance technical service capabilities, upgrade and transform of equipment with potential safety and environmental protection risks. Specifically, the Company will acquire 7 sets of new drilling rigs, upgrade and transform 12 sets of drilling rigs, 4 sets of new high-temperature MWD instruments, 5 sets of 750 HP workover rigs and the develop the integrated cloud platforms for petroleum engineering projects; investments will be made to boost the transformation of development mode and adjust the market structure, with a view to cultivating the Company’s core competitiveness.

6. Other matters of disclosure

(1) Potential risks

The Company actively took various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

A. Market competition risk

At present, the competitive landscape of the oilfield service market has not undergone major changes, and there is still an oversupply situation. Coupled with the influence of political, economic and other factors, there are still uncertainties in the trend of international oil prices and there may be some countries or regions protecting the local oilfield service industry market. The market competition is still fierce. At the same time, the impact of the epidemic is superimposed. The oilfield service industry is facing greater operating pressure.

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B. Health, safety and environmental protection risk

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

C. Overseas operation risk

The company has business in many foreign countries who will have political, legal, supervision and management influences on the business. The conditions there are unstable and quite different with those in developed countries. There are also risks of political volatility, religious issues, public security, unstable tax policies, import and export restrictions, and regulatory uncertainties, etc. At the same time, the current epidemic situation in countries where the company's key overseas markets is located continues to change, and some newly signed projects have been delayed and construction efficiency has decreased, which has also increased the impact on the company's overseas projects operating.

D. Exchange rate risk

Because the Company holds US dollar debts and conducts business in many countries and regions abroad, involving the income and expenditure activities of multiple currencies, the exchange rate fluctuation of the RMB against the relevant foreign currency and the exchange rate between currencies will affect the Company's operating costs. Through regular research and analysis of exchange rate trends, the Company reduces exchange risk exposure and controls exchange rate risk.

(2) Assets, liabilities, equities and cash flow (extracted from the unaudited financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"))

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

A. Assets, liabilities and shareholders' equity analysis

	As at 30 June 2021	As at 31 December 2020	The change
	RMB' 000	RMB' 000	RMB' 000
Total assets	63,979,713	61,091,195	2,888,518
Current assets	34,743,746	29,802,287	4,941,459
Non-current assets	29,235,967	31,288,908	(2,052,941)
Total liabilities	56,562,591	54,368,329	2,194,262
Current liabilities	54,829,227	52,473,241	2,355,986
Non-current liabilities	1,733,364	1,895,088	(161,724)
Total equity attributable to equity shareholders of the Company	7,417,122	6,722,866	694,256

As at 30 June 2021, the Group's total assets were RMB63,979,713,000 and total liabilities were RMB56,562,591,000. The total equity attributable to shareholders of the Company was RMB7,417,122,000. Compared with the consolidated statement of financial position as at 31 December 2020 ("Compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB63,979,713,000, increased by RMB2,888,518,000 compared with that of the end of last year, including that (i) current assets were RMB34,743,746,000, increased by RMB4,941,459,000 compared with that of the end of last year, mainly due to the significant increase in workload in the first half of the year, resulting in an increase in contract assets of RMB6,229,780,000. (ii) non-current assets were RMB29,235,967,000, decreased by RMB2,052,941,000 compared with that of the end of last year, mainly due to depreciation and amortization of the Group's fixed assets and long-term prepaid expenses were normally accrued in the first half year.

The total liabilities were RMB56,562,591,000, increased by RMB2,194,262,000 compared with that of the end of last year, including that (i) current liabilities were RMB54,829,227,000, increased by RMB2,355,986,000 compared with that of the end of last year, mainly due to an increase of RMB2,460,916,000 of notes and trade receivables, an increase of RMB526,201,000 of short-term loans from related parties in the first half of the year. (ii) non-current liabilities were RMB1,733,364,000, decreased by RMB161,724,000 compared with that of the end of last year, which is mainly due to decrease of lease liabilities of RMB134,552,000.

Total equity attributable to shareholders of the Company was RMB7,417,122,000, increased by RMB694,256,000 compared with that of the end of last year. It mainly due to profit attributable to shareholders of the Company for the first half of 2021 was RMB694,246,000.

As at 30 June 2021, the ratio of total liabilities to assets was 88.4%, comparing with 89.0% as at 31 December 2020.

Section III Management Discussion and Analysis

B. Cash flow analysis

The main items of cash flow of the Company in the first half of 2021 and the first half of 2020 showed in the following table.

Main items of cash flow	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
Net cash inflow from operating activities	358,861	281,258
Net cash outflow from investing activities	(390,632)	(439,267)
Net cash inflow from financing activities	9,267	523,554
(Decrease)/increase in cash and cash equivalents	(22,504)	365,545
Cash and cash equivalents at the beginning of the year	1,523,352	1,650,732
Exchange losses in cash and cash equivalents	(6,704)	(18,107)
Cash and cash equivalents at the end of the interim year	1,494,144	1,998,170

In the first half of 2021, the Group's net cash inflow from operating activities was RMB358,861,000, representing an increase of cash inflow by RMB77,603,000 as compared with the corresponding period of last year. This was mainly due to the increase in clearance of inventories and account receivable and settlement in bill payable.

In first half of 2021, the Group's net cash outflow from investing activities was RMB390,632,000, a decrease of cash outflow by RMB48,635,000 as compared with the corresponding period of last year. It was mainly due to the change of purchasing process in company and reduction of equipment purchase expenses.

In the first half of 2021, the Group's net cash inflow from financing activities was RMB9,267,000, a decrease of cash inflow by RMB514,287,000 compared with the corresponding period of last year. It was mainly due to the decrease in incremental volume of credit in the first half year.

C. Borrowings from bank and related companies

As at 30 June 2021, the Group's borrowings from bank and related companies were RMB20,431,918,000 (as at 31 December 2020: RMB19,951,236,000). These borrowings include the short-term borrowings of RMB19,856,969,000 and the long-term borrowings due more than one year of RMB574,949,000. As at 30 June 2021, approximately 88.0% of the borrowings were denominated in Renminbi (as at 31 December 2020: 87.2%) and approximately 12% were denominated in US Dollars (as at 31 December 2020: 12.8%).

D. Gearing ratio

As at 30 June 2021, the gearing ratio of the Group was 73% (as at 31 December 2020: 74.5%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity).

E. Assets pledge

For the year ended 30 June 2021, there was no pledge on the Group's assets.

F. Foreign Exchange Risk Management

It is set forth in note 8 of the interim financial statements prepared in accordance with the PRC ASBE.

Section IV Corporate Governance

During the reporting period, the Company was able to regulate its operations in accordance with domestic and overseas regulatory requirements. During the reporting period, there was a clear division of rights and responsibilities among the general meeting, the Board and the management of the Company, with specific duties and responsibilities and standard operation. The special committees of the Board carried out their work in accordance with their duties and responsibilities, and the independent directors played an active role in connected transactions and financial auditing, etc. The Company continued to improve the quality of information disclosure and investor relations management, and the information has been disclosed in a true, accurate, complete and timely manner. The Company also meticulously organized performance training for directors, supervisors and senior management and continues to improve the awareness of law-abiding and compliance of directors, supervisors and senior management.

During the reporting period, the Company convened four shareholders general meetings (including two class meetings), three Board meetings and three supervisory committee meetings. A total of 12 resolutions of the general meeting, 28 resolutions of the Board meetings and 10 resolutions of the supervisory committee meetings were passed. The preparation and convening of each meeting complied with laws and regulations, and the resolutions formed are valid and effective.

During the reporting period, there was no difference between the actual situation of corporate governance and the requirements of the regulatory documents on the governance of listed companies issued by the China Securities Regulatory Commission, and no insider was found to illegally buy or sell the Company's stocks.

1. Summary of Shareholders' Meetings

During the reporting period, the Company held the first extraordinary general meeting for 2021 on 2 February 2021 in Beijing. The annual general meeting for the year 2020, the first A shareholders class meeting for 2021 and the first H shareholders class meeting for 2021 of the Company were held on 18 June 2021 in Beijing. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Domestic disclosure date of resolutions	Resolutions
The first extraordinary general meeting for 2021	2 February 2021	www.sse.com.cn www.hkexnews.hk	3 February 2021	1. The remuneration plan for the tenth session of the Board and the Supervisory Committee. 2. Elected Mr.Chen Xikun, Mr.Yuan Jianqiang, Mr.Lu Baoping, Mr.Fan Zhonghai, Mr.Wei Ran and Mr.Zhou Meiyun as non-independent directors of the tenth session of the Board. 3. Elected Mr.Chen Weidong, Mr.Dong Xiucheng and Mr. Zheng Weijun as independent directors of the tenth session of the Board. 4. Elected Mr.Ma Xiang, Mr.Du Jiangbo, Mr.Zhang Jianbo and Ms.Zhang Qin as non-employee representative supervisors of the tenth session of the Supervisory Committee.
The annual general meeting for the year 2020	18 June 2021	www.sse.com.cn www.hkexnews.hk	19 June 2021	1.The Report of the Board of the Directors of the Company for the year 2020. 2. The Report of the Supervisory Committee of the Company for the year 2020. 3. The audited financial statements and the auditor's report of the Company for the year 2020. 4. The profit distribution plan of the Company for the year 2020. 5. To appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the domestic auditor and internal control auditor of the Company for the year 2021 and to appoint BDO Limited as the international auditor of the Company for the year 2021. 6. To approve provision of guarantee for wholly owned subsidiaries and joint venture. 7. To grant to the Board a general mandate to issue new domestic shares and/or overseas listed foreign shares of the Company. 8. To approve the authorisation to the Board to repurchase domestic shares and/or overseas listed foreign shares of the Company.
The first A shareholders class meeting for 2021	18 June 2021	www.sse.com.cn www.hkexnews.hk	19 June 2021	To approve the authorisation to the Board to repurchase domestic shares and/or overseas listed foreign shares of the Company.
The first H shareholders class meeting for 2021	18 June 2021	www.sse.com.cn www.hkexnews.hk	19 June 2021	To approve the authorisation to the Board to repurchase domestic shares and/or overseas listed foreign shares of the Company.

Section IV Corporate Governance

2. Information on the change of directors, supervisors and senior management of the Company

Name	Position	Change	Reasons for change
Jiang Bo	Independent Non-Executive Director	Resigned	Expiration of term of office
Zhai Yalin	Supervisor	Resigned	Expiration of term of office
Zhang Hongshan	Employee Representative Supervisor	Resigned	Expiration of term of office
Zhou Meiyun	Non-executive Director	Elected	Elected by the general meeting
Zheng Weijun	Independent Non-executive Director	Elected	Elected by the general meeting
Sun Yongzhuang	Employee Representative Supervisor	Elected	Elected by the employee's representative meeting
Zhang Bailing	Employee Representative Supervisor	Elected	Elected by the employee's representative meeting
Du Guangyi	Employee Representative Supervisor	Elected	Elected by the employee's representative meeting
Xiao Yi	Chief Financial Officer	Resigned	Change of work
Cheng Zhongyi	Chief Financial Officer	Appointment	Appointed by the Board
Li Honghai	Secretary to the Board	Resigned	Personal Age
Cheng Zhongyi	Secretary to the Board	Appointment	Appointed by the Board
Sun Bingxiang	Deputy General Manager	Appointment	Appointed by the Board

The Company's independent non-executive director Ms. Jiang Bo, supervisor Mr. Zhai Yalin and employee representative supervisor Mr. Zhang Hongshan resigned as independent non-executive director, supervisor and employee representative supervisor of the Company, respectively, due to the expiry of their terms of office with immediate effect from 2 February 2021. After the election by the shareholders at the Company's first extraordinary general meeting for 2021 held on 2 February 2021, Mr. Chen Xikun, Mr. Yuan Jianqiang, Mr. Lu Baoping, Mr. Fan Zhonghai, Mr. Wei Ran, Mr. Zhou Meiyun, Mr. Chen Weidong, Mr. Dong Xiucheng and Mr. Zheng Weijun were appointed or re-elected as directors of the tenth session of the Board, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Board expires (February 2024). Mr. Ma Xiang, Mr. Du Jiangbo, Mr. Zhang Jianbo and Ms. Zhang Qin were re-elected as supervisors of the tenth session of the Supervisory Committee, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Supervisory Committee expires (February 2024). The employee's representative meeting of the Company was held on 2 February 2021, at which Mr. Sun Yongzhuang, Mr. Zhang Bailing and Mr. Du Guangyi were elected as the employee representative supervisors of the tenth session of the Supervisory Committee, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the Supervisory Committee expires (February 2024).

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

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

Mr. Xiao Yi resigned as the Chief Financial Officer of the Company due to change in his work position. According to the nomination of the general manager, the Board resolved to appoint Mr. Cheng Zhongyi as the Chief Financial Officer of the Company, with a term of office commencing from 27 April 2021 to the date when the term of the tenth session of the Board expires.

Mr. Li Honghai resigned as the secretary to the Board of the Company due to his age. According to the nomination of the chairman, the Board resolved to appoint Mr. Cheng Zhongyi as the secretary to the Board, with a term of office commencing from 3 August 2021 to the date when the term of the tenth session of the Board expires. Meanwhile, according to the nomination of the general manager, the Board resolved to appoint Mr. Sun Bingxiang as the deputy general manager of the Company, with a term of office commencing from 3 August 2021 to the date when the term of the tenth session of the Board expires.

The Company expresses its heartfelt thanks to Ms. Jiang Bo, Mr. Zhai Yalin, Mr. Zhang Hongshan, Mr. Xiao Yi and Mr. Li Honghai for their hard work and important contributions during their tenure.

3. Interim cash dividends plan for 2021 and plan to convert capital reserves into share capital

In accordance with the Articles of Association, the Board resolved that no interim cash dividend would be distributed for the period ended 30 June 2021, and no convert of capital reserves into share capital.

4. The Company's Share Option Scheme

(1) Date and number of the Grant

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

(2) Information on share options granted to directors, chief executives or major shareholders

The Company granted a total of 1.85 million shares of A-share options to ten persons, including, Director Mr. Lu Baoping, Deputy General Manager Mr. Zhang Yongjie, Deputy General Manager Mr. Zuo Yaojiu, Deputy General Manager Mr. Zhang Jinhong, Former Deputy Secretary of the Party Committee Mr. Liu Rushan, Former Vice Chairman and General Manager Mr. Sun Qingde, Former Director and Deputy General Manager Mr. Zhou Shiliang, Former Supervisor Mr. Huang Songwei, Former Chief Accountant Mr. Wang Hongchen and Former Secretary to the Board Mr. Li Honghai, 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.

(3) Information on share options granted to key business personnel holding core positions

This 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.

(4) Exercise price of the Grant

According to the determining principle of exercise price, the exercise price of this Grant is RMB5.63 per share (If, during the validity period, any capitalisation of capital reserves, distribution of dividend, subdivision, allotment or reduction of the Shares, rights issue or any other events takes place, an adjustment to the number of share options shall be made accordingly).

(5) Validity Period and Exercise Arrangement under this Grant

The validity period of the share options shall be five years commencing from the grant date, but is subject to the following exercise arrangements. The exercisable period for the share options shall be three years after the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same hereinafter) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 30%, 30% and 40% of the total share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

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

(6) Exercise and cancellation under this Grant during the reporting period

As the performance of the Company has not fulfilled the condition for exercise of the options during the 1st exercise period under the First Grant of the A Share Option Incentive Scheme, the Participants can not 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 Board decided to cancel the 14,715,000 share options corresponding to the 1st exercise period which have been granted but not yet been exercised under the first grant of the Share Option Scheme.

Meanwhile, in view of a total of 24 participants of the Share Option 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 proposed 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 Share Option Scheme 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 "Announcement 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" (P. 2018-064) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 30 October 2018 and disclosed on www.hkexnews.hk on 29 October 2018.

As the performance of the Company has not fulfilled the condition for exercise of the options during the 2nd exercise period under the first grant of the Share Option Scheme, the participants can not exercise the options. 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, the Board decided to 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 Share Option Scheme.

Section IV Corporate Governance

Meanwhile, during 29 October 2018 to 28 October 2019, in view of a total of 30 participants of the Share Option 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 proposed 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 Share Option Scheme were adjusted from 453 to 423, and the number of A share options which have been granted but not yet been exercised were adjusted from 18,384,000 to 17,084,000.

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

5. Compliance with the Corporate Governance Code

For the six months ended 30 June 2021, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, except that:

Code provision A.5.1 provides that listed issuers should establish a nomination committee. As at the end of reporting period, the Company has not set up a nomination committee. Nonetheless, the requirements for nomination of directors are set out in detail in the Articles of Association. Pursuant to the Articles of Association, the candidates for independent directors may be nominated by the Board, the Supervisory Committee, or shareholders individually or collectively holding more than one percent of the issued shares of the Company. The candidates for the other directorship shall be nominated by the Board, the Supervisory Committee, or shareholders individually or collectively holding more than three percent of the issued shares of the Company. Directors shall be elected at general meeting of the Company for a term of office of not more than three years. Upon expiration of his or her term, each Director shall be entitled to be re-election.

6. Compliance with the Model Code

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

7. Independent Non-executive Director and Audit Committee

As at 30 June 2021, the Company has three independent non-executive directors, one of whom is professional in the accounting and has experience in financial management.

The Audit Committee of the Board has been founded. The members of the Audit Committee are Mr. Zheng Weijun, Mr. Zhou Meiyun, Mr. Chen Weidong and Mr. Dong Xiucheng. The main responsibilities of the Audit Committee are to review and supervise the Company’s financial reporting procedures and internal control system, and to provide advice to the Board. The Audit Committee has reviewed and confirmed the interim results of the Company for the six-months ended 30 June 2021 and the 2021 Interim Report.

Section V Environmental and Social Responsibility

1. Environmental Information

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

Applicable Not Applicable

(2) Description of the environmental protection situation of companies other than key pollutants

Applicable Not Applicable

A. Administrative penalty due to environmental protection problems

Applicable Not Applicable

On 7 May 2021, in the law enforcement and improvement of raise dust, Dongying City, the Sheng Jian Hua Yuan project undertaken by the Company's indirect wholly-owned subsidiary, Sinopec Shengli Oil Engineering Company Limited, was found to be naked earth and construction garbage were not cleared in time. On 27 May 2021, a comprehensive administrative penalty decision was received from Dongying District and fined RMB10,000. The project department immediately implemented rectification measures, which have been fully cover by the earth, cleaned up construction waste in time, and the dust removal devices and measures were effectively operated as required. All problems were rectified and completed and accepted on 8 May 2021.

B. Other disclosure environmental information refers to heavily polluting industries

The Company adheres to the development philosophy of safety, environmental protection and green and low-carbon, and has formulated relevant systems such as the Environmental Protection Management Regulations, the Pollution Prevention Management Regulations, the Radiation Management Regulations and the Energy Saving Management Regulations. The Company strictly complies with environmental protection regulations and requirements of the emission standards and international conventions in the countries where it operates. For hazardous waste, the Company conducts recycling and treatment by delivering the waste to the entities with treatment qualifications.

Currently, the pollutants discharged by the Company mainly include exhaust gas, domestic sewage, solid waste and oil-based rock chip, etc. Exhaust gas includes diesel engine exhaust and gas fuel exhaust, and the emission indicators have met the local standards and requirements; domestic sewage includes the domestic sewage from fixed places and the domestic sewage from mobile construction sites, and the domestic sewage from fixed production sites is transferred to municipal pipeline network for centralized treatment, and the domestic sewage from mobile construction sites is recycled after on-site pre-treatment; solid wastes are mainly drilling waste mud and rock chip, and are organized and treated by the project owners or through landfill after harmless treatment and comprehensive utilization after harmless treatment in accordance with the requirements of the owners, and domestic wastes are treated by professional institutions; As per the authorization by the project owner or the Company, the oil-based rock chips is collected, transported, stored, and disposed of by a qualified entity and is utilized in a comprehensive manner after harmless treatment through thermal analysis. We actively initiate inspection, rectification and improvement for solid waste and hazardous waste management. By issuing the Notice on Further Strengthening Environmental Protection Governance on Contractors and Solid Waste Management at the Construction Sites, the Company has prepared an implementation plan for scrutiny and a scrutiny table, determined the scrutiny priority, requirement, and timing, thereby performing a comprehensive scrutiny on existing contractors and cooperative treatment entities involved in the environmental protection. In the first half of 2021, the Company disposed of 921,000 tons of general solid waste (including drilling water-based waste mud), 93,000 tons of hazardous waste (including oil-based rock chip and oil-bearing waste), 218,000 cubic meters of domestic sewage and 605,000 cubic meters of drilling operation waste water according to laws and regulations.

The Company strengthened on-site energy efficiency management, implemented energy conservation and clean production technical measures, and vigorously implemented energy efficiency improvement projects. In the first half of the year, the comprehensive energy consumption for RMB10,000 industrial output value was 0.223 tons of standard coal, representing a year-on-year decrease of 3.9%. At the same time, the Company actively organized the establishment of green project companies and the creating activities of green grassroots, amended six professional indicators for creating green grassroots such as drilling, downhole operation, geophysical, oil project construction sites, radiation depot and laboratory instrument servicing center. 770 teams initiated the creating activities of green grassroots, 585 teams passed the acceptance on green grassroots, increased 130 teams and 172 environmental toilets in the first half of 2021. 3 green enterprises recheck and 6 green enterprises creating are under orderly progress.

The Company has established an environmental emergency management system, improved the environmental emergency network, prepared and timely revised the environmental emergency plans according to the risk assessment results, and filed the environmental emergency plan according to the requirements. The Company has also established emergency rescue teams and conduct regular emergency plan training and drills.

C. Explanation of the follow-up progress or changes in the disclosure of information during the reporting period

Applicable Not Applicable

D. Measures and effects on the Company to reduce the carbon emissions

Applicable Not Applicable

In the first half of 2021, the Company has strengthened the application of clean energy. In view of the advantages that the drilling projects of the operation units in Sichuan, Xinjiang, Phase II Fuling etc. have long cycles and it's suitable for them to use electricity and natural gas, the Company created chances to advocate the use of clean energy such as electricity and natural gas and promoted to adjust the energy consumption structure. Specifically, in the first half of the year, we carried out well completion for 506 wells by use of network electrical drilling rigs, with a drilling footage of 1,872,000 meters, accounting for 44.9% of the total drilling footage of 4,170,000 meters. The use of electricity in substitute of 198,000 tons of diesel managed to save 237,000 tons of standard coal. The Company strengthens carbon asset management, organizes further investigations of greenhouse gas emission facilities, emission sources, and emission categories, comprehensively configures the carbon asset management system in a targeted manner, and conducts specialized training for personnel of carbon asset management of subsidiaries.

2. Poverty alleviation program launched by the Company

Applicable Not Applicable

Section VI Significant Events

1. Performance of undertakings

The undertakings made by the Company and its shareholders holdings more than 5% of the shares of the Company and their performance of the undertakings as of 30 June 2021:

Undertaking Background	Undertaking Type	Undertaking party	Undertaking	Date and duration of the Undertaking	Whether there is a performance period	Whether the undertaking has been strictly fulfilled
Undertaking regarding the material assets reorganization	To solve horizontal competition	CPC	<p>The Non-Competition Undertaking</p> <p>1. CPC undertook that it would not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through exercise of its shareholder rights. 2. After the material assets reorganization, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. 3. After the material assets reorganization, if CPC 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 CPC 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. CPC consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.</p>	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, CPC did not act contrary to the undertaking.
Undertaking regarding the Material Assets Reorganization	To solve connected transactions	CPC	<p>The Undertaking of Regulating the connected transaction: CPC and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, CPC and its controlling Company's will sign the standard agreement of connected transactions, and will fulfill the obligations of the approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The price of the connected transaction will follow the principle of fair, reasonable and impartial.</p>	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, CPC did not act contrary to the promise.
Undertaking regarding the Material Assets Reorganization	Others	CPC	<p>Issued "The undertaking letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. CPC and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. CPC and its controlling companies guarantee not to illegally use the funds of the Company and its subsidiaries. 3. If CPC violate the above undertaking, it would take the responsibility and compensate the losses caused to the Company in accordance with the laws.</p>	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, CPC did not act contrary to the promise.

2. Occupancy of fund for non-operating purpose by the controlling shareholders and other related parties during the reporting period

Applicable Not applicable

3. Illegal guarantee

Applicable Not applicable

4. Audit of the interim report

Applicable Not applicable

(1) The appointment and dismissal of the accounting firm

The Company changed its accounting firm during the reporting period.

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

As proposed by the second meeting of the tenth session of the Board of the Company and approved by the shareholders at the annual general meeting for 2020, the Company appointed BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) and BDO Limited as the domestic auditor and overseas auditor of the Company for the year 2021, respectively, and appointed BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as the Company's internal control auditor for 2021.

(2) Explanation of the Company on non-standard opinion given by the auditors

Applicable Not applicable

5. The changes and solutions of matters involved in non-standard opinion of financial report for 2020 given by the auditors

Applicable Not applicable

6. Insolvency and restructuring

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

7. Material litigation and arbitration

During the reporting period, there were material litigations and arbitrations.

During the reporting period, there were not material litigations and arbitrations.

On 16 August, 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 which approved Brazil subsidiary's entering into judicial reorganization and the law firm Nascimento & Rezende Advogados was appointed as the judicial reorganization manager by Court of Rio. For details, please refer to the "Announcement regarding the Proposed Judicial Reorganization by an indirectly wholly-owned overseas Subsidiary" (P. 2018-056) disclosed in "China Securities Journal", "Shanghai Securities news", "Securities Times", and on www.sse.com.cn dated 4 September 2018, and on www.hkexnews.hk dated 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. After the judicial reorganization judge officially approved and published the reorganization scheme, the reorganization procedure entered into the execution stage with an execution period of two years. For details, please refer to the "Announcement on Approval of Judicial Reorganization Plan of an indirectly wholly-owned overseas Subsidiary by Overseas Court" (P. 2019-032) disclosed in "China Securities Journal", "Shanghai Securities news", "Securities Times", and on www.sse.com.cn dated 19 July 2019, and on www.hkexnews.hk dated 18 July 2019.

As of 14 July 2021 (Brazil time), due to the impact of the COVID-19 pandemic, certain labour-related lawsuits and a few lawsuits with suppliers, service providers and subcontractors remain unsettled, and the obligations prescribed by the judicial reorganization plan are not fully performed. In combination with the Brazil judicial reorganization practice, the Brazil Subsidiary will not apply for the closure of the judicial reorganization procedure, and the judicial reorganization procedure will be automatically deferred. For details, please refer to the "Announcement of the progress of Judicial Reorganization of an indirectly wholly-owned overseas Subsidiary" (P. 2021-024) disclosed in "China Securities Journal", "Shanghai Securities news", "Securities Times", and on www.sse.com.cn on 16 July 2021, and on www.hkexnews.hk on 15 July 2021.

8. The punishment or rectification situation suffered by the Company or its Directors, Supervisors, senior management, controlling shareholders and actual controllers

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

9. Credibility for the Company, controlling shareholder and de facto controller

Applicable Not applicable

Section VI Significant Events

10. Information on material connected transactions

The Company's material connected transactions for the six months ended 30 June 2021 are as follows:

(1) The material connected transactions relating to daily operation during the reporting period are as follows:

The nature of the transaction classification	Connected parties	Amount of transaction RMB '000	Proportion of the same type of transaction (%)
Purchase of raw materials and equipment	China Petrochemical Corporation and its associates	4,245,572	24.6
Provision of engineering services	China Petrochemical Corporation and its associates	22,041,448	72.4
Comprehensive service expenses	China Petrochemical Corporation and its associates	306,605	100.0
Technology R&D Income	China Petrochemical Corporation and its subsidiaries	31,870	96.1
Land and property leasing expenses	China Petrochemical Corporation and its subsidiaries	99,673	39.0
Equipment leasing expenses	China Petrochemical Corporation and its associates	161,654	34.7
Loan interest	China Petrochemical Corporation and its subsidiaries	278,688	79.5
Loan obtained	China Petrochemical Corporation and its subsidiaries	29,118,868	100.0
Loan repaid	China Petrochemical Corporation and its subsidiaries	28,632,419	100.0
Safety and insurance fund expenses	China Petrochemical Corporation	37,800	100.0
Safety and insurance fund refund	China Petrochemical Corporation	52,118	100.0

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

Section VI Significant Events

- (2) During the reporting period, there were no material connected transactions related to the acquisition or disposal of assets or equities of the Company.
- (3) During the reporting period, no material connected transactions of joint external investment of the Company occurred.
- (4) The following is connected obligatory rights and debts during the reporting period:

Unit: RMB '000

Connected parties	Connected relation	Funds provided to connected party			Funds provided to the Company by connected party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	7,381,309	2,877,513	10,258,822	14,816,339	431,178	15,247,517
Sinopec Finance Company Limited	Subsidiary companies of the controlling shareholder	–	–	–	6,400,000	-10,000	6,390,000
Sinopec Century Bright Capital Investment Limited	Subsidiary companies of the controlling shareholder	–	–	–	1,970,520	-103,551	1,866,969
Total		7,381,309	2,877,513	10,258,822	23,186,859	317,627	23,504,486
Causes of related claims and debts					Normal production and operation		
Influence of connected claims and debts on the Company's performance and financial situation					No material adverse effects		

- (5) The finance business between the Company and the financial company with connected relationship

A. Deposit business

Unit: RMB '000

Connected parties	Connected relation	Daily maximum deposit cap	Deposit rate scope	Beginning balance	For the six months ended 30 June 2021	Closing balance
Sinopec Finance Company Limited	Subsidiary of the controlling shareholders	2,850,000	0.35%	107,564	-2,033	105,531
Sinopec Century Bright Capital Investment Limited	Subsidiary of the controlling shareholders	43,737,000 US dollar	0.01%	649,976	-107,025	542,951

B. Loan business

Unit: RMB '000

Connected parties	Connected relation	Loan limit	Loan rate scope	Beginning balance	For the six months ended 30 June 2021	Ending balance
Sinopec Finance Company Limited	Subsidiary of the controlling shareholders	16,000,000	3.75%	6,400,000	-10,000	6,390,000
Sinopec Century Bright Capital Investment Limited	Subsidiary of the controlling shareholders	600,000,000 US dollar	LIBOR+ 1.18%~2.42%	1,970,520	-103,551	1,866,969

C. Credit extension and other finance business

Connected parties	Connected relation	Business type	Total amount RMB' 000	Actual amount RMB' 000
Sinopec Finance Company Limited	Subsidiary of the controlling shareholders	Back letter and credit extension of bill	11,800,000	9,924,340

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

For details of connected transactions during the reporting period, please refer to note 10 of the interim financial report prepared in accordance with PRC ASBE.

Section VI Significant Events

11. Material contracts and performance

(1) Trusteeship, sub-contracting items

Applicable Not applicable

B. Leasing Matters

Applicable Not applicable

Unit: RMB

Lessor	Lessee	Leased Assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income	The impact of leasing proceeds on the company	Is it a connected transaction	Connected relation
Shanghai Offshore Petroleum Bureau	Sinopec Shanghai Offshore Oil Engineering Company Limited*	Semi submersible drilling platform exploration No.4 (Exploration IV)	RMB38.47 million	6 November 2019	5 November 2022	RMB-5.65 million (before renovation)	Calculated based on a fixed daily rental of RMB15,500 per day	No significant impact	Yes	Shanghai Offshore Petroleum Bureau is a wholly-owned subsidiary of the controlling shareholder of the Company.

(2) Guarantee

Applicable Not applicable

Unit: Thousand RMB

External Guarantee provided by 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 provided by the Company and its Subsidiaries for the Subsidiaries	
Total Amount of Guarantees paid to Subsidiaries during the Reporting Period	6,756,857
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	26,671,871
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total Guarantees(A+B)	26,671,871
Total Amount of Guarantees as a Percentage of the Company's Net Asset (%)	359.6
Among them:	
Amount of Guarantees provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)	11,171,400
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	22,963,311
Sum of the three Guarantees above (C+D+E)	34,134,711
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the Company are all performance guaranteed for 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 for 2020 of the Company.

(3) Other material contracts

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

12. Other significant events

(1) Analysis and explanation of the Board on the reasons and impact of the change in accounting policy, accounting estimation and verification method for last period

Applicable Not applicable

(2) Analysis and explanation of the Board on the reasons and impact of the correction to material errors during the reporting period

Applicable Not applicable

Section VII Changes in Ordinary Shares and Information on Shareholders

1. Changes in share capital

(1) Changes in share capital

A. Changes in share capital

Unit: shares

	Before the change		The increase or decrease on the change(+/-)					After the change	
	Amount	Percentage (%)	New shares issued	Bonus shares	Reserve transfer into shares	Others	Total	Amount	Percentage (%)
Shares with selling restrictions	4,122,504,543	21.7	-	-	-	-4,122,504,543	-4,122,504,543	-	-
1.State shareholding	-	-	-	-	-	-	-	-	-
2.State-owned legal person shareholding	1,503,568,702	7.9	-	-	-	-1,503,568,702	-1,503,568,702	-	-
3.Domestic capital shareholding	23,148,854	0.1	-	-	-	-23,148,854	-23,148,854	-	-
4.Foreign capital shareholding	2,595,786,987	13.7	-	-	-	-2,595,786,987	-2,595,786,987	-	-
Shares without selling restrictions	14,861,835,490	78.3	-	-	-	+4,122,504,543	+4,122,504,543	18,984,340,033	100.0
1.Ordinary shares in RMB	12,042,660,995	63.4	-	-	-	+1,526,717,556	+1,526,717,556	13,569,378,551	71.48
2.Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3.Overseas listed foreign shares	2,819,174,495	14.9	-	-	-	+2,595,786,987	+2,595,786,987	5,414,961,482	28.52
4.Others	-	-	-	-	-	-	-	-	-
Total of shares	18,984,340,033	100.0	-	-	-	-	-	18,984,340,033	100.0

B. Note for the changes in share capital of ordinary shares

Applicable Not applicable

During the reporting period, there was no change in the total number of shares of the Company, but the share structure changed. On 25 January 2021, the lock-up period of the 1,503,568,702 shares and 23,148,854 A shares held by China Petrochemical Corporation and Qi Xin Gong Ying Scheme have ended and were listed for trading. For details, please refer to the "Announcement on the Listing and Circulation of Non-public A-share Restricted Shares" disclosed in China Securities Journal, Shanghai Securities News, Securities Times, and on www.sse.com.cn on 19 January 2021.(P.2021-001). The lock-up period for 2,595,786,987 new H shares held by Century Bright Company expired on 23 January 2021. For details, please refer to the announcement "End of the Lock-up Period for Shares issued under the Non-public Placement" disclosed on www.hkexnews.hk on 18 January 2021.

C. The effects of changes in Share Capital of Ordinary Shares on the financial indicators of the Company such as earnings per share and net assets per share, from reporting period to the date of interim report disclosure

Applicable Not applicable

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

Applicable Not applicable

(2) Changes in Shares with Selling Restrictions

Applicable Not applicable

Name of shareholder	Number of shares with selling restriction at the beginning of the reporting period (shares)	Number of relieve shares with selling restriction during the reporting period (shares)	The increase in number of shares with selling restriction during the reporting period (shares)	Number of shares with selling restriction at the end of the reporting period (shares)	Reasons for selling restriction	Release Date of selling restrictions
China Petrochemical Corporation	1,503,568,702	1,503,568,702	0	0	Non-public issued and can't be transferred in 36 months from 25 January 2018	25 January 2021
Changjiang Pension Insurance Co., Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension Management Fund¹	23,148,854	23,148,854	0	0	Non-public issued and can't be transferred in 36 months from 25 January 2018	25 January 2021
Total	1,526,717,556	1,526,717,556	0	0	-	-

Note:

1. Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme of the Company.

Section VII Changes in Ordinary Shares and Information on Shareholders

2. Information of Shareholders

(1) Number of shareholders

As at 30 June 2021, the number of shareholders of the Company was 116,013, including 115,676 shareholders of A shares and 337 registered holders of H shares.

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

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Changes of shareholdings ¹ (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation ²	State-owned legal person	0	10,727,896,364	56.51	0	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") ³	Overseas legal person	87,000	5,402,059,694	28.46	0	0
CITIC Corporation Limited ⁴	State-owned legal person	189,843,400	845,156,600	4.45	0	0
Hong Kong Securities Clearing Company Limited ⁵	Others	56,379,116	76,737,484	0.40	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
China Minsheng Bank Corp., Ltd. Hohhot Branch	Domestic non-state legal person	-9,466,600	30,679,299	0.16	0	0
Changjiang Pension Insurance Co.,Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension Management Fund ⁶	Others	0	23,148,854	0.12	0	0
Shanghai Tongneng Investment Holdings Co., Ltd.	Others	0	11,516,200	0.06	0	0
Li Feng	Domestic natural person	10,406,700	10,406,700	0.05	0	0

Section VII Changes in Ordinary Shares and Information on Shareholders

Shareholdings of top ten shareholders of shares without selling restrictions	Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
Name of shareholders		
China Petrochemical Corporation	10,727,896,364	A Share
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")	5,402,059,694	H Share
CITIC Corporation Limited	845,156,600	A Share
Hong Kong Securities Clearing Company Limited	76,737,484	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
China Minsheng Bank Corp., Ltd. Hohhot Branch	30,679,299	A Share
Changjiang Pension Insurance Co.,Ltd.-Changjiang Shengshi Huazhang No.2 Community Pension Management Fund	23,148,854	A Share
Shanghai Tongneng Investment Holdings Co., Ltd.	11,516,200	A Share
Li Feng	10,406,700	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders	Except that Donghai Fund-Xingye Bank-Huaxin Trust – Huizhi Investment No.49 Trust Plan and Donghai Fund-Xingye Bank-Huaxin Trust – Huizhi Investment No.47 Trust Plan belong to Donghai Fund Management Limited Company, the Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders.	

Note:

- As compared with the number of shares held as of 31 December 2020.
- 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 of the Company.
- 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.
- CITIC Corporation Limited reduced 189,843,400 shares in aggregate of 1% of the total number of shares of the Company by way of centralised bidding from 22 April 2021 to 15 June 2021. CITIC Corporation Limited ceased to be a shareholder holding more than 5% of the total shares of the Company.
- Hong Kong Securities Clearing Company Limited is a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited, acts as a nominal holder to hold A shares of the Company in the Shanghai Stock Exchange on behalf of the investors of the Hong Kong Stock Exchange.
- Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

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

To the Directors' knowledge, as at 30 June 2021, the following persons (other than director, supervisor or senior management of the Company) had an interest or short positions in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

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

Note:

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

Save as disclosed above, as at 30 June 2021, as far as known to the Directors, no other person (other than director, supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which would as recorded in the register kept by the Company under Section 336 of the SFO.

Section VII Changes in Ordinary Shares and Information on Shareholders

4. The Change of equity interests in the Company of the directors, supervisors and senior management

(1) Shareholdings of the current Directors, Supervisors and Senior Management and those resigned during the reporting period

The actual number of shares in the issued share capital of the Company held by the Directors, Supervisors and Senior Management as at the end of the reporting period are as follows:

Name	Title	Number of shares held at the beginning of the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Changes during the reporting period	Reason for change
Chen Xikun	Chairman, Secretary of Party Committee	0	0	0	No Change
Yuan Jianqiang	Director, General Manager	0	0	0	No Change
Lu Baoping	Director	0	0	0	No Change
Fan Zhonghai	Director	0	0	0	No Change
Wei Ran	Director	0	0	0	No Change
Zhou Meiyun	Director	0	0	0	No Change
Chen Weidong	Independent Non-Executive Director	0	0	0	No Change
Dong Xiucheng	Independent Non-Executive Director	0	0	0	No Change
Zheng Weijun	Independent Non-Executive Director	0	0	0	No Change
Ma Xiang	Chairman of Supervisory Committee	0	0	0	No Change
Du Jiangbo	Supervisor	0	0	0	No Change
Zhang Jianbo	Supervisor	0	0	0	No Change
Zhang Qin	Supervisor	0	0	0	No Change
Sun Yongzhuang	Employee representative supervisor	0	0	0	No Change
Zhang Bailing	Employee representative supervisor	0	0	0	No Change
Du Guangyi	Employee representative supervisor	0	0	0	No Change
Zhang Yongjie	Deputy General Manager	0	0	0	No Change
Zuo Yaojiu	Deputy General Manager	0	0	0	No Change
Zhang Jinhong	Deputy General Manager	0	0	0	No Change
Zhang Jiankuo	Deputy General Manager	0	0	0	No Change
Cheng Zhongyi	Chief Financial Manager, Secretary to the Board	0	0	0	No Change
Sun Bingxiang	Deputy General Manager	50,300 A Shares	50,300 A Shares	0	No Change
Jiang Bo	Former Independent Non-Executive Director	0	0	0	No Change
Zhai Yalin	Former supervisor	0	0	0	No Change
Zhang Hongshan	Former employee representative supervisor	0	0	0	No Change
Xiao Yi	Former Chief Financial Officer	0	0	0	No Change
Li Honghai	Former secretary to the Board	0	0	0	No Change

Directors', Supervisors' and Senior Management's rights to acquire interest or short position in shares or debentures

As at 30 June 2021, the Company's deputy general manager Mr. Sun Bingxiang as a beneficial owner held 50,300 A shares of the Company, representing 0.00037% of the A shares in issue of the Company and 0.00026% of shares in issue of the Company. Save as disclosed above and the Share Option Scheme and Qi Xin Gong Ying Scheme disclosed below, none of the Directors, Supervisors or other senior management of the Company had any interest or short position in any share, underlying share or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, Supervisors and Senior Management of the Company are taken or deemed to have under such provisions of the SFO), or as recorded in the registry by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

Section VII Changes in Ordinary Shares and Information on Shareholders

(2) Share Options Granted to Directors, Supervisors and Senior Management

Unit: Share

Name	Position	Number of share options held at the beginning of the reporting period	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Number of share options by the end of reporting period
Sun Yongzhuang	Employee representative supervisor	60,000	0	0	0	60,000
Zhang Yongjie	Deputy General Manager	76,000	0	0	0	76,000
Zuo Yaojiu	Deputy General Manager	72,000	0	0	0	72,000
Zhang Jinhong	Deputy General Manager	72,000	0	0	0	72,000
Zhang Jiankuo	Deputy General Manager	40,000	0	0	0	40,000
Li Honghai	Former Secretary to the Board	56,000	0	0	0	56,000
Total	/	376,000	0	0	0	376,000

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

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to 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 the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB60.65 million in total. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period. On 25 January 2021, the lock-up period of 23,148,854 A shares with selling restrictions held by Qi Xin Gong Ying Scheme have ended and were listed for trading.

In Qi Xin Gong Ying Scheme, directors, supervisors and senior management of the Company have subscribed 4.85 million scheme shares in total, accounting for approximately 8.0% of the total scheme shares of Qi Xin Gong Ying Scheme. There are 14 directors, supervisors and senior management of the Company in total who have subscribed for Qi Xin Gong Ying Scheme, the subscription by the directors, supervisors and senior management of the Company under Qi Xin Gong Ying Scheme are as follows:

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

5. Information on changes of controlling shareholder and the de facto controller

There was no change in the controlling shareholder or the de facto controller of the Company during the reporting period.

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

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

Section VIII Financial Reports

Prepared in accordance with PRC Accounting Standards for Business Enterprises

CONSOLIDATED BALANCE SHEET

As at June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Assets:	Note 5	Balance as at June 30, 2021	Balance as at December 31, 2020
Current assets:			
Monetary funds	5.1	1,502,164	1,551,458
Balances with clearing companies			
Loans to banks and other financial institutions			
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	5.2	7,857,774	9,358,385
Receivables financing	5.3	1,204,205	1,323,425
Advances to suppliers	5.4	439,728	441,654
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance contract reserve receivable			
Other receivables	5.5	2,876,495	2,464,362
Financial assets purchased under resale agreements			
Inventories	5.6	1,315,159	1,033,678
Contract assets	5.7	17,418,054	11,610,888
Assets held for sale			
Non-current assets maturing within one year			
Other current assets	5.8	2,113,873	1,995,808
Total current assets		34,727,452	29,779,658
Non-current assets:			
Disbursement of loans and advances			
Creditor's right investment			
Other creditor's right investment			
Long-term receivables			
Long-term equity investments	5.9	46,196	43,046
Investment in other equity instruments	5.10	22,835	22,835
Other non-current financial assets			
Investment properties			
Fixed assets	5.11	21,651,937	22,939,838
Construction in progress	5.12	264,455	284,292
Productive biological assets			
Oil and gas assets			
Right-of-use assets	5.13	1,169,624	1,265,583
Intangible assets	5.14	452,540	504,966
Development expenditures			
Goodwill			
Long-term deferred expenses	5.15	5,249,108	5,855,143
Deferred tax assets	5.16	395,566	395,834
Other non-current assets			
Total non-current assets		29,252,261	31,311,537
Total assets		63,979,713	61,091,195

Section VIII Financial Reports

CONSOLIDATED BALANCE SHEET (continued)

As at June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Liabilities and owners' equity	Note 5	Balance as at June 30, 2021	Balance as at December 31, 2020
Current liabilities:			
Short-term loans	5.17	19,856,969	19,370,520
Borrowings from central bank			
Loans from banks and other financial institutions			
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable	5.18	9,776,006	6,305,228
Accounts payable	5.19	19,487,647	20,497,509
Advances from customers			
Contract liabilities	5.20	1,964,150	3,024,461
Funds from sales of financial assets under repurchase agreement			
Absorption of deposits and interbank deposit			
Receivings from vicariously traded securities			
Receivings from vicariously sold securities			
Employee benefits payable	5.21	486,711	498,071
Taxes and surcharges payable	5.22	444,919	724,389
Other payables	5.23	2,366,480	1,675,104
Handling fee and commission payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year	5.24	396,399	356,747
Other current liabilities			
Total current liabilities		54,779,281	52,452,029
Non-current liabilities:			
Reserves for insurance contracts			
Long-term loans	5.25	574,949	580,716
Bonds payable			
Including: preferred stock			
Perpetual bonds			
Lease liabilities	5.26	766,717	898,469
Long-term payables	5.27	52,746	26,812
Long-term employee compensation payable			
Provisions	5.28	364,584	382,646
Deferred income	5.29	13,618	14,186
Deferred tax liabilities	5.16	10,696	13,471
Other non-current liabilities			
Total non-current liabilities		1,783,310	1,916,300
Total liabilities		56,562,591	54,368,329
Owners' equity:			
Share capital	5.30	18,984,340	18,984,340
Other equity instruments			
Including: preferred stock			
Perpetual bonds			
Capital reserves	5.31	11,717,773	11,717,773
Less: treasury stock			
Other comprehensive income	5.32	-2,014	-2,014
Special reserves	5.33	584,211	258,523
Surplus reserves	5.34	200,383	200,383
General risk reserves			
Retained earnings	5.35	-24,067,571	-24,436,139
Total equity attributable to owners of the parent company		7,417,122	6,722,866
Non-controlling interests			
Total owners' equity		7,417,122	6,722,866
Total liabilities and owners' equity		63,979,713	61,091,195

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

PARENT COMPANY'S BALANCE SHEET

As at June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Assets:	Note 16	Balance as at June 30, 2021	Balance as at December 31, 2020
Current assets:			
Monetary funds		146	159
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable			
Receivables financing			
Advances to suppliers			
Other receivables	16.1	4,382,892	4,396,431
Inventories			
Contract assets			
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		185	167
Total current assets		4,383,223	4,396,757
Non-current assets:			
Creditor's right investment			
Other creditor's right investment			
Long-term receivables			
Long-term equity investments		27,891,662	27,891,662
Investment in other equity instruments			
Other non-current financial assets			
Investment properties			
Fixed assets			
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets			
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred tax assets			
Other non-current assets			
Total non-current assets		27,891,662	27,891,662
Total assets		32,274,885	32,288,419

Section VIII Financial Reports

PARENT COMPANY'S BALANCE SHEET (continued)

As at June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Liabilities and owners' equity	Note 16	Balance as at June 30, 2021	Balance as at December 31, 2020
Current liabilities:			
Short-term borrowings			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable		11,800	11,800
Advances from customers			
Contract liabilities			
Employee compensation payable			
Taxes and surcharges payable		26,721	26,661
Other payables		580	13,306
Liabilities held for sale			
Non-current liabilities maturing within one year			
Other current liabilities			
Total current liabilities		39,101	51,767
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: preferred stock			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee compensation payable			
Provisions			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities			
Total liabilities		39,101	51,767
Owners' equity:			
Share capital		18,984,340	18,984,340
Other equity instruments			
Including: preferred stock			
Perpetual bonds			
Capital reserves		14,568,016	14,568,016
Less: treasury stock			
Other comprehensive income			
Special reserves			
Surplus reserves		200,383	200,383
Undistributed profits		-1,516,955	-1,516,087
Total owners' equity		32,235,784	32,236,652
Total liabilities and owners' equity		32,274,885	32,288,419

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

CONSOLIDATED INCOME STATEMENT

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
I. Total operating revenue		31,570,061	31,432,437
Including: operating revenue	5.36	31,570,061	31,432,437
Interest income			
Premiums earned			
Revenue from handling charges and commissions			
II. Total operating costs		31,283,287	31,046,349
Including: operating costs	5.36	29,497,628	28,654,955
Interest expenses			
Expenses from handling charges and commissions			
Surrender value			
Net amount of compensation payout			
Net provisions for policy reserves			
Policy dividend payment			
Reinsurance costs			
Taxes and surcharges	5.37	105,875	104,874
Selling and distribution expenses	5.38	34,037	28,878
General and administrative expenses	5.39	888,531	1,150,692
Research and development expenses	5.40	349,034	619,803
Financial expenses	5.41	408,182	487,147
Including: interest expenses	5.41	350,692	476,850
Interest income	5.41	24,620	19,405
Plus: other income	5.42	78,231	102,783
Investment income ("-" for losses)	5.43	19,295	40,318
Including: income from investment in associates and joint ventures	5.43	3,337	3,020
Gains from derecognition of financial assets measured at amortized cost			
Gains from foreign exchange ("-" for losses)			
Gains from net exposure hedging ("-" for losses)			
Gains from changes in fair value ("-" for losses)			
Losses from credit impairment ("-" for losses)	5.44	58,095	-72,144
Losses from assets impairment ("-" for losses)	5.45	-17,453	-6,310
Gains from disposal of assets ("-" for losses)	5.46	5,500	3,839
III. Operating profits ("-" for losses)		430,442	454,574
Plus: non-operating income	5.47	35,768	18,226
Less: non-operating expenses	5.48	15,694	19,930
IV. Total profits ("-" for total losses)		450,516	452,870
Less: income tax expenses	5.49	81,958	154,593
V. Net profit ("-" for net loss)		368,558	298,277
(I) Classified by operating sustainability			
1. Net profit from continued operation ("-" for net loss)		368,558	298,277
2. Net profit from discontinued operation ("-" for net loss)			
(II) Classified by ownership			
1. Net profit attributable to shareholders of the parent company ("-" for net loss)		368,558	298,277
2. Minority interest income ("-" for net loss)			

Section VIII Financial Reports

CONSOLIDATED INCOME STATEMENT (continued)

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
VI. Other comprehensive income, net of tax		10	
Other comprehensive income, net of tax, attributable to owners of the parent company		10	
(I) Other comprehensive income that cannot be reclassified into profit or loss		10	
1. Changes in re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investment		10	
4. Changes in the fair value of the Company's own credit risk			
(II) Other comprehensive income that will be reclassified into profit or loss			
1. Other comprehensive income that can be transferred to profit or loss under the equity method			
2. Changes in fair value of other creditor's right investment			
3. Amount of financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other creditor's right investment			
5. Cash flow hedging reserve			
6. Translation differences of foreign currency financial statements			
7. Others			
Other comprehensive income, net of tax, attributable to minority shareholders			
VII. Total comprehensive income		368,568	298,277
Total comprehensive income attributable to owners of the parent company		368,568	298,277
Total comprehensive income attributable to minority shareholders			
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/Share)		0.019	0.016
(II) Diluted earnings per share (RMB/Share)		0.019	0.016

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

PARENT COMPANY'S INCOME STATEMENT

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note	Current period	Prior period
I. Operating revenue			
Less: operating costs			
Taxes and surcharges			
Selling and distribution expenses			
General and administrative expenses		866	15,053
Research and development expenses			
Financial expenses		2	1
Including: interest expenses			
Interest income			
Plus: other income			
Investment income ("-" for losses)			
Including: income from investment in associates and joint ventures			
Gains from derecognition of financial assets measured at amortized cost			
Gains from net exposure hedging ("-" for losses)			
Gains from changes in fair value ("-" for losses)			
Losses from credit impairment ("-" for losses)			
Losses from assets impairment ("-" for losses)			
Gains from disposal of assets ("-" for losses)			
II. Operating profits ("-" for losses)		-868	-15,054
Plus: non-operating income			
Less: non-operating expenses			
III. Total profits ("-" for total losses)		-868	-15,054
Less: income tax expenses			
IV. Net profit ("-" for net loss)		-868	-15,054
(I) Net profit from continued operation ("-" for net loss)			
(II) Net profit from discontinued operation ("-" for net loss)			
V. Other comprehensive income, net of tax			
(I) Other comprehensive income that cannot be reclassified into profit or loss			
1. Changes in re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investment			
4. Changes in the fair value of the Company's own credit risk			
(II) Other comprehensive income that will be reclassified into profit or loss			
1. Other comprehensive income that can be transferred to profit or loss under the equity method			
2. Changes in fair value of other creditor's right investment			
3. Amount of financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other creditor's right investment			
5. Cash flow hedging reserve			
6. Translation differences of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		-868	-15,054
VII. Earnings per share:			
(I) Basic earnings per share (RMB/Share)			
(II) Diluted earnings per share (RMB/Share)			

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		26,379,564	24,396,686
Net increase in deposits from customers and deposits in banks and other financial institutions			
Net increase in borrowings from central bank			
Net increase in loans from other financial institutions			
Cash received from receiving insurance premiums of original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Cash received from interest, handling charges and commissions			
Net increase in loans from banks and other financial institutions			
Net capital increase in repurchase business			
Net cash from receivings from vicariously traded securities			
Refund of taxes and surcharges		61,071	123,463
Cash received from other operating activities	5.50	746,831	1,188,900
Sub-total of cash inflows from operating activities		27,187,466	25,709,049
Cash paid for purchase of goods and receipt of services		18,391,038	16,720,151
Net increase in loans and advances to customers			
Net increase in deposits in central bank, other banks and financial institutions			
Cash paid for original insurance contract claims			
Net increase in loans to banks and other financial institutions			
Cash paid for interest, handling charges and commissions			
Cash paid for policy dividends			
Cash paid to and on behalf of employees		6,990,261	6,375,609
Various taxes and surcharges paid		570,397	581,865
Cash paid for other operating activities	5.50	876,909	1,750,166
Sub-total of cash outflows from operating activities		26,828,605	25,427,791
Net cash flows from operating activities	5.51	358,861	281,258
II. Cash flows from investing activities			
Cash received from disinvestment		10	
Cash received from returns on investments		690	1,646
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		17,184	17,152
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities		17,884	18,798
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		408,516	458,057
Cash paid for investments			8
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities		408,516	458,065
Net cash flows from investing activities		-390,632	-439,267

Section VIII Financial Reports

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
III. Cash flows from financing activities			
Cash received from absorption of investments			
Including: cash received by subsidiaries from investment by minority shareholders			
Cash received from borrowings		29,118,868	26,840,429
Cash received from other financing activities			
Sub-total of cash inflows from financing activities		29,118,868	26,840,429
Cash paid for debt repayments		28,611,789	25,660,652
Cash paid for distribution of dividends and profits or payment of interest		299,675	456,468
Including: dividends and profits paid to minority shareholders by subsidiaries			
Cash paid for other financing activities	5.50	198,137	199,755
Sub-total of cash outflows from financing activities		29,109,601	26,316,875
Net cash flows from financing activities		9,267	523,554
IV. Effect of fluctuation in exchange rate on cash and cash equivalents			
		-6,704	-18,107
V. Net increase in cash and cash equivalents	5.51	-29,208	347,438
Plus: beginning balance of cash and cash equivalents		1,523,352	1,650,732
VI. Ending balance of cash and cash equivalents	5.51	1,494,144	1,998,170

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

PARENT COMPANY'S STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Note 16	Current period	Prior period
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services			
Refund of taxes and surcharges			
Cash received from other operating activities			301.00
Sub-total of cash inflows from operating activities			301.00
Cash paid for purchase of goods and receipt of services			
Cash paid to and on behalf of employees			
Various taxes and surcharges paid			
Cash paid for other operating activities		13.00	307.00
Sub-total of cash outflows from operating activities		13.00	307.00
Net cash flows from operating activities		-13.00	-6.00
II. Cash flows from investing activities			
Cash received from disinvestment			
Cash received from returns on investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities			
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets			
Cash paid for investments			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities			
Net cash flows from investing activities			
III. Cash flows from financing activities			
Cash received from absorption of investments			
Cash received from borrowings			
Cash received from other financing activities			
Sub-total of cash inflows from financing activities			
Cash paid for debt repayments			
Cash paid for distribution of dividends and profits or payment of interest			
Cash paid for other financing activities			
Sub-total of cash outflows from financing activities			
Net cash flows from financing activities			
IV. Effect of fluctuation in exchange rate on cash and cash equivalents			
V. Net increase in cash and cash equivalents			
		-13.00	-6.00
Plus: beginning balance of cash and cash equivalents		159.00	170.00
VI. Ending balance of cash and cash equivalents		146.00	164.00

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Current period														
	Equity attributable to owners of the parent company													Minority equity	Total owners' equity
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Sub-total			
	Preferred stock	Perpetual bonds	Others												
I. Balance at the end of the last year	18,984,340				11,717,773		-2,014	258,523	200,383		-24,436,139	6,722,866		6,722,866	
Plus: changes in accounting policies															
Correction of accounting errors in prior periods															
Business combination under common control															
Others															
II. Balance at the beginning of the current year	18,984,340				11,717,773		-2,014	258,523	200,383		-24,436,139	6,722,866		6,722,866	
III. Increases/decreases in current year ("+" for increases)								325,688			368,568	694,256		694,256	
(I) Total comprehensive income							10				368,568	368,568		368,568	
(II) Capital contributed or reduced by owners															
1. Common stock contributed by owners															
2. Capital invested by the holders of other equity instruments															
3. Amounts of share-based payments recognized in owners' equity															
4. Others															
(III) Profit distribution															
1. Withdrawal of surplus reserves															
2. Withdrawal of general risk reserves															
3. Profit distributed to owners (or shareholders)															
4. Others															
(IV) Internal carry-forward of owners' equity							-10				10				
1. Conversion of capital reserves into paid-in capital (or share capital)															
2. Conversion of surplus reserves into paid-in capital (or share capital)															
3. Surplus reserves offsetting losses															
4. Carry-forward of changes in the defined benefit plan for retained earnings															
5. Carry-forward of other comprehensive income for retained earnings							-10				10				
6. Others															
(V) Special reserves								325,688				325,688		325,688	
1. Amount withdrawn in the current period								568,834				568,834		568,834	
2. Amount used in the current period								243,146				243,146		243,146	
(VI) Others															
IV. Balance at the end of the current period	18,984,340				11,717,773		-2,014	584,211	200,383		-24,067,571	7,417,122		7,417,122	

Section VIII Financial Reports

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (Continued)

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Prior period														Minority equity	Total owners' equity
	Equity attributable to owners of the parent company															
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Sub-total				
	Preferred stock	Perpetual bonds	Others													
I. Balance at the end of the last year	18,984,340				11,714,581		6,447	373,238	200,383		-24,515,117	6,763,872		6,763,872		
Plus: changes in accounting policies																
Correction of accounting errors in prior periods																
Business combination under common control																
Others																
II. Balance at the beginning of the current year	18,984,340				11,714,581		6,447	373,238	200,383		-24,515,117	6,763,872		6,763,872		
III. Increases/decreases in current year ("+" for increases)					2,299			310,278			298,277	610,854		610,854		
(I) Total comprehensive income											298,277	298,277		298,277		
(II) Capital contributed or reduced by owners					2,299							2,299		2,299		
1. Common stock contributed by owners																
2. Capital invested by the holders of other equity instruments																
3. Amounts of share-based payments recognized in owners' equity					2,299							2,299		2,299		
4. Others																
(III) Profit distribution																
1. Withdrawal of surplus reserves																
2. Withdrawal of general risk reserves																
3. Profit distributed to owners (or shareholders)																
4. Others																
(IV) Internal carry-forward of owners' equity																
1. Conversion of capital reserves into paid-in capital (or share capital)																
2. Conversion of surplus reserves into paid-in capital (or share capital)																
3. Surplus reserves offsetting losses																
4. Carry-forward of changes in the defined benefit plan for retained earnings																
5. Carry-forward of other comprehensive income for retained earnings																
6. Others																
(V) Special reserves								310,278				310,278		310,278		
1. Amount withdrawn in the current period								551,604				551,604		551,604		
2. Amount used in the current period								241,326				241,326		241,326		
(VI) Others																
IV. Balance at the end of the current period	18,984,340				11,716,880		6,447	683,516	200,383		-24,216,840	7,374,726		7,374,726		

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

Section VIII Financial Reports

PARENT COMPANY'S STATEMENT OF CHANGES IN OWNERS' EQUITY

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Current period										
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preferred stock	Perpetual bonds	Others							
I. Balance at the end of the last year	18,984,340				14,568,016				200,383	-1,516,087	32,236,652
Plus: changes in accounting policies											
Correction of accounting errors in prior periods											
Others											
II. Balance at the beginning of the current year	18,984,340				14,568,016				200,383	-1,516,087	32,236,652
III. Increases/decreases in current year ("-" for decreases)										-868	-868
(I) Total comprehensive income										-868	-868
(II) Capital contributed or reduced by owners											
1. Common stock contributed by owners											
2. Capital invested by the holders of other equity instruments											
3. Amounts of share-based payments recognized in owners' equity											
4. Others											
(III) Profit distribution											
1. Withdrawal of surplus reserves											
2. Profit distributed to owners (or shareholders)											
3. Others											
(IV) Internal carry-forward of owners' equity											
1. Conversion of capital reserves into paid-in capital (or share capital)											
2. Conversion of surplus reserves into paid-in capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Carry-forward of changes in the defined benefit plan for retained earnings											
5. Carry-forward of other comprehensive income for retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in the current period											
2. Amount used in the current period											
(VI) Others											
IV. Balance at the end of the current period	18,984,340				14,568,016				200,383	-1,516,955	32,235,784

Section VIII Financial Reports

PARENT COMPANY'S STATEMENT OF CHANGES IN OWNERS' EQUITY (Continued)

For the Six Months Ended June 30, 2021

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB thousand unless otherwise stated)

Item	Prior period										
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
	Preferred stock	Perpetual bonds	Others								
I. Balance at the end of the last year	18,984,340				14,564,824				200,383	-1,496,212	32,253,335
Plus: changes in accounting policies											
Correction of accounting errors in prior periods											
Others											
II. Balance at the beginning of the current year	18,984,340				14,564,824				200,383	-1,496,212	32,253,335
III. Increases/decreases in current year ("+" for increases)					2,299					-15,054	-12,755
(I) Total comprehensive income										-15,054	-15,054
(II) Capital contributed or reduced by owners					2,299						2,299
1. Common stock contributed by owners											
2. Capital invested by the holders of other equity instruments											
3. Amounts of share-based payments recognized in owners' equity					2,299						2,299
4. Others											
(III) Profit distribution											
1. Withdrawal of surplus reserves											
2. Profit distributed to owners (or shareholders)											
3. Others											
(IV) Internal carry-forward of owners' equity											
1. Conversion of capital reserves into paid-in capital (or share capital)											
2. Conversion of surplus reserves into paid-in capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Carry-forward of changes in the defined benefit plan for retained earnings											
5. Carry-forward of other comprehensive income for retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in the current period											
2. Amount used in the current period											
(VI) Others											
IV. Balance at the end of the current period	18,984,340				14,567,123				200,383	-1,511,266	32,240,580

The accompanying notes to the financial statements form an integral part of the financial statements.

Chairman :
Chen Xikun

General Manager :
Yuan Jiangqiang

Chief Financial Officer :
Cheng Zhangyi

Manager of accounting department :
Pei Defang

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY PROFILE

1.1 Overview

Sinopec Oilfield Service Corporation (hereinafter referred to as the Company, including its subsidiaries referred to as the Group), formerly known as Sinopec Yizheng Chemical Fibre Company Limited, which was registered in the People's Republic of China ("PRC") and exclusively established by Yihua Group Corporation (hereinafter referred to as "Yihua") on December 31, 1993. The Company is headquartered at No. 22 Chaoyangmen North Street, Chaoyang District, Beijing.

The Company issued 1 billion H shares in March 1994, 200 million A shares in January 1995 and a further 400 million new H shares in April 1995. The Company's H shares and new H shares were listed and commenced trading on the HKSE on March 29, 1994 and April 26, 1995 respectively. The Company's A shares were listed and commenced trading on the SSE on April 11, 1995.

Pursuant to the directives on the reorganization of certain companies involving the Company and Yihua as issued by the State Council and other government authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited ("CEUPEC") became the largest shareholder of the Company on November 19, 1997, holding the 1,680,000,000 state-owned legal person shares (representing 42% of the Company's share capital issued) previously held by Yihua. CITIC Group Corporation ("CITIC", formerly "CITIC Group") continues to hold 720,000,000 A shares (representing 18% of the Company's share capital issued) it held prior to the reorganization, and the balance of 40% remains in public hands in the form of A shares and H shares, in total 1,600,000,000 shares.

Following the State Council's approval of the reorganization of China Petrochemical Corporation (hereinafter referred to as "Sinopec Group") on July 21, 1998, CEUPEC joined Sinopec Group. As a result of the reorganization, Yihua replaced CEUPEC as the holder of the 42% of the Company's share capital issued.

The reorganization of Sinopec Group was completed on February 25, 2000 and Sinopec Group set up a joint stock limited company, China Petroleum & Chemical Corporation (hereinafter referred to as "Sinopec Corp."), in the PRC. From that date, the 1,680,000,000 state-owned legal person shares (representing 42% of share capital issued by the Company), which were previously held by Yihua, were transferred to Sinopec Corp. and Sinopec Corp. became the largest shareholder of the Company.

On December 27, 2011, CITIC established CITIC Limited in PRC and a restructuring agreement was signed. Whereby 720,000,000 of the Company's non-public shares held by CITIC were transferred to CITIC Limited as part of its capital contributions on February 25, 2013 and CITIC Limited thus holds 18% of the Company's share capital.

Pursuant to the *Official Reply on A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited* (GZCQ [2013] No. 442) issued by the State-owned Assets Supervision and Administration Commission ("SASAC") and the *Official Reply of the Ministry of Finance on A Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited* (CJH [2013] No. 61) issued by Ministry of Finance of the PRC, the Company implemented the A Share Reform in 2013, under which all non-circulating shareholders of the Company paid 5 shares for each 10 shares to the circulating A shares holders who were registered on August 16, 2013 (the registration date for share change, as agreed in the Share Reform Scheme). As a result, 100,000,000 shares were paid in total. After the payment, the shares held by Sinopec Corp. and CITIC Limited in the Company decreased from 42% and 18% to 40.25% and 17.25%, respectively. From August 22, 2013, the circulating right was granted to all enterprise legal person shares of the Company in the Shanghai Stock Exchange. However, in accordance with the agreed restricted conditions, 1,035,000,000 enterprise legal person shares held by CITIC Limited, the original non-circulating shareholder, were available for trading as at August 22, 2016. Pursuant to the resolutions of general meeting of shareholders of the Company, based on the total share capitals of H shares and A shares that were registered on November 13, 2013 and November 20, 2013, respectively, the Company added 5 shares per 10 shares from capital reserves, by which 700,000,000 H shares and 1,300,000,000 A shares were newly added and such transaction was completed on November 22, 2013.

Pursuant to the Official Reply on Matters Concerning Assets Restructuring and Supporting Financing of Sinopec Yizheng Chemical Fibre Company Limited (GZCQ [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and the Official Reply on the Material Asset Restructuring of Sinopec Yizheng Chemical Fibre Company Limited and the Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Supporting Fund Raising (ZJXK [2014] No.1370) issued by China Securities Regulatory Commission, the Company implemented the material asset restructuring in 2014, under which the Company sold all of its assets and liabilities (hereinafter referred to as the "Assets Sold") to repurchase and cancel the Company's equity held by Sinopec Corp., while it issued shares to Sinopec Group in order to acquire 100% of equity of Sinopec Oilfield Service Limited held by Sinopec Group (hereinafter referred to as the "Assets Acquired" or "SOSC", hereinafter collectively referred to as the "Material Asset Restructuring"). The Company executed the Confirmation on Delivery of Assets Sold with Sinopec Corp. and the Confirmation on Delivery of Assets Acquired with Sinopec Group on December 22, 2014, by which the Company delivered the Assets Sold to Sinopec Corp. and Sinopec Group delivered the Assets Acquired to the Company. On December 30, 2014, the Company repurchased 2,415,000,000 A shares from Sinopec Corp. for cancellation, and issued 9,224,327,662 A shares to Sinopec Group as consideration. On February 13, 2015, the Company issued 1,333,333,333 A Shares to seven specific investors such as Darry Asset Management (Hangzhou) Co., Ltd.

1 COMPANY PROFILE (Continued)

1.1 Overview (Continued)

As approved by the Official Reply on Approving Sinopec Oilfield Service Corporation to Make the Non-public Offering of Shares (ZJXK [2018] No. 142) issued by the China Securities Regulatory Commission, the Company made the non-public offering of 1,526,717,556 A shares to China Petrochemical Corporation and Changjiang Pension Insurance Co., Ltd. – Changjiang Shengshihuazhang Community Pension Management Product Portfolio 2 at a price of RMB2.62 per share; as approved by the Official Reply on Approving Sinopec Oilfield Service Corporation to Additionally Issue Overseas-listed Foreign Shares (ZJXK [2018] No. 130) issued by the China Securities Regulatory Commission, the Company made the non-public offering of 3,314,961,482 H shares to Sinopec Century Bright Capital Investment Limited and China Structural Reform Fund.

The business scope of the Group includes rendering of petroleum engineering technology services, such as geophysical exploration, drilling, logging and special downhole operations, for the production of onshore and offshore oil and natural gas, and contracting of domestic and overseas petroleum engineering, natural gas engineering, chemical engineering, bridge engineering, road engineering, housing construction engineering, water resources and hydropower engineering, municipal utility engineering, municipal public works, and industrial installation engineering.

The financial statements and the notes to the financial statements have been approved for issue by the 5th meeting of the 10th Board of Directors of the Company on August 25, 2021.

1.2 Scope of the consolidated financial statement

The consolidated financial statements of the Group cover the Company and its subsidiaries, see “Note 6 Changes in the scope of consolidation” and “Note 7 Equities in other entities” for details.

2 BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

2.1 Basis of preparation

The Company prepares financial statements in accordance with the *Accounting Standards for Business Enterprises – Basic Standards* and all the specific accounting standards, Application Guidance to the Accounting Standards for Business Enterprises, the interpretation of the Accounting Standards for Business Enterprises and other relevant provisions (hereinafter referred to as the “Accounting Standards for Business Enterprises”), as well as the *Rules for the Compilation and Submission of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Requirements for Financial Reports* issued by the China Securities Regulatory Commission.

2.2 Going Concern

The financial statements are prepared based on going concern.

As at June 30, 2021, the Group’s accumulated loss amounted to RMB24,067,571 thousand, the current liabilities exceeded the current assets by about RMB20,051,829 thousand (In 2020, the current liabilities exceeded the current assets by about RMB22,672,371 thousand), and the committed capital expenditure amounted to RMB144,565 thousand. Directors of the Company have made the assessment, by which the sufficient cash flows for operating activities are likely to generate in the future 12 months; as the Group’s borrowings mainly come from Sinopec Group and its subsidiaries and the Group has maintained a long-term and good relationship with them, the Group is able to obtain adequate financial support from Sinopec Group and its subsidiaries. In December 2020, the Company obtained a credit line of RMB16 billion and a equivalence of USD600 million as well as a credit line of RMB10 billion for acceptance bill issuance from subsidiaries of Sinopec Group. Management and those charged with governance believe that these credit lines are sufficient to guarantee the Company’s going-concern ability. The Company will broaden the channel for financing and develop good relationships with all listed and state-owned financial institutions to obtain the more sufficient credit line. As directors of the Group believe that the above-mentioned measures are enough to meet the Group’s fund requirement for debts repayment and commitment, the Group prepared the financial statements for this reporting period on a going concern basis.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Tips for specific accounting policies and accounting estimates:

The following disclosures have covered the specific accounting policies and accounting estimates formulated by the Company according to the characteristics of its actual production and operation. For more details, please see Note 3.14 Fixed assets, Note 3.17 Intangible assets, Note 3.19 Long-term deferred expenses and Note 3.24 Revenue.

3.1 Statement on compliance with the Accounting Standards for Business Enterprises

The financial statements meet the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and truly and completely reflect the consolidated and the parent company's financial position of the Company as at June 30, 2021, and the consolidated and the parent company's operating results and cash flows for the six months ended June 30, 2021.

3.2 Accounting period

The accounting year is from January 1 to December 31 in calendar year.

3.3 Operating cycle

The Company's operating cycle is 12 months.

3.4 Functional currency

RMB is the functional currency of the Company and its domestic subsidiaries. The currency used by the Group is RMB when preparing the financial statements.

The Company's subsidiaries, joint ventures and associates determine their functional currencies by themselves in accordance with the main economic environment in which they operates and convert the accounts into the amount in RMB upon preparation of financial statements.

3.5 Accounting treatment methods for business combinations under common control and not under common control

Business combination under common control: for the assets and liabilities acquired from business combination by the combining party (including the goodwill formed by the acquisition by the final controller of the combinee), they are measured at book value of assets and liabilities in the consolidated financial statements of the final controller on the combination date. The share premium in capital reserves is adjusted according to the difference between the book value of net assets acquired through combination and the book value of consideration paid for the combination (or total par value of shares issued). If the share premium in capital reserves is insufficient to cover the difference, the remaining amount will be charged against retained earnings.

Business combination not under common control: the combination costs are the fair value, on the acquisition date, of any assets acquired, any liabilities incurred or assumed, and any equity securities issued by the acquirer, in exchanges for the right of control over the acquiree. The Company shall recognize the difference of the combination costs in excess of the fair value of the identifiable net assets acquired from the acquiree as goodwill. The Company shall recognize the difference of the combination costs in short of the fair value of the identifiable net assets acquired from the acquiree in the current profit or loss. The identifiable assets, liabilities and contingent liabilities of the acquiree that are obtained by the acquirer from combination and conform to the recognition criteria shall be measured at the fair value on the acquisition date.

Direct relevant expenses arising from the business combination are included in the current profit or loss upon occurrence. Trading expenses on issuing equity securities or debt securities for the business combination are included in the initially recognized amount of the equity securities or the debt securities.

3.6 Preparation method of consolidated financial statements

3.6.1 Scope of consolidation

The scope of consolidation for the consolidated financial statements is determined based on control. The Company and all its subsidiaries are included in the scope of consolidation thereof. Control means the power owned over the investee by the Company which enjoys the variable return through participating in activities related to the investee, and has the ability to affect the return by using the power over the investee.

3.6.2 Consolidation procedures

The Company treats the enterprise group as a whole accounting entity, and prepares the consolidated financial statements with uniform accounting policies, to reflect the overall financial position, operating results and cash flows of the enterprise group. Effect of internal transactions between the Company and subsidiaries and among subsidiaries will be offset. If the internal transaction indicates that the relevant assets have impairment losses, the losses shall be fully recognized. Where accounting policies and accounting periods adopted by subsidiaries are inconsistent with those of the Company, necessary adjustments should be made according to the accounting policies and accounting periods of the Company when preparing the consolidated financial statements.

Subsidiary's owners' equity, net profit or loss and the share of comprehensive income in the current period attributable to minority shareholders will be separately listed under the owners' equity in the consolidated balance sheet, net profit in the consolidated income statement and total comprehensive income. If the current losses shared by the minority shareholder of a subsidiary exceed the balances arising from the shares enjoyed by the minority shareholder in the owners' equity of the subsidiary at the beginning of the period, minority equity will be written down accordingly.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.6 Preparation method of consolidated financial statements (Continued)

3.6.2 Consolidation procedures (Continued)

(1) Increase of subsidiaries or business

During the reporting period, where the Company acquired subsidiaries or business from the business combination under common control, the operating results and cash flows of the newly acquired subsidiaries or business from the beginning of the period for business combination to the end of the reporting period are included in the consolidated financial statements; the beginning amount of the consolidated financial statements and relevant items in the comparative statements are adjusted accordingly, as if the reporting entity after the business combination exists as of the time when the ultimate controller has the control.

Where control can be exercised on the investee under common control for additional investment or other reasons, the equity investments held before the control over the combinee is obtained, the related gains and losses, other comprehensive income as well as other changes in net assets recognized from the later of the date when the original equity is obtained or the date when the combining party and the combined party are under the same control, to the combination date will respectively write down the retained earnings or current profit or loss in the comparative statements.

During the reporting period, the Company has acquired the subsidiaries or business from the business combination not under common control, they are included in the consolidated financial statements based on the fair values of various identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

Where the Company can control the investee not under common control for additional investments, it shall re-measure equity of the acquiree held before the acquisition date at the fair value of such equity on the acquisition date and include the difference between the fair value and book value in the current investment income. Other comprehensive income reclassified into profits or losses later and other changes in the owner's equity under the equity method involved in the equity of acquiree held by the Company before the purchase date shall be transferred to the current investment income for the purchase date.

(2) Disposal of subsidiaries

① General method of disposal

For the remaining equity investments after the disposal, the Company will re-measure the same at the fair value on the date when it loses control over the investee due to disposal of partial equity investment or other reasons. The difference of total amount of the consideration from disposal of equities plus the fair value of the remaining equities less the shares calculated at the original shareholding ratio in net assets and goodwill of the original subsidiary which are continuously calculated as of the acquisition date or combination date is included in the investment income of the period at the loss of control. Other comprehensive incomes reclassified into profits or losses later and other changes in the owner's equity under the equity method, associated with the equity investments of the original subsidiary, are transferred into investment income of the period when control is lost.

② Disposal of subsidiaries by stages

If the control is lost due to disposal of the equity investments in subsidiaries through multiple transactions by stages, and the terms, conditions and economic impact of the transactions related to the disposal of equity investments in subsidiaries meet one or more of the following circumstances, it usually indicates that multiple transactions will be treated a package deal:

- i. These transactions are concluded at the same time or under the consideration of mutual effect;
- ii. These transactions as a whole can reach a complete business result;
- iii. The occurrence of a transaction depends on that of at least one other transactions; and/or
- iv. A single transaction is uneconomical but it is economical when considered together with other transactions.

Where various transactions belong to a package deal, accounting treatment shall be made by the Company on the transactions as a transaction to dispose subsidiaries and lose the control; the difference between each disposal cost and net asset share in the subsidiaries corresponding to each disposal of investments before loss of the control should be recognized as other comprehensive income in the consolidated financial statements and should be transferred into the current profit or loss at the loss of the control.

When these transactions belong to a package of transactions, before the control loses, the partial disposal of equity investments in subsidiaries without losing control shall be subject to the accounting treatments; at the loss of the control, accounting treatment shall be made according to general treatment methods for disposal of subsidiaries.

(3) Purchase of minority interest of subsidiaries

The share premium in the capital reserves under the consolidated balance sheet will be adjusted at the difference between the long-term equity investment acquired by the Company for the purchase of minority interest and the share of net assets calculated constantly from the acquisition date (or combination date) according to the newly increased shareholding ratio. If the share premium thereof is insufficient to offset, retained earnings will be adjusted.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.6 Preparation method of consolidated financial statements (Continued)

3.6.2 Consolidation procedures (Continued)

(4) Partial disposal of equity investments in subsidiaries without losing control

The share premium in the capital reserves under the consolidated balance sheet will be adjusted at the difference between the disposal price and the share of net assets of subsidiaries calculated from the acquisition date or the combination date corresponding to the disposal of long-term equity investments; if the share premium thereof is insufficient, the retained earnings will be adjusted.

3.7 Classification of joint venture arrangements and accounting treatment methods of joint operation

Joint venture arrangements are classified into joint operation and joint venture.

Joint operation refers to joint arrangement where the joint venturer may have assets thereof and undertake liabilities thereof.

The Company confirms the following items relating to the interests share in joint operation:

- (1) Assets it solely holds and its share of jointly-held assets based on its percentage;
- (2) Liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;
- (3) Revenue from sale of output enjoyed by it from the joint operation;
- (4) Revenue from sale of output from the joint operation based on its percentage; and
- (5) Separate costs and costs for the joint operation based on its percentage.

See Note 3.13 Long-term equity investments for the Company's investment in joint ventures accounted for under the equity method.

3.8 Recognition criteria of cash and cash equivalents

Cash refers to the Company's cash on hand and the unrestricted deposits. Cash equivalents refer to short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.9 Foreign currency transactions and translation of foreign currency statements

3.9.1 Foreign currency transactions

Foreign currency transactions shall be translated at the exchange rate similar to the spot exchange rate on the transaction date determined in accordance with the systematic and reasonable method.

The balance of foreign currency monetary items as at the balance sheet date are translated at the spot exchange rate on the balance sheet date and the exchange differences arising therefrom shall be included in the current profit or loss, except those exchange differences arising from the special borrowings of foreign currency related to the acquired and constructed assets qualified for capitalization that will be capitalized at the borrowing expenses.

3.9.2 Translation of foreign currency financial statements

Assets and liabilities in the balance sheet shall be translated at the spot exchange rates on balance sheet date; owners' equity items, except for the item of "undistributed profits", shall be translated at the spot exchange rates on the dates when the transactions occur. Revenue and expense items in the income statement shall be translated at the exchange rate similar to the spot exchange rate on the transaction date determined in accordance with the systematic and reasonable method.

Where the Company disposes of an overseas business, it shall transfer the exchange difference relating to the business disposed of from the owners' equity to the current profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.10 Financial instruments

When the Company becomes a party to a financial instrument, it shall recognize a financial asset or financial liability.

3.10.1 Classification of financial instruments

According to the business model of financial assets and contractual cash flow characteristics of the same, which are subject to the management of the Company, financial assets are classified at the initial recognition as: financial assets measured at the amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through the current profit or loss.

Financial assets not designated to be measured at fair value through the current profit or loss in line with the following conditions will be reclassified into the financial assets measured at amortized cost:

- Where the business model is to collect contractual cash flows; and
- Where the contractual cash flow that is only used for the payment for the principal and the interest based on the outstanding principal amount.

Financial assets that meet both the following conditions and have not been designated as financial assets measured at fair value through current profit or loss will be classified as financial assets (debt instruments) measured at fair value through other comprehensive income:

- The business model aims at gathering the contractual cash flow and selling such financial assets; and
- Where the contractual cash flow that is only used for the payment for the principal and the interest based on the outstanding principal amount.

At the initial recognition, the Company irrevocably designates the non-trading equity instrument investments as financial assets (equity instruments) measured at fair value through the other comprehensive income. The designation is made based on a single investment and the relevant investment is in line with the definition of the equity instrument from the issuer's perspective.

Except for the financial assets measured at amortized cost and the financial assets measured at fair value through other comprehensive income mentioned above, all the remaining financial assets are classified as financial assets measured at fair value through the current profit or loss. At the initial recognition, in order to eliminate or obviously reduce accounting mismatch, the Company may irrevocably designates the financial assets that shall be classified to be measured at amortized cost or measured at fair value through other comprehensive income as financial assets measured at fair value through the current profit or loss.

At the initial recognition, financial liabilities are classified as: financial liabilities measured at fair value through the current profit or loss and financial liabilities measured at the amortized cost.

At the initial recognition, financial liabilities meeting one of the following conditions can be designated as the financial liabilities measured at fair value through the current profit or loss:

- 1) This designation can eliminate or significantly reduce the accounting mismatch.
- 2) Management and performance evaluation of the financial liability portfolio or portfolio of financial assets and financial liabilities on a fair value basis in accordance with the enterprise risk management or investment strategy as set out in a formal written document, and reporting to key officers on this basis within the Company.
- 3) The financial liabilities contain embedded derivative needed to be separated.

The financial guarantee contract other than the financial liability designated to be measured at the fair value through the current profit or loss are measured at initial recognition, but be subsequently measured at the higher of the loss reserves of provisions determined under the expected credit loss model and initially recognized amount less accumulated amortization.

3.10.2 Recognition basis and measurement methods of financial instruments

(1) Financial assets measured at amortized cost

Financial assets measured at amortized cost include notes receivable and accounts receivable, other receivables, long-term receivables, and creditors' investment, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognized amount; exclude accounts receivable with significant financing component and accounts receivable with the financing component not exceeding one year and not considered by the Company, of which initial measurement is made at the contractual transaction price.

During the holding period, the interest calculated under the effective interest method is included in the current profit or loss.

At recovery or disposal, the difference between the purchase price obtained and the book value of such financial assets is included in the current profit or loss.

(2) Financial assets (debt instruments) measured at fair value through other comprehensive income

Financial assets (debt instruments) measured at fair value through other comprehensive income include receivables financing and other creditors' investment, of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognized amount. The subsequent measurement of such financial assets is made at fair value. Changes in fair value are included in other comprehensive income except for interest, impairment losses or gains and exchange gains or losses calculated under the effective interest method.

At derecognition, the accumulated gains or losses previously included in other comprehensive income will be transferred from other comprehensive income to the current profit or loss.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.10 Financial instruments (Continued)

3.10.2 Recognition basis and measurement methods of financial instruments (Continued)

(3) Financial assets (equity instruments) measured at fair value through other comprehensive income

Financial assets (equity instruments) measured at fair value through other comprehensive income include other equity instrument investment, and are initially measured at fair value. Relevant transaction costs are included in the initially recognized amount. The subsequent measurement of such financial assets is made at fair value, and the changes in fair value are included in other comprehensive income. Dividends obtained are included in the current profit or loss.

At derecognition, the accumulated gains or losses previously included in other comprehensive income will be transferred from the other comprehensive income to the retained earnings.

(4) Financial assets measured at fair value through the current profit or loss

Financial assets measured at fair value through the current profit or loss include the financial assets held for trading, derivative financial assets and other non-current financial assets, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the current profit or loss. The subsequent measurement of such financial assets is made at fair value, and changes in fair value are included in the current profit or loss.

(5) Financial liabilities measured at fair value through the current profit or loss

Financial liabilities measured at fair value through the current profit or loss include the financial liabilities held for trading and derivative financial liabilities, of which initial measurement is made at fair value, and relevant transaction costs are included in the current profit or loss. The subsequent measurement of such financial liabilities is made at fair value, and changes in fair value are included in the current profit or loss.

At derecognition, the difference between the book value and the consideration paid of such financial liabilities is included in the current profit or loss.

(6) Financial liabilities measured at amortized cost

Financial liabilities measured at the amortized cost include short-term borrowings, notes payable and accounts payable, other payables, long-term borrowings, bonds payable and long-term payables, of which initial measurement is made at fair value, and related transaction costs are included in the initially recognized amount.

During the holding period, the interest calculated under the effective interest method is included in the current profit or loss.

At derecognition, the difference between the consideration paid and the book value of such financial liabilities is included in the current profit or loss.

3.10.3 Derecognition and transfer of financial assets

Where one of the following conditions is met, the Company shall derecognize financial assets:

- The contractual right of collecting cash flows of financial assets is terminated;
- The financial assets have been transferred, and nearly all of the risks and rewards related to the ownership of the financial assets have been transferred to the transferee;
- The financial assets have been transferred, and the Company does not retain the control over the financial assets through it has neither transferred nor retained nearly all risks and rewards related to the ownership of the financial assets.

In case of transfer of financial assets, the Company shall not derecognize the financial asset if nearly all the risks and rewards associated with the ownership of the financial assets are retained.

When determining whether the transfer of a financial asset meets the above derecognition criteria of financial assets, the Company adopts the principle of substance over form.

The Company divides the transfer of financial assets into overall transfer and partial transfer. Where the entire transfer of financial assets meets the derecognition conditions, the difference of the following two amounts shall be included in the current profit or loss:

- (1) The book value of the transferred financial asset;
- (2) The sum of consideration received from the transfer, and the accumulated change amount of fair value originally recorded in owners' equity (the financial assets involved in the transfer are financial assets (debt instruments) measured at fair value through the other comprehensive income).

Where the partial transfer of a financial asset meets the derecognition criteria, the entire book value of the financial asset transferred shall be allocated between the derecognized part and the recognized part based on the relative fair value, and the difference between the following two amounts shall be included in the current profit or loss:

- (1) The book value of the derecognized part;
- (2) The sum of the consideration for the derecognized part and the amount corresponding to the derecognized part in the accumulated change amount of fair value originally and directly included in owners' equity (where the financial assets transferred are the financial assets (debt instruments) measured at fair value through other comprehensive income).

Where the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognized, and the consideration received shall be recognized as a financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.10 Financial instruments (Continued)

3.10.4 Derecognition of financial liabilities

Where the present obligations of a financial liability are wholly or partly dissolved, such financial liability or part thereof will be derecognized. Where the Company enters into an agreement with a creditor so as to substitute the existing financial liability with any new financial liability, and the new financial liability is substantially different from the existing one in terms of contractual terms, it shall derecognize the existing financial liability, and shall at the same time recognize new financial liability.

Where substantive changes are made to the contract terms of existing financial liabilities in whole or in part, the existing financial liabilities shall be derecognized in whole or in part, and the financial liabilities of which terms have been modified shall be recognized as the new financial liabilities.

Where financial liabilities are derecognized in whole or in part, the difference between the book value of the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit or loss.

Where the Company redeems part of its financial liabilities, it shall, on the redemption date, allocate the entire book value of whole financial liabilities according to the comparative fair value of the part that continues to be recognized and the derecognized part. The difference between the book value allocated to the derecognized part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit or loss.

3.10.5 Method of determining the fair value of financial assets and financial liabilities

The fair value of a financial instrument having an active market is determined on the basis of quoted prices in the active market. Where there is no active market, the fair value of the same shall be determined by using valuation techniques. At the time of valuation, the Company shall adopt the valuation technique that is applicable to the current circumstance and is supported by sufficient available data and other information to select the input values consistent with the assets or liabilities characteristics that are taken into account by market participants in transactions of relevant assets and liabilities, and shall give priority in use of observable input values. And the unobservable input values may be used only when the observable input values are unable or impractical to be obtained.

3.10.6 Test method and accounting treatment of depreciation of financial assets

The Company estimates the expected credit losses of financial assets measured at amortized cost, financial assets (debt instruments) measured at fair value through other comprehensive income and financial guarantee contracts in a single or combined manner.

The Company recognizes expected credit losses by calculating the probability-weighted amount of the present value of the difference between the cash flows receivable under the contract and the cash flows expected to be received, taking into account reasonable and substantiated information about past events, current conditions and forecasts of future economic conditions, weighted by the risk of default.

If the credit risk of the financial instrument has increased significantly since the initial recognition, the Company measures its loss provision at the expected credit losses for the whole duration of the financial instrument; if the credit risk of the financial instrument has not significantly increased since the initial recognition, the Company measures its loss provision at the expected credit losses of the financial instrument within the next 12 months. Amount increased or reversed of provision for loss arising therefrom will be included in the current profit or loss as impairment loss or gain.

The Company determines the relative change of default risk of the financial instrument during the expected duration by comparing the risk of default of the financial instrument on the balance sheet date with the risk of default on the initial recognition date to assess whether there is a significant increase in the credit risk of the financial instrument from initial recognition. Generally, the Company believes that the credit risk of the financial instrument has significantly increased over 30 days after the due date, unless there is solid evidence that the credit risk of the financial instrument has not increased significantly since initial recognition.

The Group believes that financial assets are subject to default in the following circumstances:

- (1) It is unlikely that the borrower will pay in full the amount it owes to the Group and the assessment does not take into account the recourse actions by the Group such as realization of collateral (if held); or
- (2) Where the financial assets were overdue for more than 90 days.

If the credit risk of the financial instrument is low on the balance sheet date, the Company will immediately consider that there is no obvious increase in credit risk of such financial instrument following the initial recognition.

If there is objective evidence that any financial asset has had credit impairment, the Company will make the provision for impairment for such financial asset individually.

For accounts receivable and contract assets formed by the transaction in the *Accounting Standard for Business Enterprises No. 14- Revenue* (2017), regardless of whether there is a significant financing component, the Company always measures their provision for loss according to the amount of expected credit losses for the entire duration.

For accounts receivable, the Company always measures their provision for loss according to the amount of expected credit losses for the entire duration.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.10 Financial instruments (Continued)

3.10.6 Test method and accounting treatment of depreciation of financial assets (Continued)

When individual financial assets cannot assess the expected credit loss at a reasonable cost, the Group divides the notes receivable and accounts receivable into several portfolios based on the credit risk characteristics, and calculates the expected credit losses on a portfolio basis. The basis for determining the portfolios is as follows:

A. Notes receivable

Notes receivable portfolio 1: bank acceptance bill

Notes receivable portfolio 2: commercial acceptance bill

B. Accounts receivable

Accounts receivable portfolio 1: receivable from related parties

Accounts receivable portfolio 2: receivable from other clients

The Group classifies the contract assets into portfolios based on the credit risk characteristics, and calculates the expected credit losses on a portfolio basis. The basis for determining the portfolio is as follows:

Contract assets portfolio 1: engineering service

Contract assets portfolio 2: others

For the notes receivable and contract assets classified into a portfolio, the Group, by referring to the historical credit loss experience and in combination with the current situation and the forecast of future economic conditions, calculates the expected credit losses through risk exposure at default and the expected credit loss rate for the entire duration.

For the accounts receivable classified into a portfolio, the Group, by referring to the historical credit loss experience and in combination with the current situation and the forecast of future economic conditions, prepares a comparison table of the aging of accounts receivable and the expected credit loss rate for the entire duration to calculate expected credit losses.

The Group classifies other receivables into several portfolios based on the credit risk characteristics, and calculates the expected credit losses on a portfolio basis. The basis for determining the portfolio is as follows:

Other receivables portfolio 1: reserve funds

Other receivables portfolio 2: deposits or security deposits receivable

Other receivables portfolio 3: other receivables

For other receivables classified as a portfolio, the Group calculates the expected credit loss through the default risk exposure and the expected credit loss rate over the next 12 months or the entire duration.

For creditor's right investment and other creditor's right investment, the Group calculates the expected credit loss according to the nature of the investment, various types of counterparties and risk exposures, through default risk exposure and expected credit loss rate in the next 12 months or the entire duration.

If the Company no longer reasonably expects that the contractual cash flow of the financial asset can be fully or partially recovered, the book balance of the financial asset will be directly written down.

3.11 Inventories

3.11.1 Classification and cost of inventories

Inventories are classified as raw materials, goods in progress, stock commodities, revolving materials and contract performance costs, etc..

Inventories are initially measured at cost, and the inventory cost includes the procurement cost, processing cost and other expenses arising from making the inventory at their present location and condition.

3.11.2 Measurement method of dispatched inventories

Inventories of the Group are measured at actual costs when acquired. Raw materials, stock commodities and others are measured by using the weighted average method upon outward delivery.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.11 Inventories (Continued)

3.11.3 Recognition basis of net realizable value of different types of inventories

On the balance sheet date, inventories shall be measured at the cost or the net realizable value, whichever is lower. Where the inventory costs are higher than the net realizable values, the provision for inventory depreciation reserves shall be made. During routine activities, net realizable values of inventories refer to the amounts of the estimated selling prices of inventories minus the estimated costs to completion, estimated selling expenses and relevant taxes and surcharges. For inventories held to execute sales contract or service contract, their net realizable values are calculated on the basis of contract price.

After the provisions for the inventory depreciation are made, the factors causing any write-down of inventory value have disappeared, leading to the net realizable values of inventories higher than its book value, the amount of write-down shall be resumed and be reversed from the original provision for inventory devaluation with the reversal being included in the current profit or loss.

3.11.4 Inventory system

The perpetual inventory system is adopted.

3.11.5 Amortization method for low-cost consumables

Low-cost consumables are amortized at lump-sum method.

3.12 Contract assets

3.12.1 Recognition method and criteria for contract assets

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between its performance of fulfillment obligations and customer payments. The right of the Company to the charge of consideration via goods transfer or service rendering to the customer (and the right depends on other factors except for the time lapses) shall be presented as contractual asset. Contractual assets and contractual liabilities under the same contract shall be presented at net amount. The unconditional (only depending on the time lapses) right to the charge of consideration from the customer, possessed by the Company, is presented as receivables.

3.12.2 Determination method and accounting treatment for the expected credit loss of contract assets

See "3.10.6 Test method and accounting treatment for the impairment of financial assets", for the determination method and accounting treatment for the expected credit loss of contract assets.

3.13 Long-term equity investments

3.13.1 Judgment criteria for joint control and significant influence

Joint control refers to the control shared over an arrangement in accordance with the relevant stipulations, and the decision-making of related activities of the arrangement should not be made before the party sharing the control right agrees the same. Where the Company exercises common control over the investee together with other parties to the joint venture, and enjoys the right on the investee's net assets, the investee shall be a joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of the investee, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the Company is able to exert significant influence over the investee, the investee is its associate.

3.13.2 Determination of initial investment costs

(1) Long-term equity investments acquired through business combination

For long-term equity investments in subsidiaries acquired from business combinations under common control, the initial investment cost thereof shall be recognized at the share of book value of the owner's equity of the combinee in the consolidated financial statements of the ultimate controller on the acquisition date. The share premium in the capital reserve is adjusted according to the difference between the initial investment cost of long-term equity investment and the book value of the consideration paid; if there is no sufficient share premium in the capital reserve for write-downs, the retained earnings are adjusted. If it is available to exercise control over an investee under the common control due to additional investment, etc., the difference between the initial investment cost of the long-term equity investment recognized in accordance with the above principle and the sum of the book value of the long-term equity investment before reaching combination date plus the book value of the new consideration paid for further acquisition of shares at the date of combination shall be used to adjust the stock premium; and if the share premium is insufficient to be offset, retained earnings will be offset.

For long-term equity investments in subsidiaries acquired from business combinations not under common control, the initial investment cost thereof shall be recognized at the combination costs determined on the acquisition date. Where the Company can control the investee not under common control due to additional investments or other reasons, the initial investment cost should be the sum of the book value of equity investments originally held and newly increased investment cost.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.13 Long-term equity investments (Continued)

3.13.2 Determination of initial investment costs (Continued)

(2) For long-term equity investments obtained by means other than business combination

For long-term equity investments acquired through making payments in cash, its initial investment cost is the actually paid purchase cost.

For long-term equity investments acquired from issuance of equity securities, its initial investment cost is the fair value of the issued equity securities.

3.13.3 Subsequent measurements and recognition of profit or loss

(1) Long-term equity investments accounted for under the cost method

Long-term equity investments of the Company in its subsidiaries are accounted for under the cost method, unless those investments satisfy the conditions of holding for sale. Under the cost method, except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration which have been declared but not yet distributed, the Company recognizes the proportion it shall enjoy in the cash dividends or profits declared by the investee as its investment income.

(2) Long-term equity investments accounted for under equity method

Long-term equity investments of the Company in associates and joint ventures are accounted for by the equity method. If the initial investment cost is in excess of the share of fair value of the net identifiable assets in the investee when the investment is made, the difference will not be adjusted to the initial cost of long-term equity investment; if the initial investment cost is in short of the share of the fair value of the net identifiable assets in the investee when the investment is made, the difference will be included in the current profit or loss, and will be adjusted to the initial cost of long-term equity investment.

The Company shall, based on its attributable share of the net profit or loss and other comprehensive income realized by the investee, respectively recognize the investment income and other comprehensive income, and simultaneously adjust the book value of the long-term equity investment. The Company shall, in the light of the profits or cash dividends that the investee declares to distribute, reduce the book value of the long-term equity investment correspondingly. As to other changes in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution (hereinafter referred to as "Other Changes in Owners' Equity"), the Company shall adjust the book value of the long-term equity investment and include such change in the owners' equity.

The Company shall, based on the fair value of net identifiable assets of the investee when the investment is made, recognize its attributable share of the net profits or losses, other comprehensive income and other changes in owners' equity of the investee after the adjustment made to the net profit and other comprehensive income of the investee according to the accounting policies and accounting period adopted by the Company.

The Company calculates its attributable but not realized profit or loss from internal transactions between the Company and its associates or joint ventures based on its attributable percentage and offset such profit or loss, and recognizes the investment income on that basis; however, businesses formed by assets invested or sold are excluded. Unrealized losses from internal transactions between the Company and any investee shall be recognized in full if they belong to the losses from asset impairment.

For net losses on joint ventures or associates, apart from the obligation of assuming the extra loss, the Company shall write down such losses with the book value of long-term equity investments and the long-term equity where net investments in joint ventures or associates have been formed substantially; and the maximum of such losses shall be the sum of the book value and long-term equity mentioned above. Where any joint venture or associate realize net profit in the future, the Company shall recognize the income sharing amount when the unrecognized loss sharing amount is offset with the income sharing amount.

(3) Disposal of long-term equity investments

For the disposal of long-term equity investments, the difference between the book value and the actual purchase price is included in the current profit or loss.

For long-term equity investments with partial disposal accounting by the equity method, where the remaining equity is still accounted for by the equity method, other comprehensive income recognized originally upon the accounting by the equity method shall be carried forward at the corresponding proportion on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and other changes in owners' equity shall be carried forward to the current profit or loss in proportion.

Where the Company loses the common control over or significant influence on the investee on account of the disposal of equity investment and any other reason, when the accounting by the equity method is terminated, other comprehensive income recognized upon the accounting by the equity method from the original equity investment shall be subject to the accounting treatment which is made on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and other changes in owners' equity shall be transferred to the current profit or loss in full.

Where the Company loses the control over the investee on account of the disposal of partial equity and any other reason, at the preparation of any single financial statements, if the remaining equity has the common control over or significant influence on the investee, the accounting shall be made by the equity method, and an adjustment shall be made as if the remaining equity was accounted for by the equity method at acquisition; other comprehensive income recognized before the control over the investee is obtained shall be carried forward on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and other changes in owners' equity recognized on account of the accounting by the equity method shall be carried forward to the current profit or loss in proportion; if the remaining equity has no common control over or significant influence on the investee, relevant financial assets shall be recognized, the difference between the fair value on the day of losing control of such remaining equity and the book value of the same shall be included in the current profit or loss, and other comprehensive income and other changes in owners' equity which have been recognized before the control over the investee is obtained shall be carried forward in full.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.13 Long-term equity investments (Continued)

3.13.3 Subsequent measurements and recognition of profit or loss (Continued)

(3) Disposal of long-term equity investments (Continued)

Where the disposal of subsidiaries' equity investments till the loss of control by stages through multiple transactions belongs to a package deal, the accounting treatment shall be made by taking each transaction as the transaction where the subsidiaries' equity investments are disposed and the corresponding control is lost; before the loss of control, the difference between the disposal price and the book value of the long-term equity investment corresponding to the equity disposed shall be firstly recognized as other comprehensive income in the individual financial statements, and at the loss of control, all transferred to the profit or loss for the period when the control is lost. Where the aforesaid disposal does not belong to a package deal, the accounting treatment shall be made respectively for each transaction.

3.14 Fixed assets

3.14.1 Recognition and initial measurement of fixed assets

Fixed assets are tangible assets that are held for the purpose of producing goods, providing services, leasing or operating management, and having a life span of more than one fiscal year. Fixed assets are recognized when they simultaneously meet the following conditions:

- (1) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and
- (2) The costs of the fixed assets can be measured reliably.

The initial measurement of fixed assets is made at cost (and by taking the impact of expected disposal costs).

The subsequent expenditures relating to fixed assets are included in the costs of fixed assets when relevant economic benefits are likely to flow in the Company and their costs can be measured reliably; as for the party replaced, the book value thereof is derecognized; all other subsequent expenditures are included in the current profit or loss when they occur.

3.14.2 Depreciation method

Depreciation of the fixed assets is made on a category basis using the straight-line method. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets. For fixed assets where the provision for impairment has been made, the depreciation amount in the future will be determined at the book value of the fixed assets where the provision for impairment has been deducted, based on the remaining useful life. Where the fixed assets have the components with different useful lives or bring economic benefits for the enterprise in different ways, then the Company should choose different depreciation rates or methods to separately make the provision for depreciation.

The depreciation methods, depreciation years, residual value rates and annual depreciation rates of fixed assets are presented by categories as follows:

Category	Depreciation method	Depreciation life (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and constructions	Straight-line method	12-50	3	8.08-1.94
Machinery equipment and others	Straight-line method	4-30	3	24.25-3.23

Specifically, for fixed assets of which provision for impairment has been made, the depreciation rate shall be determined based on the fixed assets deducting the accumulated amount of provision for impairment withdrawn.

3.14.3 Disposal of fixed assets

When the fixed assets are disposed, or they are expected not to bring any economic interest via use or disposal, such fixed assets will be derecognized. When the fixed asset is sold, transferred, scrapped or damaged, the Company will include such disposal revenue, deducting the book value and related taxes and surcharges thereof, in the current profit or loss.

3.15 Construction in progress

Construction in progress is measured at the actual cost incurred. The actual costs includes building costs, installation costs, borrowing costs eligible for capitalization and other necessary expenditures before making the construction in progress achieve the working condition for its intended use. Constructions in progress are transferred to fixed assets when they reach the condition for its intended use, and the provision of depreciation will be provided since the next month.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.16 Borrowing costs

3.16.1 Recognition criteria of capitalization of borrowing costs

The borrowing costs incurred to the Company and directly attributable to the acquisition and construction or production of assets eligible for capitalization should be capitalized and recorded into relevant asset costs; other borrowing costs should be recognized as costs according to the amount incurred and be included into the current profit or loss.

Assets eligible for capitalization refer to fixed assets, investment properties, inventories and other assets which may reach their intended use or sale status only after long-time acquisition and construction or production activities.

3.16.2 Capitalization period for borrowing costs

Capitalization period refers to the period from the beginning of capitalization to the cease of capitalization, excluding the period of capitalization suspension of borrowing costs.

Capitalization shall start when the following conditions are satisfied simultaneously:

- (1) Asset expenditures, which include those incurred by cash payment, the transfer of non-cash assets or the undertaking of interest-bearing debts for acquiring and constructing or producing assets eligible for capitalization, have already been incurred;
- (2) Borrowing costs have already been incurred; and
- (3) The acquisition and construction or production activities which are necessary to prepare the assets for their intended use or sale have been in progress.

Capitalization of borrowing costs should be ceased when the acquired and constructed or produced assets eligible for capitalization have reached their intended use or sale status.

3.16.3 Period of capitalization suspension

If the acquisition and construction or production activities of assets eligible for capitalization are abnormally interrupted and such condition lasts for more than three months, the capitalization of borrowing costs should be suspended; if the interruption is necessary procedures for the acquired, the constructed or produced assets eligible for capitalization to reach the working conditions for its intended use or sale, the borrowing costs continue to be capitalized. Borrowing costs incurred during the interruption are recognized as the current profit or loss and continue to be capitalized until the acquisition, construction or production of the assets restarts.

3.16.4 Measurement of capitalization rate and capitalized amounts of borrowing costs

As for special borrowings borrowed for acquiring and constructing or producing assets eligible for capitalization, borrowing costs of special borrowing actually incurred in the current period less the interest income of the borrowings unused and deposited in bank or return on temporary investment should be recognized as the capitalization amount of borrowing costs.

As for general borrowings used for acquiring and constructing or producing assets eligible for capitalization, the interest of general borrowings to be capitalized should be calculated by multiplying the weighted average of asset disbursements of the part of accumulated asset disbursements exceeding special borrowings by the capitalization rate of used general borrowings. The capitalization rate is calculated by weighted average actual interest rate of general borrowings.

During the capitalization period, the exchange difference between the principal and interest of special loans in foreign currency is capitalized and included in the cost of assets that meet the capitalization conditions. Exchange differences arising from the principal and interest of foreign currency loans other than special loans in foreign currency are included in the current profit or loss.

3.17 Intangible assets

3.17.1 Measurement method of intangible assets

(1) *The Company initially measures intangible assets at cost on acquisition;*

The costs of externally purchased intangible assets include purchase prices, relevant taxes and surcharges and other directly attributable expenditures incurred to prepare the assets for their intended uses.

(2) *Subsequent measurement*

The useful lives of the intangible assets are analyzed and determined on their acquisition.

Intangible assets with definite useful lives are amortized over the period during which they can bring economic benefits to an enterprise; if the period during which intangible assets can bring economic benefits to the enterprise cannot be predicted, the intangible assets will be deemed as intangible assets with indefinite useful lives and will not be amortized.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.17 Intangible assets (Continued)

3.17.2 Estimate of useful lives for intangible assets with definite useful lives

Item	Estimated useful life	Amortization method	Notes
Land use right	50 years	Straight-line method	
Software	5 years	Straight-line method	
Patent use right	10 years	Straight-line method	
Right to use technologies	10 years	Straight-line method	
Contract usufruct	/	Output method	

3.17.3 Specific criteria for classifying research and development stages

The Company's expenses for its internal research and development projects are classified into research expenses and development expenses.

Research phase: Research phase is the stage when creative and planned investigation and research activities are conducted to acquire and understand new scientific or technological knowledge.

Development phase: Development phase is the stage when the research achievements and other knowledge are applied to a plan or design, prior to the commercial production or use, so as to produce any new or substantially improved material, device or product. The research and development projects of the Group enter the development stage after the technical feasibility and economic feasibility studies and project establishment.

3.17.4 Specific criteria for qualifying expenditure on the development phase for capitalization

Expenditures at the research phase should be included in the current profit or loss when they are incurred. Expenditures in the development stage that meet the following conditions at the same time shall be recognized as intangible assets, and those expenditures that fail to meet the following conditions shall be included in the current profit or loss:

- (1) In respect of the technology, it is feasible to finish the intangible asset for use or sale;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) The ways how the intangible assets generate economic benefits include the way where it is able to prove that the products made by using the intangible assets exist a market or that the intangible assets themselves have the market, and the way where the serviceability of the intangible assets can be proved in case they are used internally;
- (4) It is able to finish the development of the intangible assets and to use or sell the same with the support of sufficient technologies, financial resources and other resources; and
- (5) The expenditure attributable to the intangible assets during its development phase can be measured reliably.

Where the research expenditures and the development expenditures are indistinguishable, the Company shall include research expenditures and development expenditures incurred in THE current profit or loss.

3.18 Impairment of long-term assets

Where there are indications of impairment on long-term equity investments, fixed assets, construction in progress, right-of-use assets and intangible assets with definite useful lives and other long-term assets on the balance sheet date, the impairment test should be made. If the result of the impairment test shows that the recoverable amount of the asset is lower than its book value, the provision for impairment shall be made and included in impairment loss. The recoverable amount of the asset is the higher of the net amount of its fair value less disposal expenses or the present value of its estimated future cash flows. Provision for assets impairment is made on individual asset basis. If it is difficult to estimate the recoverable amount of the individual asset, the Company shall estimate the recoverable amount of the asset group that the individual asset belongs to. Asset group is the smallest asset group that can independently generate cash inflows.

Impairment tests for goodwill formed through business combination, intangible assets with uncertain useful lives and intangible assets not reaching serviceable condition shall be conducted every year, whether there are any sign of impairment or not.

The Company conducts an impairment test for the goodwill. The book value of goodwill arising from business combinations is amortized to relevant asset groups with a reasonable method since the date of acquisition; or amortized to relevant combination of asset groups if it is difficult to be amortized to relevant asset groups. Relevant asset group or portfolio of asset groups refers to the asset group or portfolio of asset groups which is able to benefit from the synergistic effect of business combination.

When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any indication shows that the asset groups or combinations of asset groups related to the goodwill may be impaired, the Company shall first conduct an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount and compare it with the relevant book value to recognize the corresponding impairment loss. Then, the Company shall test the impairment of the asset group or portfolio of asset groups with goodwill, and compare the book value thereof with said recoverable amount; if the said recoverable amount is lower than the book value thereof, the amount of impairment losses should be firstly used to deduct book value of goodwill allocated to the asset group or the portfolio of asset group, and then deduct book value of other assets according to the proportion of the book value of other assets other than the goodwill in the asset group or the portfolio of asset group.

The above losses from asset impairment shall not be reversed in subsequent accounting periods once recognized.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.19 Long-term deferred expenses

The Group's long-term deferred expenses mainly include oil construction specific drilling equipment, logging equipment, cables and catalyst and evenly amortized on straight-line basis over the expected beneficial period or over operation capacity. If an item of long-term deferred expense cannot bring any benefit in future accounting periods, the amortized value thereof shall all be transferred to the current profit or loss.

3.20 Contract liabilities

According to the relationship between the performance of obligations and the customer payment, the Company presents contract assets or contract liabilities in the balance sheet. The obligation of transferring goods or providing services to customers for the consideration received or receivable from customers shall be presented as contract liabilities. Contract assets and contract liabilities under the same contract shall be presented at net amount.

3.21 Employee compensation

3.21.1 Accounting treatment of short-term compensation

During the accounting period when employees serve the Company, the actual short-term compensation is recognized as liabilities and included in the current profit or loss or costs associated with assets.

The social insurance premiums and the housing provident fund paid by the Company for its employees, together with the labor union expenditures and employee education fund drew as required are used to calculate and determine the relevant employee compensation amount based on the prescribed accrual basis and accrual proportion during the accounting period in which the employees provide services to the Company.

The employee welfare expenses incurred by the Company are included in the current profit or loss or related asset costs based on the actual amount when they actually occur. Among them, non-monetary benefits are measured at fair value.

3.21.2 Accounting treatment of post-employment benefits

(1) Defined contribution plan

The Company pays the basic endowment insurance premiums and unemployment insurance for employees according to the relevant provisions of the local governments. During the accounting period when employees serve the Company, the paid amount which is calculated based on the payment base and proportion as stipulated in the provisions of the local place is recognized as liabilities and included in the current profit or loss or assets-related cost. In addition, the Company also participated in the enterprise annuity plan approved by relevant state departments, and employee may participate such annuity plan voluntarily. The Company makes payments for annuity plan in a certain proportion to the total employee wage, with corresponding expense included in the current profit or loss or related asset costs.

(2) Defined benefit plan

The Company attributes the benefit obligation under the defined benefit plan to the period during which employees provide service to the Company, based on the formula of the projected unit credit method, and includes the same in the current profit or loss or costs associated with assets.

The deficit or surplus arising from the balance of the present value of the obligations of the defined benefit plans net of the fair value of assets thereof is recognized as a net liability or net asset of the defined benefit plan. For a surplus of defined benefit plans, the Company should measure the net asset of such defined benefit plans at the lower of the surplus of such defined benefit plans and the asset thereof.

All obligations of defined benefit plan include the obligation of payment during the 12 months after the end of the annual reporting period of expected receipt of services from employees, and are discounted according to the market yields of state bond with the same currency or high quality corporate bond prevailing on the balance sheet date and during the obligation period of defined benefit plan.

The service costs of the defined benefit plan and net interest on the net liabilities or net assets in respect of the defined benefit plan are included in the current profit or loss or assets-related costs; changes in the re-measurement of net liabilities or net assets under the defined benefit plans should be included in other comprehensive income and should not be reversed in subsequent accounting periods. When the original defined benefit plan terminates, the portion originally included in other comprehensive income will all be carried forward to the undistributed profits.

At the time of the settlement of defined benefit plan, the profit or loss is determined according to the difference between the present value of the defined benefit plan obligations and settlement price confirmed on the settlement date.

3.21.3 Accounting treatment of dismissal benefits

Where the Company provides employees with dismissal benefits, the Company shall recognize the employee compensation liability incurred from dismissal welfare at the earlier of the following dates and include such liability in the current profit or loss: the date when the Company is unable to unilaterally revoke the dismissal benefits provided for the termination of labor relation or the proposal for layoffs; the date when the Company determines the cost or expense related to the restructuring involving payment of dismissal benefits.

If an employee internal retirement plan is implemented, the economic compensation before the official retirement date belongs to dismissal benefits. From the day when the employee ceases to provide services to the normal retirement day, the wages and social insurance premiums paid for early retirement employees are included in the current profit or loss in a lump. Economic compensation after the official retirement date (such as regular old-age pension) shall be treated as post-employment benefits.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.21 Employee compensation (Continued)

3.21.4 Accounting treatment of other long-term employee benefits

Where the Group provides employees with other long-term employee benefits which meets the conditions for defined contribution plans, the relevant provisions on the aforesaid defined contribution plans shall apply.

3.22 Provisions

When an obligation relating to a contingency meets all the following conditions at the same time, it will be recognized as a provision by the Company:

- (1) The obligation is a present obligation of the Company;
- (2) The performance of this obligation may very probably lead to the flow of economic interests out of the Company; and
- (3) The amount of the obligation can be measured reliably.

The provisions are initially measured as the best estimate of expenses required for the performance of relevant present obligations.

The Company, when determining the best estimate, has had a comprehensive consideration of risks with respect to contingencies, uncertainties and the time value of money. If the time value of money is significant, the best estimates shall be determined after discount of relevant future cash outflows.

If there is continuous range for the necessary expenses, and probabilities of occurrence of all the outcomes within this range are equal, the best estimates will be determined at the average amount of upper and lower limits within the range; under other circumstances, the best estimates shall be treated as follows in different circumstances:

- If the contingency involves a single item, it shall be determined at the most likely outcome; or
- If a contingency involves multiple items, it shall be recognized base on various possible results and the dependent probability.

When all or some of the expenses necessary for the liquidation of provisions of the Company are expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of provisions.

On the balance sheet date, the book value of provisions shall be reviewed. If there is conclusive evidence that the best estimate can not be reflected truthfully, the book value shall be adjusted based on the current best estimate.

3.23 Share-based payment

The Company's share-based payments are transactions in which the Company grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employees or other parties. The Company's share-based payments include equity-settled share-based payments and cash-settled share-based payments.

3.23.1 Equity-settled share-based payment and equity instruments

The equity-settled share-based payment in return for services from employees shall be measured at the fair value of the equity instruments granted to the employees. As to the share-based payment that can be exercised immediately after the grant, it should be included in the relevant costs or expenses at the fair value of the equity instrument on the date of grant. The capital reserves should be increased accordingly. As to an equity-settled share-based payment, after grant, if the right cannot be exercised until the services within the vesting period come to an end or until the prescribed performance conditions are met, the services obtained in the current period shall be included in the relevant costs or expenses and the capital reserves shall be increased accordingly, based on the best estimate of the equity instruments with exercisable rights on each balance sheet date within the vesting period and according to the fair value on the grant date.

If the terms of the equity-settled share-based payments were modified, the services received should be recognized at least in accordance with the unmodified terms. Moreover, the modification of fair value of equity instruments granted from any increase, or beneficial changes to the employee on the modification date should be recognized as increases in services obtained.

If the Company canceled equity instruments granted during the waiting period, it shall treat such cancellation as acceleration of the exercisable rights and shall immediately include the amount that should be recognized during the remaining waiting period in the current profit or loss. Capital reserves should be also recognized. However, if new equity instruments are granted, which are recognized as the replacement of the canceled equity instrument on the grant date, the granted equity instrument for replacement shall be handled in the same way with the disposal of revision of provisions on the original equity instrument and conditions.

3.23.2 Cash-settled share-based payment and equity instruments

The cash-settled share-based payments shall be measured at the fair value of liabilities calculated and recognized based on the shares or other equity instruments undertaken by the Company. As to the share-based payment that can be exercised immediately after the grant, it should be included in the relevant costs or expenses at the fair value of the liabilities assumed on the date of grant. The liabilities should be increased accordingly. As to an equity-settled share-based payment, after grant, if the right cannot be exercised until the services within the vesting period come to an end or until the prescribed performance conditions are met, the services obtained in the current period shall be included in the relevant costs or expenses and included in liabilities accordingly, based on the best estimate of exercisable rights on each balance sheet date within the vesting period and according to the fair value of liabilities assumed by the Company. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes into the current profit or loss.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.24 Revenue

3.24.1 Accounting policies for revenue recognition and measurement

If the Company fulfills its performance obligations in a contract, it will recognize revenue when relevant customer obtains right of control over relevant goods or services. Obtaining the right of control over relevant goods or services means that the customer is able to make decisions on the use of the goods or the rendering of the services, and can obtain almost all of the economic benefits therefrom.

If two or more performance obligations are covered in the contract, on the contract commencement date, the transaction price will be amortized to individual performance obligation based on the relative proportion of the individual selling price of goods or services involved in the individual performance obligation. The Company measures revenue at the transaction price amortized to individual performance obligation.

The transaction price refers to the amount of consideration the Company is expected to have the right to take on account of the transfer of goods or services to the customer, excluding the payments charged by any third party and the payments expected to be refunded to the customer. The Company determines the transaction price according to the contract terms and in light of its previous regular practice, in the meantime, factors such as variable consideration, significant financing composition existing in the contract, non-cash consideration, and consideration payable to customers will be taken into account. The Company determines the transaction price involving the variable consideration at the amount that should not exceed the amount of accumulatively recognized revenue that is highly unlikely to have a major reversal when relevant uncertainty is eliminated. If the significant financing component in covered in the contract, the Company will determine the transaction price based on the amount of cash payable at once by the customer when the customer acquires the right of control over goods or services, as assumed, and amortize the difference between such transaction price and the contract price by the effective interest method during the contract period. (Tip: If the interval between the transfer of control rights and the payment of the customer's price is less than one year, the enterprise may not consider the financing component. The enterprise should make disclosure based on actual conditions.)

The obligation performance belongs to certain period in case one of the following conditions is met; otherwise, it belongs to certain time-point:

- The customer obtains and consumes the economic benefits brought by the performance of the Company while the Company is performing the obligation.
- Customers are able to control the goods under construction by the Company in the course of performing obligations.
- The Goods produced in the course of performing obligations have irreplaceable uses, and the Company has the right to receive payments for the portion of the performance that has been completed to date.

For a performance obligation to be performed within a certain period, the Company recognizes the revenue according to the performance progress during such period, except for the case that the performance progress cannot be reasonably determined. The Company may determine the performance progress by the output method or input method based on the nature of goods or service. When the performance progress cannot be reasonably determined, if the cost incurred is expected to be compensated, the revenue will be recognized by the Company at the amount of the cost incurred until the performance progress can be reasonably determined.

The revenue from obligation performance belonging to certain time-point is recognized by the Company when the customer has acquired the right of control over relevant goods or services. The Company will consider the following signs when judging whether the customer has acquired the right of control over relevant goods or services:

- The customer has the current payment obligation for such goods or service, i.e. the Company enjoys the current right to collect the payment for such goods or service.
- The Company has transferred the legal ownership of such goods to the customer, i.e. the customer possesses the legal ownership of such goods.
- The Company has transferred goods to the customer in kind, i.e. the customer has possessed such goods in kind.
- The substantial risks and rewards of the ownership of such goods have been transferred by the Company to the customer, i.e. the customer has acquired the substantial risks and rewards of the ownership of such goods.
- The customer has accepted such goods or services.

3.24.2 Specific methods

Specific methods of the Group for recognition of revenue:

Provision of drilling engineering and geophysical prospecting services: The Group recognizes revenue in the process of providing drilling engineering and geophysical prospecting services. The progress of completed performance obligations is determined by the proportion of the executed projects to the total contract value. If the contract contains two or more performance obligations, the Group will allocate the transaction price to each service based on the relative proportion of the individual selling price of each individual service on the date of contract commencement. The individual selling price of each service is determined based on the price of each service sold separately by the Group.

The revenue related to the day work drilling contract is recognized when the labor service is provided.

Borehole operations and logging, well cementation and other engineering services: relevant revenues are recognized during the accounting period when the services are provided and the relevant accounts receivable are settled.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.24 Revenue (Continued)

3.24.2 Specific methods (Continued)

Provision of construction services: The Group recognizes revenue in the process of providing construction services. The progress of completed performance obligations of construction services is determined by the input method. The progress of completed performance obligations of construction services is based on the proportion of the incurred construction cost in the estimated total contract costs. If the contract contains two or more performance obligations, the Group will allocate the transaction price to each service based on the relative proportion of the individual selling price of each individual service on the date of contract commencement. The individual selling price of each service is determined based on the price of each service sold separately by the Group.

When the performance progress of performance obligations cannot be reasonably determined, if the cost incurred is expected to be compensated, the revenue shall be recognized at the amount of the cost incurred until the performance progress can be reasonably determined. Sales of good: When the goods are delivered to the customer, the customer has accepted the goods and the customer obtains control of the goods, the Group recognizes revenue.

For the sales of goods with sales return clauses, revenue recognition is limited to the amount of accumulated recognized revenue that is unlikely to be significantly reversed. The Group recognizes the liabilities according to the expected return amount, and at the same time, recognizes the balance after deducting the estimated cost of recovering the goods (including the impairment of the value of the returned goods) according to the estimated book value of the returned goods at the time of transfer as an asset.

3.25 Contract costs

The contract costs include contract performance costs and contract acquisition costs.

The costs incurred by the Company to perform a contract that are not regulated by the accounting standards for inventories, fixed assets or intangible assets, are recognized as an asset as contract performance costs when the following conditions are met:

- The costs are directly related to a current or expected contract obtained.
- The costs increase the resources of the Company to fulfill its performance obligations in the future.
- The costs are expected to be recovered.

If the incremental cost incurred by the Company for obtaining the contract is expected to be recovered, the contract acquisition cost is recognized as an asset.

The assets related to contract costs are amortized on the same basis as revenue recognition for goods or services related to the asset; however, if the amortization period of contract acquisition costs does not exceed one year, the Company will include them in the current profit or loss when it occurs.

If the assets related to contract costs whose carrying amount is higher than the difference between the following two items, the Company will make provision for impairment for the excess part and recognize it as loss from asset impairment:

1. The remaining consideration expected to be obtained due to the transfer of goods or services related to the asset;
2. The estimated costs that will occur for transfer of the relevant goods or services.

If there is a subsequent change in the impairment factors in previous periods, such that the aforementioned difference is higher than the carrying amount of the asset, the Company reverses the provision for impairment and recognizes it in the current profit or loss, provided that the book value of the reversed asset does not exceed the book value of the asset at the date of reversal recorded by assuming no impairment provision had been made.

3.26 Government grants

3.26.1 Type

Government grants refer to monetary or non-monetary assets obtained from the government for free, and are classified into asset-related government grants and income-related government grants.

The asset-related government grants refer to government grants obtained by the Company for forming long-term assets by acquisition, construction or other manners. The income-related government grants refer to government grants other than asset-related government grants.

3.26.2 Timing of recognition

Government grants are recognized when the Company is eligible for and is capable of receiving the government grants.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.26 Government grants (Continued)

3.26.3 Accounting treatment

Asset-related government grants shall be used to offset the book value of relevant assets or recognized as deferred income. Where such grants are recognized as the deferred income, they will be included in the current profit or loss by reasonable and systematic methods within useful lives of related assets (Where such grants are related to the routine activities of the Company, they will be included in other income; where such grants are not related to the routine activities of the Company, they will be included in non-operating income);

The income-related government grants used to compensate for relevant costs, expenses or losses to be incurred to the Company in subsequent periods shall be recognized as the deferred income, and, during the period when relevant costs, expenses or losses are recognized, be included in the current profit or loss (where the income-related government grants are relevant to routine activities of the Company, they shall be included in other income; where the income-related government grants are irrelevant to daily activities of the Company, they shall be included in the non-operating income) or used to offset relevant costs, expenses or losses. The income-related government grants used to compensate for relevant costs, expenses or losses already incurred to the Company shall be included in the current profit or loss (where the income-related government grants are relevant to routine activities of the Company, they shall be included in other income; where the income-related government grants are irrelevant to daily activities of the Company, they shall be included in the non-operating income) or used to offset relevant costs, expenses or losses.

3.27 Deferred tax assets and deferred tax liabilities

Income taxes include the current income tax and deferred tax. The Company recognizes current income tax and deferred tax in the current profit or loss, except for the income tax arising from business combinations and transactions or events directly recognized in owners' equity (including other comprehensive income).

Deferred tax assets and deferred tax liabilities are recognized based on the difference (temporary difference) between the tax basis of the assets and liabilities and their book values.

Deferred tax assets are recognized for deductible temporary differences to the extent of the taxable income probably obtained in future period that can be used for deducting the deductible temporary differences. For deductible losses and tax credits that can be carried forward to subsequent periods, deferred tax assets arising therefrom are recognized to the extent of the taxable income probably obtained in future period that can be used for deducting the deductible losses and tax credits.

Taxable temporary differences are recognized as deferred tax liabilities except in special circumstances.

Special circumstances in which deferred tax assets or deferred tax liabilities shall not be recognized include:

- Initial recognition of goodwill;
- A transaction or event that is neither a business combination nor, when it occurs, affects accounting profit and taxable income (or deductible loss).

Deferred tax liabilities arising from taxable temporary differences related to the investments in subsidiaries, associates and joint ventures shall be recognized, unless the Company can control the time when the temporary differences are reversed and the temporary differences will probably not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences related to the investments in subsidiaries, associates and joint ventures shall be recognized when the temporary differences may be reversed in the foreseeable future and can be used to offset the taxable income of deductible temporary differences in the future.

On the balance sheet date, according to the tax law, deferred tax assets and deferred tax liabilities are measured at the future tax rate applicable to the period of recovery of relevant assets and repayment of relevant liabilities.

On the balance sheet date, the Company reviews the book values of its deferred tax assets. If it is unlikely to obtain sufficient taxable income taxes to offset against the benefit of deferred tax assets, the book value of deferred tax assets shall be written down. The amount written down may be reversed when the taxable income obtained may be sufficient.

If the Company has the legal right to settle in net amounts and intends to settle in net amount or to obtain assets and discharge liabilities simultaneously, the current tax assets and current tax liabilities of the Company shall be presented based on the net amount after offset.

On the balance sheet date, the deferred tax assets and deferred tax liabilities are presented at net of offsetting amounts when both of the following conditions are met:

- The taxpayer has the legal right to settle current tax assets and current tax liabilities on a net basis;
- The deferred tax assets and deferred tax liabilities are related to the income tax which are imposed on the same taxpayer by the same tax collection authority or on different taxpayers, but, in each important future period in connection with the reverse of deferred tax assets and liabilities, the involved taxpayer intends to balance tax assets and liabilities for the current period with net settlement at the time of obtaining assets and discharging liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.28 Leases

Lease refers to a contract in which a lessor assigns the right to use an asset to a lessee within a certain period of time in order to obtain consideration. On the contract commencement date, the Company evaluates whether the contract is a lease or includes a lease. If a party to a contract transfers the right to control the use of one or more identified assets within a certain period in exchange for consideration, the contract shall be a lease or include a lease.

If the contract contains multiple individual leases, the Company will split the contract and make accounting treatment over each individual lease. If the contract contains both leased and non-leased parts, the lessee and lessor will split the leased and non-leased parts.

3.28.1 The Company as the lessee

(1) *Right-of-use assets*

On the commencement date of the lease term, the Company recognizes the leases other than short-term leases and leases of low-value assets as the right-of-use assets. The right-of-use assets are initially measured at costs. Such costs include:

- the initial measurement amount of lease liabilities;
- in case of any lease incentives, relevant amount of the lease incentives enjoyed shall be deducted from the lease payment paid on or before the commencement date of the lease term;
- the initial direct costs incurred to the Company;
- the costs to be incurred to the Company for demolishing and removing leased assets, restoring the site where the leased assets are located, or restoring the leased assets to the state agreed in the lease terms, not including those incurred for production of inventories.

The Company adopts the straight-line-method to accrue depreciation of the right-of-use assets. If there is a reasonable assurance that the ownership of a leased asset can be acquired when the lease term expires, the depreciation of the right-of-use asset will be made over the remaining useful life of such lease asset; otherwise, the depreciation of such leased asset is made over the shorter of the lease term or the remaining useful life of the leased asset.

The Company determines whether a right-of-use asset is impaired and accounts for the identified impairment loss in accordance with the principles described in the Note "3.19 Impairment of long-term assets".

(2) *Lease liabilities*

On the commencement date of the lease term, the Company recognizes the leases other than short-term leases and leases of low-value assets as lease liabilities. Lease liabilities are initially measured at the present value of the lease payments that have not been paid. Lease payments include:

- fixed payments (including substantial fixed payments), and if there is any lease incentive, the relevant amount of the lease incentive shall be deducted;
- variable lease payments depending on the index or ratio;
- the payments expected to be payable based on the residual value of the guarantee provided by the Company;
- exercise price of purchase option, provided that the Company reasonably determines that it will exercise the option;
- the amount to be paid to exercise the lease termination option, provided that it is reflected that the Company will exercise the lease termination option during the lease term;

The Company adopts the implicit rate of lease as the discount rate, but if the implicit rate of lease cannot be reasonably determined, the incremental borrowing rate will be adopted as the discount rate.

The Company calculates the interest expense of the lease liability in each period of the lease term according to the fixed periodic interest rate, and records it into the current profit or loss or the cost of related assets.

The variable lease payments not included in the measurement of lease liabilities shall be included in the current profit or loss or the costs of related assets when they actually occur.

After the commencement of the lease term, the Company shall re-measure the lease liability and adjust corresponding right-of-use assets based on the following situations: If the book value of the right-of-use assets has been reduced to zero and further reduction of lease liabilities is still required, the Company will include the remaining amount in the current profit or loss.

- If the Company's assessment results of call options, lease renewal options or lease termination options have changed, or the actual exercise of the said options is inconsistent with the original assessment results, the Company remeasures its lease liabilities based on the lease payments after change and the present value calculated at revised discount rate;
- When there is a change in the substantive fixed payment amount, a change in the amount expected to be payable for the guaranteed residual value, or a change in the index or rate used to determine the lease payment amount, the Company remeasures lease liabilities based on the lease payments after change and the present value calculated at original discount rate. However, if the changes in lease payments result from changes in floating interest rates, the present value is calculated using the revised discount rate.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.28 Leases (Continued)

3.28.1 The Company as the lessee (Continued)

(3) Short-term lease and lease of low-value assets

The Company chooses not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the relevant lease payments are included in the current profit or loss or the cost of related assets by straight-line method over each period within the lease period. Short-term leases refer to leases that do not exceed 12 months on the commencement date of the lease period and do not include any purchase option. Low-value asset lease refers to the lease of a single lease asset with lower value when it is brand new. For the lease asset subleased by the Company subleases or expected to be subleased, the original lease is not a lease of low-value assets.

(4) Lease changes

If the lease changes and the following conditions are met at the same time, the Company will carry out accounting treatment over the lease change as a separate lease:

- where the lease change expands the scope of the lease by adding the right to use one or more leased assets; and
- where the increase of the consideration is equivalent to the adjusted individual price of the expanded part of the lease scope according to the contract.

Where the lease change is not accounted for as a separate lease, on the effective date of the lease change, the Company will re-distribute the consideration of the contract after the change, re-determine the lease period, and re-measure lease liabilities according to the present value calculated by the changed lease payments and the revised discount rate.

If a lease change results in a reduction in the scope of the lease or a shortening of the lease term, the Company reduces the book value of the right-of-use asset accordingly and recognizes gains or losses related to partial or complete termination of the lease in the current profit or loss. If the lease liabilities are remeasured due to other lease changes, the Company adjusts the book value of the right-of-use asset accordingly.

3.28.2 The Company as the lessor

Leases of the Company are classified as finance lease and operating lease on the lease commencement date. Lease under which almost all the risks and rewards relevant to the ownership of leased assets are materially transferred is recognized as finance lease, regardless of whether the ownership is ultimately transferred. Operating lease refers to the leases other than finance lease. When the Company is a sub-lessor, it classifies the sub-leases based on the right-of-use assets generated by the original lease.

(1) Accounting treatment of operating lease

Rental from the operating lease in each stage during the rental period should be recognized as the rental income by the straight-line method. Initial direct costs relating to operating lease incurred by the Company are capitalized, and shall be included in the current profit or loss on the same basis as the recognition of lease income during the lease period. The variable lease payable that is not included in the lease receivable shall be included in the current profit or loss at the time of actual occurrence. If an operating lease is changed, the Company accounts for it as a new lease from the effective date of the change, and the amount of lease payments received in advance or receivable in connection with the lease before the change is considered to be the amount of payments for the new lease.

(2) Accounting treatment of finance lease

On the lease commencement date, the Company recognizes finance leases as finance lease receivables and derecognizes finance lease as assets. When the Company makes initial measurement of finance lease receivables, the net lease investment is used as the recorded value of the finance lease receivables. The net investment in leases is the sum of the unguaranteed residual value and the present value of the lease payments not yet received at the beginning of the lease term discounted at the interest rate embedded in the lease.

The Company calculates and recognizes interest income for each period of the lease term based on a fixed periodic interest rate. Derecognition and impairment of finance lease receivables are accounted for in accordance with Note "3.10 Financial instruments".

Variable lease payments not included in the net lease investment are recognized in the current profit or loss when they are actually incurred.

When a change in a finance lease occurs and both of the following conditions are met, the Company will account for the change as a separate lease:

- where the change expands the scope of the lease by adding the right to use one or more leased assets; and
- where the increase of the consideration is equivalent to the adjusted individual price of the expanded part of the lease scope according to the contract.

If the change in a finance lease cannot be accounted for as a separate lease, the Company treats the changed lease separately in the following circumstances.

- If the change becomes effective on the lease commencement date and the lease would have been classified as an operating lease, the Company accounts for it as a new lease from the effective date of the lease change and uses the net investment in the lease prior to the effective date of the lease change as the book value of the leased asset;
- If the change becomes effective on the lease commencement date and the lease is classified as a finance lease, the Company accounts for the lease in accordance with the policy on modification or renegotiation of contracts as described in Note "3.10 Financial instruments".

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.28 Leases (Continued)

3.28.3 Sale-and-leaseback transactions

The Company assesses whether the transfer of assets in sale-and-leaseback transactions is a sale in accordance with the principles described in the Note "3.24 Revenue".

(1) *The Company as the lessee*

If the transfer of an asset in a sale-and-leaseback transaction is a sale, the Company, as the lessee, measures the right-of-use asset resulting from the sale-and-leaseback at the portion of the original asset's book value that relates to the right of use acquired by the lease back and recognizes a gain or loss related to the right transferred to the lessor only; if the transfer of an asset in a sale-and-leaseback transaction is not a sale, the Company, as the lessee, continues to recognize the transferred asset and at the same time recognizes a financial liability equal to the transfer proceeds. For details of the accounting treatment of financial liabilities, please refer to the Note "3.10 Financial instruments".

(2) *The Company as the lessor*

If the transfer of assets in a sale-and-leaseback transaction is a sale, the Company accounts for the purchase of the assets as a lessor in accordance with the aforementioned policy stated in "2. The Company as the lessee; if the transfer of assets in a sale-and-leaseback transaction is not a sale, the Company, as the lessor, does not recognize the transferred asset, but recognizes a financial asset equal to the transfer proceeds. For details of the accounting treatment of financial assets, please refer to the Note "3.10 Financial instruments".

3.29 Work safety costs

In accordance with national regulations, the Company withdraws work safety costs for high-risk industries, and includes them both in the production costs of relevant products in the current period and in the special reserves. When withdrawn safe production costs are used within the prescribed range and belong to expenses, such costs shall be directly deducted from the special reserves. Where fixed assets form, incurred expenses are accumulated under the item "construction in progress" and are recognized as fixed assets when the safe project is completed and reaches the working conditions for its intended; meanwhile, special reserves shall be offset according to the costs of fixed assets and the accumulated depreciation of the same amount shall be recognized. Provision for depreciation of fixed assets will be no longer made in subsequent periods.

3.30 Share repurchases

The shares repurchased by the Company are managed as treasury stocks until they are canceled or transferred, and all expenses for the repurchased shares are transferred to the costs of treasury stocks. The consideration and transaction costs paid in share repurchases reduce owners' equity, and no gain or loss is recognized upon the repurchase, transfer or cancellation of the Company's shares.

The difference between the actual amount received and the book value of treasury stocks is credited to the capital surplus. If the capital surplus is not sufficient for offsetting, the surplus reserves and undistributed profits will be reduced. Upon cancellation of treasury stocks, the share capital is reduced by the par value of the shares and the number of shares canceled. The difference between the book value of the canceled treasury stocks and the par value is used to reduce capital surplus, and if the capital surplus is not sufficient for offsetting, the surplus reserves and undistributed profits will be reduced.

3.31 Segment reporting

The Company determines operating segments based on its internal organizational structure, management requirements and internal reporting system, and determines reportable segments and disclose segment information by operating segments.

The operating segments refer to the Company's components that simultaneously meet the following conditions: (1) the components can generate income and incur expenses in daily activities; (2) The Management of the Company can regularly evaluate the operating results of this component to decide the allocatable resources and assess its performance; (3) The Company can obtain relevant accounting information such as the financial positions, operating results and cash flows of this component. If two or more operating segments have similar economic characteristics and meet certain conditions, they can be merged into one operating segment.

3.32 Significant accounting estimates and judgments

The Group evaluates the significant accounting estimates and key assumptions used on an ongoing basis, based on historical experience and other factors, including reasonable expectations of future events. Significant accounting estimates and critical assumptions that have a significant risk of causing a material adjustment to the book values of assets and liabilities within the next accounting year are presented below.

3.32.1 Classification of financial assets

The significant judgments involved in determining the classification of the Group's financial assets include analysis of the business model and contractual cash flow characteristics, etc.

The Group determines the business model for managing financial assets at the level of the financial asset portfolio, taking into account factors such as the manner in which the performance of financial assets is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the manner in which they are managed, and the manner in which the relevant business management personnel are compensated.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.32 Significant accounting estimates and judgments (Continued)

3.32.1 Classification of financial assets (Continued)

In assessing whether the contract cash flow of financial assets is consistent with the basic lending arrangements, the Group has the following judgments: whether the principal's time distribution or amount may change during the lifetime for early repayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of advance payment only reflect the unpaid principal and interest based on the unpaid principal, and reasonable compensation paid for the early termination of the contract.

3.32.2 Measurement of expected credit loss of receivables

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

3.32.3 Provision for inventory depreciation

The net realizable value of inventories is under the Group's regular review, and as a result, the provision for inventory depreciation is recognized at the excess part of inventories' book values over their net realizable value. When making estimates of net realizable value, the Company takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Company's historical operating costs. The actual selling price, cost of completion, and selling expenses and taxes of inventories may change in response to changes in market sales conditions, production technology processes or the actual use of inventories, etc. Therefore, the amount of provision for inventory depreciation may change in response to the above reasons. The adjustment to the provision for inventory depreciation will affect the profit or loss of the current period in which the estimate is changed.

3.32.4 Depreciation and amortization of fixed assets, intangible assets and long-term deferred expenses

The Group depreciates and amortizes fixed assets, intangible assets and long-term deferred expenses over their useful lives after taking into account their residual values. The Group periodically reviews the useful lives and amortization period of the related assets to determine the amount of depreciation and amortization expense to be charged to each reporting period. The useful lives of the assets are determined by the Group based on past experience with similar assets and in conjunction with expected technological changes, and the amortization period of long-term deferred expenses is determined by the Group based on the expected benefit period of each expense. Depreciation and amortization expense is adjusted in future periods if there is a significant change in previous estimates.

3.32.5 Development expenses

In determining the amount to be capitalized, management must make assumptions about the expected future cash generation from the asset, the discount rate to be used, and the expected period of benefit.

3.32.6 Revenue recognition

Revenue related to the Group's provision of petroleum engineering services is recognized over a period of time. The recognition of revenue and profit from the related labor services depends on the Group's estimate of the contractual outcome and the progress of performance. The Group estimates the expected total contract revenue using the expected value method or the most likely-to-occur amount based on the contract, and assesses the expected total contract cost based on historical experience and the construction program. Given that the contract cycle for engineering services may span multiple accounting periods, the Group periodically reviews and revises the estimated contract revenue and contract cost in the budget as the contract completion progresses. If the actual amount of total revenue and total costs incurred is higher or lower than the management's estimates, it will affect the amount of revenue and profit recognized by the Group in future periods.

3.32.7 Pending litigations

For the legal proceedings and claims, the Group, after making reference to the opinions of its legal advisors and understanding the progress of the case and the settlement solution, judges the expected losses to be borne based on the best estimate of the expenses required to fulfill the relevant present obligations. The estimated losses will change during the development of the legal proceedings and claims.

3.32.8 Deferred tax assets

To the extent that it is very likely that there will be enough taxable profits to offset the losses, the Group should recognize deferred tax assets for all unused tax losses. This requires the management to use significant judgment in estimating the timing and amount of future taxable profit, combined with tax planning strategies, to determine the amount of deferred tax assets to be recognized. If the taxable revenue to be earned in future accounting periods is lower than expected or the effective income tax rate is higher than expected, the deferred tax assets recognized will be reversed and included in the income statement in the period of reversal.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.32 Significant accounting estimates and judgments (Continued)

3.32.9 Taxation

There is uncertainty about the interpretation of complex tax legislation, including provisions relating to tax benefits, and the amount and timing of future taxable revenue. Given the complexity of extensive international business relationships and existing contractual agreements, differences between actual results of operations and assumptions made, or future changes in such assumptions, may require future adjustments to the recognized tax income and expense. The Group accrues tax expense based on reasonable estimates of the probable outcome of audits by the tax authorities where the Group operates. The amount of tax expenses accrued is based on various factors, such as prior tax audit experience, and different tax regulation interpretations from taxable entities and relevant tax authorities. Since the Group operates in different tax regions, different interpretation may be resulted from various events.

3.33 Changes in significant accounting policies and accounting estimates

3.33.1 Changes in significant accounting policies

(1) Implementation of the Interpretation No. 14 to the Accounting Standards for Business Enterprises

On February 2, 2021, the Ministry of Finance issued the *Interpretation No. 14 to the Accounting Standards for Business Enterprises* (CS [2021] No. 1, hereinafter referred to as the "Interpretation No. 14"), effective from the date of promulgation. Relevant operations newly added from January 1, 2021 to the effective date shall be adjusted according to the Interpretation No. 14.

① Reform on benchmark interest rate

The Interpretation No. 14 provides simplified accounting for situations where the reform of benchmark interest rate results in a change in the basis for determining cash flows related to financial instrument contracts and lease contracts.

According to the provisions of the Interpretation No. 14, operations related to the reform of benchmark interest rate occurring before December 31, 2020 should be retroactively adjusted, except where the retroactive adjustment is not practicable, and no adjustment to prior period comparative financial statement data is required. On the effective date of the Interpretation No. 14, the difference between the original and new book values of financial assets and financial liabilities is recognized in opening retained earnings or other comprehensive income for the annual reporting period in which the Interpretation is effective. The adoption of Interpretation No. 14 had no material impact on the Company's financial position and operating results.

(2) Implementation of the Circular on adjusting the Application Scope of the Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19

On June 19, 2020, the Ministry of Finance issued the *Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19* (CK (2020) No.10). According to the provisions, for rent concessions such as rent reductions and deferred rent payments that directly triggered by Covid-19, the Company can choose simplified method for accounting.

On May 26, 2021, the Ministry of Finance issued the Circular on adjusting the Application Scope of the Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19 (CK [2021 No.9]), which takes effect from May 26, 2021 and changes the scope of application of Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19 is adjusted, from "the concessions are only for lease payments payable before June 30, 2021" to "the concessions are only for lease payments payable before June 30, 2022", with other applicable conditions unchanged.

The Company has elected to adopt the simplified accounting for all eligible leases prior to the scope of application adjustment and for all similar leases that qualify after the scope of application adjustment, and retroactively adjusts the relevant lease contracts that have been accounted for using lease changes prior to the issuance of the Circular, but do not adjust the comparative financial statement data for the prior period; the relevant rent reductions that occurred between January 1, 2021 and the effective date of the Circular that were not accounted for in accordance with the provisions of the Circular are adjusted in accordance with the Circular.

3.33.2 Changes in significant accounting estimates

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

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4 TAXATION

4.1 Major tax types and tax rates

Tax type	Tax basis	Legal tax rate (%)
Value-added tax	Levied at the difference between the output tax (calculated based on the revenue from sales of goods and rendering of services according to tax law) and the deductible input tax for the period	3, 6, 9, 10 or 13
Urban maintenance and construction tax	Levied based on the actual VAT and consumption tax paid	1, 5 or 7
Educational surtax	Levied based on the actual VAT and consumption tax paid	5
Enterprise income tax	Levied based on the taxable income	25

Disclosure of information about taxpayers applying different enterprise income tax rates

Taxpayer name	Income tax rate
Sinopec Shengli Oilfield Co., Ltd.	15
Sinopec Zhongyuan Petroleum Engineering Ltd.	15
Sinopec Oilfield Service Jiangnan Corporation	15
Sinopec Southwest Petroleum Engineering Co., Ltd.	15
Sinopec Zhongyuan Petroleum Engineering Design Ltd.	15
Sinopec Henan Oil Engineering Design Company Limited	15
Sinopec Petroleum Engineering Geophysics Ltd.	15
Sinopec Huabei Oilfield Service Corporation	15
Sinopec Jingwei Co., Ltd.	25

4.2 Tax preference

4.2.1 Consumption tax refund of self-used refined oil

According to the Circular on the Refund of Consumption Tax on the Self-use Refined Oil Produced by Oil (Gas) Field Enterprises (CS [2011] No. 7), since January 1, 2009, the full amount of consumption tax contained in the internally purchased refined oil consumed by oil (gas) field enterprises during the extraction of crude oil will be temporarily refunded according to the actual amount of consumption tax paid.

4.2.2 Enterprise income tax

According to the Circular of the Ministry of Finance and the State Administration of Taxation General Administration of Customs on Tax Policy Issues Related to the Further Implementation of the Western Development Strategy (CS [2011] No. 58) and the Announcement of the State Administration of Taxation on Enterprise Income Tax Issues Related to the Further Implementation of the Western Development Strategy ([2012]No. 12), the taxation branch directly under the State Taxation Bureau of Sichuan Province, with the title of Approval of Sinopec Southwest Petroleum Engineering Co., Ltd. to Enjoy the Preferential Enterprise Income Tax Policy for the Western Development (CGSZF [2014] No. 8), the Company's Sinopec Southwest Petroleum Engineering Co., Ltd. enjoys a preferential enterprise income tax rate of 15% for the western development.

Sinopec Shengli Oilfield Co., Ltd., Sinopec Zhongyuan Petroleum Engineering Ltd., Sinopec Oilfield Service Jiangnan Corporation, Sinopec Huabei Oilfield Service Corporation, Sinopec Petroleum Engineering Geophysics Ltd., Sinopec Zhongyuan Petroleum Engineering Design Company Limited and Sinopec Henan Oil Engineering Design Company Limited, which are subsidiaries of the Group, have obtained the certification of high-tech enterprise and are subject to a reduced enterprise income tax rate of 15% in accordance with the *Enterprise Income Tax Law of the People's Republic of China* and the *Circular of the State Administration of Taxation on Issues Related to the Implementation of High and New Technology Enterprise Income Tax Preference* (GSX [2009] No. 203), the enterprise income tax will be paid at a reduced rate of 15%.

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 Monetary funds

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Cash on hand	4,884	8,517
Bank deposits	844,863	774,312
Deposits of finance companies	648,483	757,540
Other monetary funds	3,934	11,089
Total	1,502,164	1,551,458
Including: total amount of deposit abroad	592,749	1,245,493

As at June 30, 2021, the Group's monetary funds restricted for use due to mortgage, pledge or freezing, or placed overseas with restrictions on fund repatriation are as follows:

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Guarantee deposit	4,248	3,772
L/C deposit	88	14,096
Frozen and pledged deposits	3,684	7,238
Time deposit		3,000
Total	8,020	28,106

As at June 30, 2021, the Group had not pledged deposit with any bank for the issuance of bank acceptance bill.

5.2 Accounts receivable

5.2.1 Disclosure of accounts receivable by aging

Aging	Balance as at June 30, 2021	Balance as at December 31, 2020
Within 1 year	7,054,634	8,296,681
Including: Not overdue	5,077,032	7,147,826
Overdue – Within 1 year	1,977,602	1,148,855
1 – 2 years	674,990	832,651
2 – 3 years	483,346	737,894
3 – 4 years	320,784	339,558
4 – 5 years	210,678	638,449
Over 5 years	1,513,277	987,690
Sub-total	10,257,709	11,832,923
Less: provision for bad debts	2,399,935	2,474,538
Total	7,857,774	9,358,385

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.2 Accounts receivable (Continued)

5.2.2 Disclosure of accounts receivable by category based on the method for provision for bad debts

Category	Balance as at June 30, 2021					Balance as at December 31, 2020				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)		Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Provision for bad debts made individually	972,338	9.48	972,338	100.00	–	983,589	8.31	983,589	100.00	–
Provision for bad debts made by portfolio	9,285,371	90.52	1,427,597	15.37	7,857,774	10,849,334	91.69	1,490,949	13.74	9,358,385
Including:										
Related-party portfolio	3,023,584	29.48	55,724	1.84	2,967,860	3,282,821	27.74	71,948	2.19	3,210,873
Non-related-party portfolio	6,261,787	61.04	1,371,873	21.91	4,889,914	7,566,513	63.95	1,419,001	18.75	6,147,512
Total	10,257,709	100.00	2,399,935		7,857,774	11,832,923	100.00	2,474,538		9,358,385

Provision for bad debts made individually:

Item	Balance as at June 30, 2021			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Entity A	885,416	885,416	100.00	The payment has not been collected for a long term due to the debtor's capital shortage.
Entity B	43,031	43,031	100.00	The payment has not been collected for a long term due to the debtor's capital shortage.
Entity C	26,115	26,115	100.00	The payment has not been collected for a long term due to the debtor's capital shortage.
Total of other sporadic units	17,776	17,776	100.00	The payment has not been collected for a long term due to the debtor's capital shortage.
Total	972,338	972,338		

Provision for bad debts made by portfolio:

Provision by portfolio:

Item	Balance as at June 30, 2021		
	Accounts receivable	Provision for bad debts	Proportion of provision (%)
Accounts receivable from related-party clients	3,023,584	55,724	1.84
Accounts receivables from non-related-party clients	6,261,787	1,371,873	21.91
Total	9,285,371	1,427,597	

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.2 Accounts receivable (Continued)

5.2.2 Disclosure of accounts receivable by category based on the method for provision for bad debts (Continued)

Provision by portfolio: Accounts receivable from related-party clients

Category	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Expected credit loss ratio (%)	Amount	Amount	Expected credit loss ratio (%)
Within 1 year	2,698,784	11,095	0.41	2,841,134	10,041	0.35
Including:						
Not overdue	2,232,667	6,698	0.30	2,624,432	7,874	0.30
Overdue – Within 1 year	466,117	4,397	0.94	216,702	2,167	1.00
1 – 2 years	176,756	7,290	4.12	237,034	12,449	5.25
2 – 3 years	78,439	6,550	8.35	115,193	11,865	10.30
3 – 4 years	37,586	7,473	19.88	52,495	13,077	24.91
4 – 5 years	9,153	4,786	52.29	17,980	9,328	51.88
Over 5 years	22,866	18,530	81.03	18,985	15,188	80.00
Total	3,023,584	55,724	1.84	3,282,821	71,948	2.19

Provision by portfolio: Accounts receivable from non-related-party clients

Category	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Expected credit loss ratio (%)	Amount	Amount	Expected credit loss ratio (%)
Within 1 year	4,355,850	89,703	2.06	5,531,474	60,406	1.09
Including:						
Not overdue	2,844,366	8,533	0.30	4,599,324	13,798	0.30
Overdue – Within 1 year	1,511,484	81,170	5.37	932,150	46,608	5.00
1 – 2 years	498,234	120,866	24.26	532,550	139,574	26.21
2 – 3 years	320,006	161,972	50.62	435,280	229,215	52.66
3 – 4 years	283,197	225,983	79.80	280,400	227,155	81.01
4 – 5 years	199,504	168,353	84.39	177,970	153,812	86.43
Over 5 years	604,996	604,996	100.00	608,839	608,839	100.00
Total	6,261,787	1,371,873	21.91	7,566,513	1,419,001	18.75

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.2 Accounts receivable (Continued)

5.2.3 Provision, reversal or recovery of provision for bad debts in the current period

Category	Balance as at December 31, 2020	Changes in the current period			Balance as at June 30, 2021
		Provision	Recovery or reversal	Write-off or charge-off	
Provision for bad debts	2,474,538	66,739	130,909		2,399,935
Total	2,474,538	66,739	130,909		2,399,935

5.2.4 Accounts receivable actually charged off in the current period

There were no accounts receivable actually charged off in the current period.

5.2.5 Top 5 of accounts receivable as at June 30, 2021, presented by debtor

Company name	Balance as at June 30, 2021		
	Accounts receivable	Proportion in total accounts receivable (%)	Provision for bad debts
Entity 1	2,318,248	22.60	19,296
Entity 2	885,416	8.63	885,416
Entity 3	823,955	8.03	54,194
Entity 4	560,103	5.46	11,538
Entity 5	439,774	4.29	9,059
Total	5,027,496	49.01	979,503

5.3 Receivables financing

5.3.1 Breakdowns of receivables financing

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Notes receivable	1,204,205	1,323,425
Total	1,204,205	1,323,425

Some subsidiaries of the Group discounted and transferred via endorsement a part of bank acceptance bills and commercial acceptance bills based on its routine funds management demand, and derecognized the discounted and endorsed notes receivable based on the situation that almost all risks and remuneration have been transferred to relevant counterparties. As at June 30, 2021, the notes receivable endorsed or discounted but not matured amounted to RMB3,894,426 thousand (As at December 31, 2020, RMB8,659,126 thousand). As relevant subsidiaries manage notes receivable with the purpose of collecting contractual cash flows and selling such financial assets, the Company classifies these subsidiaries' bank acceptance bills and commercial acceptance bills as the financial assets measured at fair value through other comprehensive income.

The Group had no bank acceptance bill or commercial acceptance bill with the provision for impairment made individually. As at June 30, 2021, the Group believed that the bank acceptance bills and commercial acceptance bills it held had not significant credit risk as they were accepted by the banks or finance companies with higher credit levels, and it would not be subjected to the significant loss caused by the default of these banks and finance companies. The Group had not made the provision for losses from credit impairment of receivables financing.

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.4 Advances to suppliers

5.4.1 Presentation of advances to suppliers by aging

Aging	Balance as at June 30, 2021		Balance as at December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	387,244	88.06	359,258	81.34
1 – 2 years	35,700	8.12	78,464	17.77
2 – 3 years	15,389	3.50	2,165	0.49
Over 3 years	1,395	0.32	1,767	0.40
Total	439,728	100.00	441,654	100.00

5.4.2 Top 5 of advances to suppliers as at June 30, 2021, collected by supplier

The sum amount of top 5 of accounts receivable as at June 30, 2021, presented by debtor was RMB202,474 thousand, accounting for 46.05% of the total ending balance of advances to suppliers.

5.5 Other receivables

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Dividends receivable		502
Other receivables	2,876,495	2,463,860
Total	2,876,495	2,464,362

5.5.1 Dividends receivable

(1) Details of dividends receivable

Project (or investee)	Balance as at June 30, 2021	Balance as at December 31, 2020
Qianjiang Hengyun Motor Vehicle Comprehensive Performance Inspection & Testing Co., Ltd.		502
Sub-total		502
Less: provision for bad debts		
Total		502

5.5.2 Other receivables

(1) Disclosure of other receivables by aging

Aging	Balance as at June 30, 2021	Balance as at December 31, 2020
Within 1 year	2,196,304	1,739,781
1 – 2 years	664,336	690,443
2 – 3 years	74,532	118,067
3 – 4 years	98,102	111,146
4 – 5 years	184,802	197,912
Over 5 years	420,972	363,660
Sub-total	3,639,048	3,221,009
Less: provision for bad debts	762,553	757,149
Total	2,876,495	2,463,860

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.5 Other receivables (Continued)

5.5.2 Other receivables (Continued)

(2) Disclosure of other receivables by category

Category	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for bad debts	Book value	Book balance	Provision for bad debts	Book value
	Amount	Amount	Amount	Amount	Amount	Amount
Imprest	63,100	52	63,048	11,907	338	11,569
Security deposit	1,366,589	147,647	1,218,942	1,326,522	173,435	1,153,087
Amount paid on behalf	844,725	136,540	708,185	833,797	151,599	682,198
Suspense payment	829,357	457,987	371,370	622,405	394,479	227,926
Escrow payment	4,701	1,727	2,974	4,688	2,975	1,713
Deposit	35,346	3,331	32,015	44,539	8,540	35,999
Export rebates receivable	10,389	44	10,345	22,213	3,305	18,908
Others	484,841	15,225	469,616	354,938	22,478	332,460
Total	3,639,048	762,553	2,876,495	3,221,009	757,149	2,463,860

(3) Details of provision for bad debts

Provision for bad debts at stage I as at June 30, 2021

Category	Book balance	Expected credit loss ratio in future 12 months (%)	Provision for bad debts	Book value
Provision for bad debts made by portfolio	2,935,172	3.75	110,117	2,825,055
– Imprest	63,100	0.08	52	63,048
– Margin and deposit	1,265,486	4.03	50,999	1,214,487
– Other receivables	1,606,586	3.68	59,066	1,547,520
Total	2,935,172		110,117	2,825,055

As at June 30, 2021, the Company had no interest receivable, dividends receivable and other receivables at stage II.

Provision for bad debts at stage III as at June 30, 2021:

Category	Book balance	Expected credit loss ratio in future 12 months (%)	Provision for bad debts	Book value
Provision for bad debts made by portfolio	703,876	92.69	652,436	51,440
– Imprest				
– Margin and deposit	136,449	73.27	99,979	36,470
– Other receivables	567,427	97.36	552,457	14,970
Total	703,876		652,436	51,440

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.5 Other receivables (Continued)

5.5.2 Other receivables (Continued)

(4) Provision, reversal or recovery of provision for bad debts in the current period

Provision for bad debts	Stage I	Stage II	Stage III	Total
	Expected credit loss in future 12 months	Expected credit loss in the whole duration (without credit impairment)	Expected credit loss in the whole duration (with credit impairment)	
Balance as at December 31, 2020	113,833		643,316	757,149
Balance as at December 31, 2020 in the current period				
– Transferred in Stage II				
– Transferred in Stage III				
– Reversal from Stage II				
– Reversal from Stage I				
Provision in the current period	14,088		34,362	48,450
Reversal in the current period	17,804		24,571	42,375
Other changes			-671	-671
Balance as at June 30, 2021	110,117		652,436	762,553

(5) Other receivables actually charged off in the current period

There were no other receivables charged off in the current period.

(6) Top 5 of other receivables as at June 30, 2021, presented by debtor

Company name	Nature	Balance as at June 30, 2021	Aging	Proportion in the total balance of other receivables as at June 30, 2021 (%)	Balance of provision for bad debts as at June 30, 2021
Sinopec International Petroleum Service Corporation Mexico DS Joint Venture	Amount paid on behalf	478,381	1 – 3 years	13.15	17,587
Saudi Arabia Branch of China Eleventh Chemical Construction Co., Ltd.	Suspense payment	306,099	1 – 5 years and over 5 years	8.41	262,945
Sinkiang Seven Star Building Co., Ltd.	Suspense payment	166,339	Over 5 years	4.57	166,339
Petrobras UFN-III Alliance	Amount paid on behalf	114,035	1 – 5 years and over 5 years	3.13	113,313
KUWAIT OIL COMPANY	Security deposit	95,027	Within 1 year	2.61	3,830
Total		1,159,881		31.87	564,014

5.6 Inventories

5.6.1 Classification of inventories

Item	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for inventory depreciation/	Book value	Book balance	Provision for inventory depreciation/	Book value
Raw materials	829,598	38,248	791,350	916,767	38,826	877,941
Revolving materials	15,043		15,043	15,079		15,079
Goods in process	16,807	1,671	15,136	66,577	1,671	64,906
Stock commodities	63,303		63,303	68,039		68,039
Contract performance cost	430,327		430,327	7,713		7,713
Total	1,355,078	39,919	1,315,159	1,074,175	40,497	1,033,678

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.6 Inventories (Continued)

5.6.2 Provision for inventory depreciation and provision for impairment of contract performance cost

Item	Balance as at December 31, 2020	Increase in the current period		Decrease in the current period		Balance as at June 30, 2021
		Provision	Others	Reversal or write-off	Others	
Raw materials	38,826			578		38,248
Goods in process	1,671					1,671
Total	40,497			578		39,919

The provision for inventory depreciation is made at the difference of the inventory cost in excess of its net realizable value. During routine activities, net realizable values of inventories refer to the amounts of the estimated selling prices of inventories minus the estimated costs to completion, estimated selling expenses and relevant taxes and surcharges.

5.6.3 Notes to the capitalized amounts of borrowing costs included in the ending balance of inventories

As at June 30, 2021 and December 31, 2020, in the ending balances of the Group's inventories, there were no capitalized borrowings, and those balances had not been used for pledge or guarantee.

5.7 Contract assets

5.7.1 Breakdowns of contract assets

Item	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Contract assets	17,539,508	121,454	17,418,054	11,715,335	104,447	11,610,888
Total	17,539,508	121,454	17,418,054	11,715,335	104,447	11,610,888

The petroleum engineering technology services provided by the Group are usually settled in stages according to the completion progress agreed in the contract, and the project payment will be collected 30 – 180 days after the settlement via making out an invoice. For some projects of engineering construction business, quality deposit are reserved in the proportion of about 5% of the total settlement amount of the project price, and when the warranty period expires, the unconditional payment right will be granted.

5.7.2 Amounts with and reasons for significant changes in book values during the reporting period

During the current period, there was no significant change in contract assets caused by the accumulated and additional adjustment to revenues.

5.7.3 Disclosure by category of contract assets based on the provision method for impairment

Category	Balance as at June 30, 2021					Balance as at December 31, 2020				
	Book balance		Provision for impairment		Book value	Book balance		Provision for impairment		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Provision for impairment made by portfolio	17,539,508	100.00	121,454	0.69	17,418,054	11,715,335	100.00	104,447	0.89	11,610,888
Including:										
Petroleum engineering technology service	9,446,648	53.86	97,400	1.03	9,349,248	5,996,377	51.18	87,600	1.46	5,908,777
Engineering construction	8,092,860	46.14	24,054	0.30	8,068,806	5,718,958	48.82	16,847	0.30	5,702,111
Total	17,539,508	100.00	121,454		17,418,054	11,715,335	100.00	104,447		11,610,888

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.8 Other current assets

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Value-added tax retained	1,236,837	981,684
Input VAT to be certified	19,753	247,610
Value-added tax prepaid	853,051	761,948
Income tax prepaid	4,232	4,566
Total	2,113,873	1,995,808

5.9 Long-term equity investments

Investee	Balance as at December 31, 2020	Increase/decrease in the current period								Balance as at June 30, 2021	Ending balance of provision for impairment	
		Additional investment	Negative investment	Profit or loss on investments recognized by the equity method	Adjustment to other comprehensive income	Other changes in equity	Cash dividends or profits declared to be distributed	Provision for impairment made	Others			
1. Joint ventures												
Zhong Wei Energy Services Co., Ltd.	8,316			-565							7,751	
Sinopec Gulf Petroleum Engineering Services, LLC	13,075										13,075	
Qianjiang Hengyun Motor Vehicle Comprehensive Performance Inspection & Testing Co., Ltd.	1,613			340							1,953	
EBAPAN,S.A.DEC.V	200			272							472	
Sub-total	23,204			47							23,251	
2. Associates												
Ordos Huabei Ruida Oil & Gas Engineering Technology Service Co., Ltd.	6,654			2,634							9,288	
Xinjiang Huabei Tianxiang Oil & Gas Engineering Technology Service Co., Ltd.	3,201			469							3,670	
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd.	2,180			187			187				2,180	
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd.	3,236										3,236	
Henan Zhongyou Oil & Gas Technology Service Co., Ltd.	4,571										4,571	
Sub-total	19,842			3,290			187				22,945	
Total	43,046			3,337			187				46,196	

Other descriptions:

The Group had no significant restriction on the realization of long-term equity investments. For the information on the Group's joint ventures and associates, see Note 7.2 Equity in joint ventures or associates.

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.10 Investment in other equity instruments

5.10.1 Details of investment in other equity instruments

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Sinopec & Tharwa Drilling Company	14,229	14,229
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd.	8,491	8,491
Dongying Kewei Intelligent Technology Co., Ltd.	115	115
Total	22,835	22,835

As the investments in other equity instruments involving Sinopec & Tharwa Drilling Company are investments held as planned for a strategic purpose in a long term, the Group designated these investments as the financial assets measured at fair value through other comprehensive income.

5.10.2 Details of investment in non-trading equity instruments

Item	Dividend revenue recognized in the current period	Cumulative gain	Cumulative loss	Amount of other comprehensive income transferred to retained earnings	Reason for being designated as the item measured at fair value through the other comprehensive income	Reason for transferring the other comprehensive income to retained earnings
Sinopec & Tharwa Drilling Company		6,490				
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd.			7,744			
Dongying Kewei Intelligent Technology Co., Ltd.			300			

5.11 Fixed assets

5.11.1 Fixed assets and disposal of fixed assets

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Fixed assets	21,637,382	22,917,438
Disposal of fixed assets	14,555	22,400
Total	21,651,937	22,939,838

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.11 Fixed assets (Continued)

5.11.2 Breakdowns of fixed assets

Item	Buildings and constructions	Equipment and others	Total
1. Original book value			
(1) Balance as at December 31, 2020	1,633,344	62,186,310	63,819,654
(2) Increase in the current period	313	198,284	198,597
– Purchase	313	3,056	3,369
– Transferred from construction in progress		195,228	195,228
(3) Decrease in the current period	795	317,354	318,149
– Disposal or scrapping	795	317,354	318,149
(4) Balance as at June 30, 2021	1,632,862	62,067,240	63,700,102
2. Accumulated depreciation			
(1) Balance as at December 31, 2020	598,862	38,974,988	39,573,850
(2) Increase in the current period	26,967	1,440,428	1,467,395
– Provision	26,967	1,440,428	1,467,395
(3) Decrease in the current period	702	305,350	306,052
– Disposal or scrapping	702	305,350	306,052
(4) Balance as at June 30, 2021	625,127	40,110,066	40,735,193
3. Provision for impairment			
(1) Balance as at December 31, 2020	8,436	1,319,930	1,328,366
(2) Increase in the current period			
– Provision			
(3) Decrease in the current period		839	839
– Disposal or scrapping		839	839
(4) Balance as at June 30, 2021	8,436	1,319,091	1,327,527
4. Book value			
(1) Book value as at June 30, 2021	999,299	20,638,083	21,637,382
(2) Book value as at December 31, 2020	1,026,046	21,891,392	22,917,438

As at June 30, 2021, the Group had no fixed assets used for pledge.

5.11.3 Fixed assets with pending certificates of title

As at June 30, 2021, there were 37 houses with pending certificates of title and the original book value thereof amounted to RMB226,059 thousand. The provision for accumulated depreciation made amounted to RMB25,471 thousand, and the net book value was RMB200,588 thousand.

5.11.4 Disposal of fixed assets

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Equipment	14,555	22,400
Total	14,555	22,400

Remark: As at June 30, 2021, there was no disposal of fixed assets lasting for over one year.

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.12 Construction in progress

5.12.1 Construction in progress and project materials

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Construction in progress	264,307	284,292
Project material	148	
Total	264,455	284,292

5.12.2 Details of construction in progress

Item	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Expenditures on infrastructure construction and renovation	16,256	3,502	12,754	15,101	3,502	11,599
Large-scale equipment for petroleum engineering	280,773	68,232	212,541	303,273	68,232	235,041
Other engineering projects	39,012		39,012	37,652		37,652
Total	336,041	71,734	264,307	356,026	71,734	284,292

5.12.3 Changes in important construction in progress in the current period

Project name	Budget amount	Balance as at December 31, 2020	Increase in the current period	Amount transferred to fixed assets in the current period	Other decreases in the current period	Balance as at June 30, 2021	Proportion of accumulated project investments in budget amount (%)	Project progress (%)	Accumulated capitalized amount of interest	Source of funds
Purchase of seismic node collecting device in 2020	115,300	51,294				51,294	44.49	44.49		Self-financing in full
70115 drilling rig modification for gas well construction in Saudi Arabia	15,119	15,119				15,119	100.00	100.00		Self-financing in full
Purchase of coiled tubing operation equipment in 2021	33,200		10,796			10,796	32.52	32.52		Self-financing in full
Logging vehicle renewal project in 2020	19,900		10,363			10,363	52.08	52.08		Self-financing in full
Logging equipment renewal and purchase project in 2020	11,010		10,097			10,097	91.71	91.71		Self-financing in full
Construction of facilities for the disposal of oil-based cuttings in Baicheng, Xinjiang	9,680	9,590				9,590	99.07	99.07		Self-financing in full
Well bore business integration service platform project	9,800	9,245				9,245	94.34	94.34		Self-financing in full
Well bore data collection and information delivery project	9,800	8,962				8,962	91.45	91.45		Self-financing in full
Cementing equipment renewal in 2020	8,880	8,830				8,830	99.44	99.44		Self-financing in full
General skills and measures in 2020	19,180	18,178	1,359	19,537						Self-financing in full
Total		121,218	32,615	19,537		134,296				

5.12.4 Project material

Item	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Specific materials	148		148			
Total	148		148			

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.13 Right-of-use assets

Item	Land	Buildings and constructions	Equipment and others	Total
1. Original book value				
(1) Balance as at January 1, 2021	229,773	940,784	960,589	2,131,146
(2) Increase in the current period	64,368	117,191	71,247	252,806
– Newly-added leases	55,291	48,533	68,529	172,353
– Adjustment to lease liabilities	9,077	68,658	2,718	80,453
(3) Decrease in the current period	17,859	141,054	30,435	189,348
– Adjustment to lease liabilities	97	16,284	48	16,429
– Due charge-off or contract termination in advance	17,762	124,770	30,387	172,919
(4) Balance as at June 30, 2021	276,282	916,921	1,001,401	2,194,604
2. Accumulated depreciation				
(1) Balance as at January 1, 2021	99,134	379,609	386,820	865,563
(2) Increase in the current period	24,060	117,569	113,564	255,193
– Provision	24,060	117,569	113,564	255,193
– Other increases				
(3) Decrease in the current period	10,311	56,480	28,985	95,776
– Due charge-off or contract termination in advance	10,311	56,480	28,985	95,776
(4) Balance as at June 30, 2021	112,883	440,698	471,399	1,024,980
3. Provision for impairment				
(1) Balance as at January 1, 2021				
(2) Balance as at June 30, 2021				
4. Book value				
(1) Book value as at June 30, 2021	163,399	476,223	530,002	1,169,624
(2) Book value as at January 1, 2021	130,639	561,175	573,769	1,265,583

Other description: As at June 30, 2021, the lease expenses recognized by the Group and relevant to the short-term lease and low-value assets lease amounted to RMB783,557 thousand.

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.14 Intangible assets

5.14.1 Breakdowns of intangible assets

Item	Land use right	Software use right	Contract income right	Others	Total
1. Original book value					
(1) Balance as at December 31, 2020	136,660	178,160	618,962	77,364	1,011,146
(2) Increase in the current period		1,434			1,434
– Purchase		1,434			1,434
(3) Decrease in the current period					
(4) Balance as at June 30, 2021	136,660	179,594	618,962	77,364	1,012,580
2. Accumulated amortization					
(1) Balance as at December 31, 2020	28,305	138,599	315,804	23,472	506,180
(2) Increase in the current period	1,547	7,714	43,788	811	53,860
– Provision	1,547	7,714	43,788	811	53,860
(3) Decrease in the current period					
(4) Balance as at June 30, 2021	29,852	146,313	359,592	24,283	560,040
3. Provision for impairment					
4. Book value					
(1) Book value as at June 30, 2021	106,808	33,281	259,370	53,081	452,540
(2) Book value as at December 31, 2020	108,355	39,561	303,158	53,892	504,966

① As at June 30, 2021, there were no intangible assets generating from the internal research and development.

② As at June 30, 2021, there were no intangible assets used for pledge or guarantee.

5.14.2 Land use right with pending certificate of title

The Group had no land use right with pending certificate of title.

5.15 Long-term deferred expenses

Item	Balance as at December 31, 2020	Increase in the current period	Amortization in the current period	Other decreases	Balance as at June 30, 2021
Special tools for petroleum engineering	4,774,398	359,410	786,669	25,134	4,322,005
Other tools for petroleum engineering	509,221	90,147	162,701	2,685	433,982
Camping house	550,548	36,463	99,671	14,904	472,436
Other long-term deferred expenses	20,976	3,790	4,081		20,685
Total	5,855,143	489,810	1,053,122	42,723	5,249,108

Other description: The Group's long-term deferred expenses mainly include the special tools for well drilling and logging of petroleum engineering, special tools for geophysical exploration, and camping house.

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.16 Deferred tax assets and deferred tax liabilities

5.16.1 Deferred tax assets without offset

Item	Balance as at June 30, 2021		Balance as at December 31, 2020	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for asset impairment and impact of depreciation	1,423,786	230,850	1,423,786	230,850
Provision for bad debts of accounts receivable	877,966	155,361	934,484	163,328
Deferred income	3,284	493	3,284	493
Others	49,617	8,862	7,744	1,163
Total	2,354,653	395,566	2,369,298	395,834

5.16.2 Deferred tax liabilities before offset

Item	Balance as at June 30, 2021		Balance as at December 31, 2020	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Asset valuation appreciation	46,130	8,744	59,459	11,519
Depreciation of fixed assets	2,194	329	2,194	329
Changes in fair value of other equity instrument	6,490	1,623	6,490	1,623
Total	54,814	10,696	68,143	13,471

5.16.3 Details of unrecognized deferred tax assets

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Deductible temporary differences	2,374,335	2,366,618
Deductible losses	15,664,105	15,801,608
Total	18,038,440	18,168,226

Remark: Present the deductible temporary differences and deductible losses of deferred tax assets which have not been recognized on account that it is uncertain whether the taxable income can be obtained in the future.

5.16.4 Deductible losses from unrecognized deferred tax assets will be expired in the following years

Year	Balance as at June 30, 2021	Balance as at December 31, 2020
Year 2021	2,110,962	2,205,450
Year 2022	1,490,495	1,486,858
Year 2023	266,185	264,513
Year 2024	216,244	156,593
Year 2025 and later	11,580,219	11,688,194
Total	15,664,105	15,801,608

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.17 Short-term borrowings

5.17.1 Classification of short-term borrowings

Item	Currency	Balance as at June 30, 2021	Balance as at December 31, 2020
Related-party borrowings on credit	RMB	17,990,000	17,400,000
	USD	1,866,969	1,970,520
Total		19,856,969	19,370,520

As at June 30, 2021, the Group had no assets used for mortgage or pledge.

As at June 30, 2021, the Group had no short-term borrowings due but not repaid.

As at June 30, 2021, the interest rate interval for short-term borrowings was from 1.43% to 3.92% (As at December 31, 2020: 1.42%-3.92%).

5.18 Notes payable

Category	Balance as at June 30, 2021	Balance as at December 31, 2020
Bank acceptance bill	9,776,006	6,305,228
Total	9,776,006	6,305,228

At the end of the current period, there were neither notes payable due but not paid, nor notes payable with bank deposits pledged.

5.19 Accounts payable

5.19.1 Presentation of accounts payable

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Materials payment	5,308,839	5,287,322
Project payment	5,616,334	5,029,663
Payment for labor services	5,472,621	6,316,880
Payment for equipment	2,472,209	3,200,662
Others	617,644	662,982
Total	19,487,647	20,497,509

5.19.2 Significant accounts payable with aging over one year

Item	Balance as at June 30, 2021	Reason for no payment or carry-forward
Entity 1	53,893	Quality guarantee deposit, unsettled payment
Entity 2	41,539	Quality guarantee deposit, unsettled payment
Entity 3	30,161	Quality guarantee deposit, unsettled payment
Entity 4	23,244	Quality guarantee deposit, unsettled payment
Entity 5	21,478	Quality guarantee deposit, unsettled payment
Total	170,315	

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.20 Contract liabilities

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Petroleum engineering technology service	841,187	1,163,124
Engineering construction	1,122,963	1,861,337
Total	1,964,150	3,024,461

In the current period, revenue recognized based on the contract liabilities at the beginning of the current period amounted to RMB2,222,292 thousand.

5.21 Employee compensation payable

5.21.1 Presentation of employee compensation payable

Item	Balance as at December 31, 2020	Increase in the current period	Decrease in the current period	Balance as at June 30, 2021
Short-term compensation	497,747	5,876,775	5,888,252	486,270
Post-employment benefits – defined contribution plans	324	1,033,747	1,033,630	441
Dismissal benefits		8,872	8,872	
Total	498,071	6,919,394	6,930,754	486,711

5.21.2 Presentation of short-term compensation

Item	Balance as at December 31, 2020	Increase in the current period	Decrease in the current period	Balance as at June 30, 2021
(1) Salaries, bonuses, allowances and subsidies	326,102	3,803,520	3,827,179	302,443
(2) Employee welfare		408,508	408,507	1
(3) Social insurance premiums	648	527,281	527,427	502
Including: medical insurance premium	402	457,251	457,385	268
Work-related injury insurance premium	13	30,605	30,609	9
Maternity insurance premium	19	15,154	15,156	17
Other insurance premiums	214	24,271	24,277	208
(4) Housing provident funds	2,031	512,886	513,637	1,280
(5) Labor union expenditures and employee education funds	162,574	96,262	99,381	159,455
(6) Other short-term compensation	6,392	528,318	512,121	22,589
Total	497,747	5,876,775	5,888,252	486,270

5.21.3 Presentation of defined contribution plans

Item	Balance as at December 31, 2020	Increase in the current period	Decrease in the current period	Balance as at June 30, 2021
Basic endowment insurance premium	196	669,978	669,841	333
Unemployment insurance premium	10	28,414	28,413	11
Enterprise annuity payment	118	335,355	335,376	97
Total	324	1,033,747	1,033,630	441

Other descriptions: The Group's employees in-service have participated in the socially accumulated basic pension insurance and basic medical insurance which are set up and managed by the local government authority, and have withdrawn and paid the basic pension insurance and basic medical insurance at the agreed contribution proportion. In addition, the Group has provided the supplementary old age pension scheme to employees based on the amount not more than 8% of employee salary. Employees serving the Group for over one year or longer may participate in such scheme. For the purpose of such scheme, funds are managed by a committee consisting of employees and the Group's representatives, and treated separately from the funds of the Group. After the retirement, employees participating in the supplementary old age pension scheme may obtain retirement pension from such scheme at a certain proportion based on the salary they enjoyed before retirement. Except for the basic pension insurance and basic medical insurance, the Group has no responsibility to pay other significant retirement benefits.

During the reporting period, the Group severed the labor relation with some employees, and paid them RMB8,872 thousand as compensation.

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.22 Taxes and surcharges payable

Taxes and surcharges	Balance as at June 30, 2021	Balance as at December 31, 2020
VAT	47,419	187,632
Enterprise income tax	244,035	266,628
Urban maintenance and construction tax	31,099	31,800
House property tax	786	1,543
Land use tax	12,662	8,718
Individual income tax	39,222	127,584
Educational surtax	17,633	18,386
Other taxes	52,063	82,098
Total	444,919	724,389

5.23 Other payables

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Interest payable	3,543	17,458
Other payables	2,362,937	1,657,646
Total	2,366,480	1,675,104

5.23.1 Interest payable

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Interest on long-term borrowings where the interest is paid by stages and the principal is repaid at expiration	1,662	864
Interest payable on short-term borrowings	1,881	16,594
Total	3,543	17,458

At the end of the current period, the Group had no interest overdue but unpaid.

5.23.2 Other payables

(1) Presentation of other payables by nature

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Security deposit	556,346	489,083
Deposit	165,125	126,570
Amount paid on behalf	835,974	558,073
temporary receipts	291,190	117,080
Escrow payments	61,738	43,776
Withholding payments	93,550	54,411
Others	359,014	268,653
Total	2,362,937	1,657,646

As at June 30, 2021, other payables with aging over one year amounted to RMB430,505 thousand (As at December 31, 2020: RMB401,514 thousand), mainly including the project quality guarantee deposit, deposit and security fund which are payable. As the project guarantee period has not been matured, or the settlement period has not been due, such payables have not been settled.

5.24 Non-current liabilities maturing within one year

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Long-term payables maturing within one year	5,700	5,700
Lease liabilities maturing within one year	390,699	351,047
Total	396,399	356,747

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.25 Long-term borrowings

Classification of long-term borrowings:

Item	Balance as at June 30, 2021	Interest rate period	Balance as at December 31, 2020	Interest rate period
Credit borrowings	574,949	2.37%-2.92%	580,716	2.37%-2.92%
Sub-total	574,949		580,716	
Less: long-term borrowings maturing within one year				
Total	574,949		580,716	

The Group has no long-term borrowings due but not repaid.

5.26 Lease liabilities

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Land and housing	628,172	676,252
Equipment and others	529,244	573,264
Sub-total	1,157,416	1,249,516
Less: lease liabilities maturing within one year	390,699	351,047
Total	766,717	898,469

The interest expenses of lease liabilities accrued for the six months ended June 30, 2021 were RMB30,886 thousand, which were included in the "financial expenses – interest expenses".

5.27 Long-term payables

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Long-term payables	52,746	26,812
Total	52,746	26,812

5.27.1 Long-term payables

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Borrowings payable	8,400	11,200
Other long-term payables	50,046	21,312
Sub-total	58,446	32,512
Less: long-term payables maturing within one year	5,700	5,700
Total	52,746	26,812

5.28 Provisions

Item	Balance as at June 30, 2021	Balance as at December 31, 2020	Forming reason
Pending litigation		889	
Expected loss of judicial restructuring	323,529	330,676	Estimated payment costs of judicial restructuring
Onerous contract to be executed	41,055	51,081	Expected loss of construction contract
Total	364,584	382,646	

For details of expected loss of judicial restructuring, please see Note 12.2.1 Significant contingencies existing on balance sheet date.

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5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.29 Deferred income

Item	Balance as at December 31, 2020	Increase in current period	Decrease in current period	Balance as at June 30, 2021	Forming reason
Government grants	14,186	76,587	77,155	13,618	Government grants received
Total	14,186	76,587	77,155	13,618	

5.30 Share capital

Item	Balance as at December 31, 2020	Changes in current period ("+" for increase and "-" for decrease)					Balance as at June 30, 2021
		New shares issued	Share donation	Conversion of reserves into shares	Others	Sub-total	
Legal person share held by domestic capital	11,786,046						11,786,046
RMB social public shares (A-share)	1,783,333						1,783,333
Foreign shares listed overseas (H-share)	5,414,961						5,414,961
Total	18,984,340						18,984,340

5.31 Capital reserves

Item	Balance as at December 31, 2020	Increase in current period	Decrease in current period	Balance as at June 30, 2021
Share premium	11,629,142			11,629,142
Other capital reserves	88,631			88,631
Total	11,717,773			11,717,773

5.32 Other comprehensive income

Item	Balance as at December 31, 2020	Current period				Balance as at June 30, 2021
		Pre-tax amount incurred in current period	Less: the amount included in other comprehensive income in prior period and transferred to current profits or losses	Less: amount previously included in the other comprehensive income and currently transferred to the retained earnings	Less: income tax expenses	
1. Other comprehensive income that cannot be reclassified into profit or loss	-2,014	10		10	-2,014	
Including: changes in the fair value of other equity instruments investment	-2,014	10		10	-2,014	
Total of other comprehensive income	-2,014	10		10	-2,014	

5.33 Special reserves

Item	Balance as at December 31, 2020	Increase in current period	Decrease in current period	Balance as at June 30, 2021
Work safety costs	258,523	568,834	243,146	584,211
Total	258,523	568,834	243,146	584,211

The work safety costs of RMB568,834 thousand withdrawn by the Group in accordance with national provisions are included in the production costs of related products for the current period and included in the special reserves at the same time. The work safety costs used and withdrawn by the Group for the six months ended June 30, 2021 totaled RMB243,146 thousand, which belonged to the cost expenditures.

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.34 Surplus reserves

Item	Balance as at January 1, 2021	Increase in current period	Decrease in current period	Balance as at June 30, 2021
Statutory surplus reserves	200,383			200,383
Total	200,383			200,383

5.35 Undistributed profits

Item	Current period	Prior period	Withdrawal or distribution proportion
Undistributed profits as at the beginning of the period	-24,436,139	-24,515,117	
Plus: net profit attributable to owners of the parent company in the period	368,558	78,978	
Plus: other comprehensive income transferred to the retained earnings	10		
Undistributed profits as at the end of the period	-24,067,571	-24,436,139	

5.36 Operating revenue and operating costs

5.36.1 Operating revenue and operating costs

Item	Current period		Prior period	
	Revenue	Cost	Revenue	Cost
Primary business	31,128,017	29,233,537	31,067,360	28,454,426
Other business	442,044	264,091	365,077	200,529
Total	31,570,061	29,497,628	31,432,437	28,654,955

5.36.2 Revenue from contracts

The Group's primary businesses are divided into six reportable segments, namely, the geophysical exploration, drilling engineering, logging engineering, downhole operations, engineering construction and other business. The Group believes that classifying the revenues according to the type of clients, the main business areas and the timing of revenue recognition and disclosing relevant information can reflect the impact of relevant economic factors on the nature, amount, timing distribution and uncertainty of revenues and cash flows of the enterprise.

The current revenue breakdown information is as follows:

Contract classification	Geophysical exploration	Drilling engineering	Logging engineering	Downhole operations	Engineering construction	Others	Total
Main business premise							
Domestic	1,568,399	12,136,080	1,138,402	3,889,285	7,471,061	568,517	26,771,744
Overseas	232,235	3,576,805	12,336	52,158	397,703	85,036	4,356,273
Total	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	653,553	31,128,017
Client type							
Related parties	1,519,984	10,489,808	1,069,699	3,417,869	5,189,320	312,369	21,999,049
Non-related parties	280,650	5,223,077	81,039	523,574	2,679,444	341,184	9,128,968
Total	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	653,553	31,128,017
Recognition time of revenue							
Goods (transfer at a certain time)		2,248	4,270	176	3,815	54,912	65,421
Service (Provision in a certain period)	1,800,634	15,710,637	1,146,468	3,941,267	7,864,949	598,641	31,062,596
Total	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	653,553	31,128,017

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.36 Operating revenue and operating costs (Continued)

5.36.3 Notes to performance obligations

For the Group's revenue recognition policies, please see Note 3.25. The Group enters into the petroleum engineering technology service contracts or construction contracting contracts with its clients to provide geophysical exploration, drilling, logging, downhole operations and surface engineering and construction services to the clients, and normally completes the labor or delivers the construction works within the period agreed by both parties. The clients settle the completed workload by stages during the contract performance period and make progress payments within 30-180 days after settlement, and conduct final settlement and payment after completion and acceptance of the work.

In accordance with contract agreements, legal requirements, etc., the Group's engineering construction business provides quality assurance for the assets constructed. Such quality assurance is a guarantee-type quality assurance to the clients guaranteeing that the assets constructed meet the established standards, which does not constitute a single performance obligation. The Group conducts the accounting treatment in accordance with the accounting policies mentioned in Note 3.23.

The Group determines whether the Group is the main responsible person or the agent when engaging in a transaction based on whether it has control over the goods or services before transferring them to the customer. When the Group is able to control the goods or services before transferring them to the clients, if the Group is the main responsible person, the revenue will be recognized based on the total considerations received or receivable; Otherwise, if the Group is the agent, the revenue will be recognized according to the amount of commission or handling fee expected to be collected. Such amount be recognized according to the net amount of the total consideration received or receivable deducting the payables to other related parties, or determined according to the established amount or proportion of commission.

5.36.4 Transaction price allocated to the remaining performance obligations

The Group enters into engineering service contracts with certain clients for the provision of petroleum engineering technology services and construction contracting services to be performed at some point in the future, which generally constitute a single performance obligation. As of June 30, 2021, part of the Group's petroleum engineering technology services and construction engineering projects was still in the process of performance and the total transaction price apportioned to the outstanding performance obligations was approximately RMB30.599 billion, which was related to the performance schedule of each contract and would be recognized as revenue over the future performance period of each contract based on the performance schedule.

5.37 Taxes and surcharges

Item	Current period	Prior period
Urban maintenance and construction tax	20,020	12,898
Educational surcharges	15,715	9,918
Overseas taxes and surcharges	15,462	28,700
Property taxes	4,420	4,347
Land use taxes	28,217	28,642
Vehicle and vessel use tax	4,050	4,096
Stamp duty	15,811	14,035
Others	2,180	2,238
Total	105,875	104,874

5.38 Selling and distribution expenses

Item	Current period	Prior period
Transportation cost	1,996	1,017
Employee compensation	23,988	23,081
Depreciation cost	182	152
Expenses for business trips	1,906	1,367
Rental fees	462	219
Office expenses	710	949
Others	4,793	2,093
Total	34,037	28,878

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.39 General and administrative expenses

Item	Current period	Prior period
Maintenance fees	116,952	165,916
Employee compensation	541,244	514,776
Comprehensive service fees	5	218,937
Information system operation and maintenance fees	16,992	74,438
Business entertainment expenses	10,137	4,395
Expenses for business trips	18,957	9,197
Rental fees	16,970	6,171
Depreciation and amortization expenses	54,959	49,093
Consulting fees	3,859	4,895
Property insurance premiums	1,299	1,447
Others	107,157	101,427
Total	888,531	1,150,692

5.40 Research and development expenses

Item	Current period	Prior period
Labor costs	179,357	154,910
Materials expenses	73,817	173,792
Technical collaborative fees	13,387	17,817
Experiment costs for scientific research	49	2,222
Depreciation cost	11,866	5,132
Others	70,558	265,930
Total	349,034	619,803

5.41 Financial expenses

Item	Current period	Prior period
Interest expenses on borrowings	319,806	439,106
Interest expenses on lease liabilities	30,886	37,744
Less: capitalization of interest		
Interest income	-24,620	-19,405
Gains or losses on foreign exchange	56,379	3,211
Less: capitalization of exchange gains and losses		
Handling fees and others	25,731	26,491
Total	408,182	487,147

5.42 Other income

Grant items (sources of other income)	Current period	Prior period	Assets-related/ Income-related
Special funds for national scientific research	13,265	23,753	Income-related
Grants for enterprise development	910	786	Income-related
Subsidy for job stabilization	7,970	13,574	Income-related
Government incentives	73	425	Income-related
Refunds of consumption tax related to self-use refined oil	45,823	49,983	Income-related
Special funds for national scientific research	594	594	Asset-related
Additional deduction of input tax	6,189	10,124	Income-related
Return of commission related to individual income tax	3,407	3,544	Income-related
Total	78,231	102,783	

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.43 Investment income

Item	Current period	Prior period
Long-term equity investment income calculated under the equity method	3,337	3,020
Dividend income from investments in other equity instrument during the holding period		
Investment income from debt restructuring	15,958	
Income from derecognition of financial asset measured at amortized cost		37,298
Total	19,295	40,318

5.44 Losses from credit impairment

Item	Current period	Prior period
Losses from bad debts of accounts receivable	-64,170	72,144
Losses from bad debts of other receivables	6,075	
Total	-58,095	72,144

5.45 Assets impairment loss

Item	Current period	Prior period
Impairment loss of contract assets	17,453	6,310
Total	17,453	6,310

5.46 Gains from disposal of assets

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Gain on disposal of fixed assets ("-" for losses)	4,420	2,906	4,420
Others	1,080	933	1,080
Total	5,500	3,839	5,500

5.47 Non-operating income

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Gains not required to be paid	14,511	5,873	14,511
Liquidated damages and compensation	6,055	6,053	6,055
Gains from confiscations	494	1,149	494
Gains from asset inventory profit	2,060		2,060
Others	12,648	5,151	12,648
Total	35,768	18,226	35,768

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.48 Non-operating expenses

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Donation outlay	351	5,254	351
Expected losses on pending action	-79	-4,486	-79
Expenses from compensation and liquidated damages	2,689	3,909	2,689
Amercement outlay	1,591	4,485	1,591
Losses from the damage and scrapping of non-current assets	-7,734	751	-7,734
Others	18,876	10,017	18,876
Total	15,694	19,930	15,694

5.49 Income tax expenses

5.49.1 Table of income tax expenses

Item	Current period	Prior period
Current income tax expenses	84,465	156,463
Deferred tax expenses	-2,507	-1,870
Total	81,958	154,593

5.49.2 Adjustment process of accounting profits and income tax expenses

Item	Current period
Total profits	450,516
Income tax expenses calculated at statutory tax rate	112,629
Effect of application of various tax rates by subsidiaries	-24,882
Effect of adjustments to the income tax for prior periods	-18,145
Effect of non-taxable income	-1,784
Effect of non-deductible costs, expenses and losses	24,983
Effect of unrecognized deferred tax assets in prior periods	-32,934
Effect of deductible temporary differences or losses from deferred tax assets unrecognized in current period	43,236
Tax effect of additional deduction of research and development expenses	-20,413
Others	-732
Income tax expenses	81,958

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.50 Items of statement of cash flows

5.50.1 Cash received from other operating activities

Item	Current period	Prior period
Amount paid on behalf	277,803	112,555
Government grants	10,091	26,113
Temporary receipt and payment	120,790	265,812
Guarantee	263,544	618,239
Compensation	14,186	51,869
Others	60,417	114,312
Total	746,831	1,188,900

5.50.2 Cash paid for other operating activities

Item	Current period	Prior period
Temporary receipt and payment	19,478	186,196
Guarantee	115,800	487,832
Research and development expenses	157,811	165,916
Community service expenses	311,880	459,762
Repair and maintenance expenses	116,950	218,937
Other period expenses	126,445	207,614
Others	28,545	23,909
Total	876,909	1,750,166

5.50.3 Cash paid for other financing activities

Item	Current period	Prior period
Finance lease expenses	30,886	81,415
Bill acceptance commission	839	2,495
Payments for guarantee and commitment	10,476	7,181
Principal and interest paid for lease liabilities	155,936	108,664
Total	198,137	199,755

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.51 Supplementary information to the statement of cash flows

5.51.1 Supplementary information to the statement of cash flows

Supplementary information	Current period	Prior period
1. Net profits adjusted to cash flows from operating activities		
Net profit	368,558	298,277
Plus: losses from credit impairment	-58,095	78,454
Provision for asset impairment	17,453	-
Depreciation of fixed assets	1,467,395	1,483,373
Depreciation of right-of-use assets	255,193	261,359
Amortization of intangible assets	53,860	52,818
Amortization of long-term deferred expenses	1,053,122	973,438
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-5,500	-3,839
Losses from scrapping of fixed assets ("-" for gains)	-7,734	751
Financial expenses ("-" for gains)	364,607	489,738
Investment loss ("-" for gains)	-19,295	-40,318
Decreases in deferred tax assets ("-" for increases)	268	-873
Increases in deferred tax liabilities ("-" for decreases)	-2,775	-997
Decreases in inventories ("-" for increases)	-280,903	-203,540
Decreases in operating receivables ("-" for increases)	-5,779,501	-4,755,421
Increases in operating payables ("-" for decreases)	2,608,580	1,335,461
Production safety cost	325,688	310,278
Others	-2,060	2,299
Net cash flows from operating activities	358,861	281,258
2. Net change in cash and cash equivalents		
Ending balance of cash	1,494,144	1,998,170
Less: beginning balance of cash	1,523,352	1,650,732
Plus: ending balance of cash equivalents		
Less: beginning balance of cash equivalents		
Net increase in cash and cash equivalents	-29,208	347,438

5.51.2 Breakdowns of cash and cash equivalents

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
I. Cash	1,494,144	1,523,352
Including: cash on hand	4,884	8,517
Unrestricted bank deposits	1,485,326	1,511,398
Other unrestricted monetary funds	3,934	3,437
II. Cash equivalents		
III. Ending balance of cash and cash equivalents	1,494,144	1,523,352

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.52 Assets with restrictions on the ownership or use right

Item	Book value as at June 30, 2021	Reason for restriction
Monetary funds	8,020	Margin deposit or freezing payment
Total	8,020	

5.53 Foreign currency monetary items

5.53.1 Foreign currency monetary items

Item	Balance in foreign currency as at June 30, 2021	Exchange rate for conversion	RMB amount translated as at June 30, 2021
Monetary funds			1,157,677
Including: USD	79,925	6.4601	516,322
KWD	13,086	21.4230	280,347
SAR	15,150	1.7223	26,093
DZD	1,388,147	0.0480	66,674
Other foreign currencies			268,241
Accounts receivable			3,846,175
Including: USD	435,036	6.4601	2,810,373
KWD	20,457	21.4230	438,250
SAR	150,253	1.7223	258,823
DZD	7,691	0.0480	369
Other foreign currencies			338,360
Other receivables			1,701,641
Including: USD	120,325	6.4601	777,276
KWD	15,191	21.4230	325,434
SAR	183,445	1.7223	315,953
DZD	48,661	0.0480	2,337
Other foreign currencies			280,641
Accounts payable			823,635
Including: USD	48,268	6.4601	311,843
KWD	7,416	21.4230	158,870
SAR	121,877	1.7223	209,912
DZD	280,210	0.0480	13,459
Other foreign currencies			129,551
Other payables			609,701
Including: USD	34,819	6.4601	224,968
KWD	6,901	21.4230	147,843
SAR	17,032	1.7223	29,335
DZD	618,998	0.0480	29,731
Other foreign currencies			177,824
Interest payable			1,662
Including: USD	257	6.4601	1,662
Short-term borrowings			1,866,969
Including: USD	289,000	6.4601	1,866,969
Long-term borrowings			574,949
Including: USD	89,000	6.4601	574,949

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.54 Government grants

Grant item	Category	Balance as at January 1, 2021	New grants in current period	Amount carried forward and included in profit or loss in current period	Balance as at June 30, 2021	Presented items carried forward and included in profit or loss in current period	Assets-related/Income-related
Refunds of consumption tax related to self-use refined oil	Financial allocations	–	45,823	45,823	–	Other income	Income-related
Special funds for national scientific research	Financial allocations	10,827	10,872	13,265	8,434	Other income	Income-related
Subsidy for job stabilization	Financial allocations	–	8,960	7,970	990	Other income	Income-related
Grants for enterprise development	Financial allocations	–	910	910	–	Other gains	Income-related
Government incentives	Financial allocations	–	73	73	–	Other gains	Income-related
Additional VAT deduction	Financial allocations	–	7,626	6,189	1,437	Other income	Income-related
Others	Financial allocations	–	2,342	2,331	11	Non-operating income	Income-related
Special funds for national scientific research	Financial allocations	3,359	-19	594	2,746	Other income	Asset-related
Total		14,186	76,587	77,155	13,618		

5.55 Lease

5.55.1 As the lessee

Item	Current period
Interest expenses on lease liabilities	30,886
Expense on short-term lease under simplified treatment and included in relevant asset costs or the current profit or loss	783,557
Total cash outflows relevant to lease	2,071,785

The Company's future potential cash outflows not included in the lease liabilities for measurement mainly come from leases where the lessee has committed but not started yet.

The estimated annual cash outflows in the future of leases where the lessee has committed but not started are as below:

Remaining lease term	Lease payment undiscounted
Within 1 year	407,695
1 – 2 years	374,370
2 – 5 years	425,724
Over 5 years	50,589
Total	1,258,378

Section VIII Financial Reports

5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.55 Lease (Continued)

5.55.2 As the lessor

(1) Operating lease

	Current period
Revenue from operating lease	18,898
Including: Revenue relevant to variable lease payment not included in lease receipts	

Undiscounted lease receipts that will be collected after June 30, 2021:

Remaining lease term	Undiscounted lease receipts
Within 1 year	45,832
1 – 2 years	53,455
2 – 3 years	45,034
3 – 4 years	22,485
4 – 5 years	6,193
Over 5 years	17,264
Total	190,263

5.55.3 Effect on implementation of the Accounting Treatment of Rent Concessions Related to the Epidemic in Covid-19

With regard to qualified rent concessions, such as rent reductions and deferred rent payments, directly triggered by Covid-19, the Company chose the simplified method for accounting treatment in accordance with the Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19. The Company, acting as a lessee, adopted the above-mentioned simplified method for the accounting treatment of relevant rent concessions, offsetting the operating costs, the general and administrative expenses and the selling and distribution expenses for the current period, amounting to RMB173.5 thousand.

6 CHANGE OF CONSOLIDATION SCOPE

6.1 Changes in consolidation scope for other reasons

The Company newly established a third-tier subsidiary Sinopec Jingwei Co., Ltd., which was included in the scope of consolidation.

7 EQUITY IN OTHER ENTITIES

7.1 Equity in the subsidiaries

7.1.1 Structure of enterprise group

Name of subsidiary	Principal place of business	Registration place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	
Sinopec Oilfield Service Limited	China	Beijing	Oilfield technical service	100		Business combination under the common control
Sinopec Shengli Oilfield Co., Ltd.	China	Dongying, Shandong	Oilfield technical service	100		Business combination under the common control
Sinopec Zhongyuan Petroleum Engineering Ltd.	China	Puyang, Henan	Oilfield technical service	100		Business combination under the common control
Sinopec Oilfield Service Jiangnan Corporation	China	Qianjiang, Hubei	Oilfield technical service	100		Business combination under the common control
Sinopec East China Petroleum Engineering Co., Ltd.	China	Nanjing, Jiangsu	Oilfield technical service	100		Business combination under the common control
Sinopec North China Petroleum Engineering Co., Ltd.	China	Zhengzhou, Henan	Oilfield technical service	100		Business combination under the common control
Sinopec Southwest Petroleum Engineering Co., Ltd.	China	Chengdu, Sichuan	Oilfield technical service	100		Business combination under the common control
Sinopec Petroleum Engineering Geophysics Ltd.	China	Beijing	Geophysical exploration	100		Business combination under the common control
Sinopec Engineering Incorporation	China	Beijing	Engineering construction	100		Business combination under the common control
Sinopec Offshore Oilfield Services Company	China	Shanghai	Offshore oilfield technical service	100		Business combination under the common control
Sinopec International Petroleum Service Corporation	China	Beijing	Oilfield technical service	100		Business combination under the common control
Sinopec Jingwei Co., Ltd.	China	Qingdao, Shandong	Specialized mining and ancillary activities	100		Establishment

7.2 Equity in joint venture arrangements or associates

7.2.1 Major joint ventures or associates

Name of joint ventures or associates	Principal place of business	Registered place	Business nature	Shareholding ratio (%)		Accounting treatment method for investments in joint ventures or associates	Whether it is strategic for the Company's activities
				Direct	Indirect		
Zhong Wei Energy Services Co., Ltd.	China	Beijing	Oilfield technical services	50.00		Equity method	

Section VIII Financial Reports

7 EQUITY IN OTHER ENTITIES (Continued)

7.2 Equity in joint venture arrangements or associates (Continued)

7.2.2 Principal financial information of major joint ventures

	Zhong Wei Energy Services Co., Ltd.	
	As at June 30, 2021	As at December 31, 2020
Current assets	20,747	24,570
Including: cash and cash equivalents	8,136	7,231
Non-current assets	4,159	4,487
Total assets	24,906	29,057
Current liabilities	9,404	12,425
Non-current liabilities		
Total liabilities	9,404	12,425
Net assets	15,521	16,632
Share in net assets calculated according to shareholding ratio	7,760	8,316
Adjusted matters		
– Goodwill		
Book value of the equity investment in joint ventures	7,760	8,316
Fair value of the equity investment of joint ventures with public offer		
Operating revenue	4,059	25,651
Financial expenses	-38	-33
Income tax expenses		
Net profit	-1,129	26
Other comprehensive income		
Total comprehensive income	-1,129	26
Dividends received from joint ventures in this period		

7.2.3 Summary of financial information on insignificant joint ventures or associates

	Balance as at June 30, 2021/Current period	Balance as at December 31, 2020/Prior period
Joint ventures:		
Total book value of investments	15,499	14,887
Total amount calculated based on the following shareholding proportions		
– Net profit	612	20
– Other comprehensive income		
– Total comprehensive income	612	20
Associates:		
Total book value of investments	22,945	19,843
Total amount calculated based on the following shareholding proportions		
– Net profit	3,553	21,020
– Other comprehensive income		
– Total comprehensive income	3,553	21,020

7.2.4 There were no significant restrictions on the joint ventures or associates' abilities to transfer capitals to the Group.

7.2.5 As at December 31, 2020, the Group has signed the investment contract but not paid the investment fund of RMB129,625 thousand.

8 RISKS RELATED TO FINANCIAL INSTRUMENTS

The major financial instruments of the Group include monetary funds, notes receivable, accounts receivable, receivables financing, other receivables, non-current assets maturing within one year, other current assets, financial assets held for trading, creditor's right investments, other creditor's right investments, other equity instrument investments, other non-current financial assets, long-term receivables, notes payable, accounts payable, other payables, short-term borrowings, financial liabilities held for trading, non-current liabilities maturing within one year, long-term receivables, lease liabilities and long-term payables. For more details about all financial instruments, please see the relevant notes to the financial statements. The risks associated with these financial instruments and the risk management policies adopted by the Group to reduce these risks are as follows. The Group's management manages and monitors these exposures to ensure that the risks are controlled within certain limits.

Risk management objectives and policies

The Group engages in risk management with the goal of striking the right balance between risks and benefits and reducing the adverse effect of financial risks on the Group's financial performance. Based on such goal, the Group has formulated the risk management policies for the identification of and analysis on risks faced by the Group, set the proper level of acceptable risks and designed the corresponding internal control procedures to monitor the Group's risk level. The Group will carry out the regular review regarding these risk management policies and relevant internal control system to adapt to the market situation and the changes in its operating activities. The internal audit department of the Group will also inspect on a regular or irregular basis whether the implementation of the internal control system meets the risk management policies.

The major risks caused by the financial instruments of the Group are credit risks, liquidity risks and market risks (including exchange rate risk, interest rate risk and commodity price risk).

The Board of Directors is responsible for planning and establishing the Group's risk management structure, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyze the risks faced by the Group. These risk management policies clearly stipulate specific risks, covering many aspects such as market risk, credit risk and liquidity risk management. The Group regularly evaluates the market environment and changes in the Group's operating activities to determine whether to update the risk management policy and system. The Group's risk management is carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee works closely with other business departments of the Group to identify, evaluate and avoid related risks. The internal audit department of the Group conducts regular audits on risk management controls and procedures, and reports the audit results to the Audit Committee of the Group.

The Group spreads the risks of financial instruments through appropriate diversified investment and business portfolios, and formulates corresponding risk management policies to reduce the risks concentrated in a single industry, a specific region or a specific counterparty.

8.1 Credit risk

Credit risk refers to a risk that the Company suffers financial losses due to the failure of the counterparty in performing the contract obligations.

The Group manages the credit risks by the classification of portfolios. The credit risks arise mainly from bank deposits, notes receivable, accounts receivable, other receivables, contract assets and long-term receivables.

The bank deposits of the Group were mainly deposited in the state-owned banks and others large- and medium- scale listed banks, and the Group expected that there were no significant credit risks in bank deposits.

As for the notes receivable, accounts receivable, other receivables, contract assets and long-term receivables, the Group has set relevant policies to control credit risk exposure. The Group, based on the customers' financial positions, credit records and other factors such as assessing the current market conditions, evaluates the credit qualifications of customers and sets corresponding credit periods. The Group will monitor customers credit records periodically; as for the customers with bad credit records, the Group will adopt written reminders, shortening credit period or canceling the credit term, to ensure that the Group's overall credit risks are within the controllable scope.

The maximum credit risk exposure of the Group refers to the book value of each financial asset in the balance sheet. The Group has not provided any other guarantees that may expose the Group to credit risk.

Among the accounts receivable of the Group, the accounts receivable of the top five customers accounted for 49.01% (in 2020: 43.14%) of the total accounts receivable of the Group; among the other receivables of the Group, the other receivables of the top five companies in arrears accounted for 31.87% of the total other receivables of the Group (in 2020: 40.44%).

8.2 Liquidity risk

Liquidity risk refers to a risk that an enterprise suffers funds shortage in performing the obligations of settlement in cash or other financial assets.

While managing liquidity risks, the Group maintains and monitors cash and cash equivalents deemed sufficient by the management to meet the Group's operating needs and reduce the impact of cash flow fluctuations. The management of the Group monitors the use of bank loans and ensures compliance with loan agreements. At the same time, it obtains commitments from major financial institutions to provide sufficient reserve funds to meet short-term and long-term funding needs. In addition, the Group will also consider any negotiation with suppliers to require them to reduce part of the debt amount in order to relieve the Company's cash flow pressure.

The Group raises working capital through funds generated from operating business and bank and other borrowings. As of June 30, 2021, the unused bank loan quota of the Group reached RMB11,044,142 thousand (as at December 31, 2020: RMB12,044,420 thousand).

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8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.2 Liquidity risk (Continued)

As at the end of the period, the financial assets, financial liabilities and off-balance sheet guarantee items held by the Company are analyzed based on the maturity of remaining undiscounted contractual cash flows as follows (unit: RMB '000):

Item	Balance as at June 30, 2021				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
Financial assets:					
Monetary funds	1,502,164				1,502,164
Notes receivable					
Accounts receivable	7,857,774				7,857,774
Receivables financing	1,204,205				1,204,205
Other receivables	2,876,495				2,876,495
Long-term receivables					
Other current assets	2,113,873				2,113,873
Total financial assets	15,554,511				15,554,511
Financial liabilities:					
Short-term borrowings	19,856,969				19,856,969
Notes payable	9,776,006				9,776,006
Accounts payable	19,487,647				19,487,647
Other payables	2,366,480				2,366,480
Non-current liabilities maturing within one year	413,771				413,771
Long-term borrowings	13,914	574,949			588,863
Lease liabilities		374,370	425,724	50,589	850,683
Long-term payables		52,820			52,820
Total financial liabilities and contingent liabilities	51,914,787	1,002,139	425,724	50,589	53,393,239

8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.2 Liquidity risk (Continued)

Item	Balance as at December 31, 2020				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
Financial assets:					
Monetary funds	1,551,458				1,551,458
Notes receivable					
Accounts receivable	9,358,385				9,358,385
Receivables financing	1,323,425				1,323,425
Other receivables	2,464,362				2,464,362
Long-term receivables					
Other current assets	1,995,808				1,995,808
Total financial assets	16,693,438				16,693,438
Financial liabilities:					
Short-term borrowings	19,771,907				19,771,907
Notes payable	6,305,228				6,305,228
Accounts payable	20,497,509				20,497,509
Other payables	1,675,104				1,675,104
Non-current liabilities maturing within one year	372,537				372,537
Long-term borrowings	13,794	594,510			608,304
Lease liabilities		171,597	637,027	331,542	1,140,166
Long-term payables		27,033			27,033
Total financial liabilities and contingent liabilities	48,636,079	793,140	637,027	331,542	50,397,788

8.3 Market risk

Market risk associated with financial instruments refers to the risk that fair value or future cash flows of financial instruments fluctuate due to variations in market prices, and it includes exchange rate risk, interest rate risk and other price risks.

8.3.1 Interest rate risk

Interest rate risks refer to the risks of fluctuation in the fair value or future cash flows of financial instruments due to changes in market interest rate. Interest rate risk can originate from confirmed interest-bearing financial instruments and unconfirmed financial instruments (such as certain loan commitments).

The Group's interest rate risk mainly arises from long-term interest-bearing debts such as long-term bank borrowings. Floating-rate financial liabilities expose the Group to cash flow interest rate risk while fixed-rate financial liabilities expose the Group to fair value interest rate risk. The Group determines the relative proportion of contracts with fixed interest rate and contracts with floating interest rate according to the current market environment, and maintain an appropriate portfolio of instrument portfolios with fixed and floating interest rate through regular review and monitoring.

The Group pays close attention to the influence of changes in interest rate on its interest rate risk. The Group currently does not adopt an interest rate hedging policy. However, the management is responsible for monitoring interest rate risks and will consider significant interest rate risks of hedging when necessary. The increases in interest rate will increase the costs of the new interest-bearing debts and the interest expenses of interest-bearing debts failing to be paid up by the Group and subject to the interest calculation at floating interest rate, and will, significantly and adversely, affect the Group's financial results; the management will make an adjustment according to the latest market conditions. These adjustments may refer to the arrangements of interest rate swap to reduce the interest rate risks. In the first half of 2021 and 2020, there was no interest rate swap arranged by the Group. Since time deposits are short-term deposits, the fair value interest rate risk of bank deposits is not significant.

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8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.3 Market risk (Continued)

The interest-bearing financial instruments held by the Group are as follows:

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Fixed interest rate financial instruments		
Financial assets:	6,210	6,210
Monetary funds	6,210	6,210
Long-term receivables		
Financial liabilities:	19,155,816	18,660,716
Short-term borrowings	17,990,000	17,400,000
Lease liabilities	1,157,416	1,249,516
Long-term payables	8,400	11,200
Floating interest rate financial instruments		
Financial assets:	1,495,953	1,545,248
Monetary funds	1,495,953	1,545,248
Financial liabilities:	2,441,918	2,551,236
Short-term borrowings	1,866,969	1,970,520
Long-term borrowings	574,949	580,716

As at June 30, 2021, if the borrowing interest rate calculated at the floating interest rate rises or falls by 50 basis points, while other factors remain unchanged, the Group's net profit and shareholders' equity will decrease or increase by approximately RMB12,210 thousand (as at December 31, 2020: RMB9,567 thousand).

For financial instruments held on the balance sheet date that expose the Group to fair value interest rate risk, the impact of net profit and shareholders' equity in the above sensitivity analysis refers to the impact of remeasurement of the aforesaid financial instruments according to new interest rate based on the assumption that the interest rate changes on the balance sheet date. For non-derivative instruments with floating interest rates held on the balance sheet date that expose the Group to cash flow interest rate risk, the impact of net profit and shareholders' equity in the above sensitivity analysis refers to the impact of the above interest rate changes on the interest expense or income Impact estimated on the annual basis. The analysis for the previous year was based on the same assumptions and methods.

8.3.2 Exchange rate risk

Exchange rate risk refers to the risk that fair value or future cash flows of financial instruments fluctuates due to variations in foreign exchange rate. Exchange rate risk can be derived from financial instruments denominated in foreign currencies other than the functional currency.

The primary business of the Group is operated within the territory of China, and the main business is settled in RMB. However, there are still foreign exchange risks in the foreign currency assets and liabilities recognized and future foreign currency transactions (Foreign currency assets and liabilities and foreign currency transactions are mainly denominated in the USD, SAR, and KWD) of the Group.

As at June 30, 2021, the foreign currency financial assets and liabilities held by the Group were converted to RMB. The amounts are listed as follows:

Item	Foreign currency liabilities		Foreign currency assets	
	Amount as at June 30, 2021	Amount as at January 1, 2021	Amount as at June 30, 2021	Amount as at January 1, 2021
USD	2,980,391	3,149,773	4,103,971	4,675,697
SAR	239,247	204,400	600,869	675,018
KWD	306,713	159,717	1,044,032	920,746
Other foreign currencies	350,565	288,832	956,623	938,231
Total	3,876,916	3,802,722	6,705,495	7,209,692

The Group pays close attention to the influence of changes in exchange rate on its exchange rate risk. The Group continues to monitor the scale of its foreign currency transactions and foreign currency assets and liabilities to minimize foreign exchange risks; for this reason, the Group may sign forward foreign exchange contracts or currency swap contracts to avoid foreign exchange risks.

8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.3 Market risk (Continued)

8.3.2 Exchange rate risk (Continued)

Under the circumstance that other variables remain unchanged, the after-tax effects of possible reasonable changes in the exchange rate of foreign currencies against RMB this year on the Group's current profit or loss are as follows:

Increase (decrease) in after-tax profit	Current year		Prior year	
USD exchange rate rises	5%	56,179	5%	76,296
USD exchange rate declines	-5%	-56,179	-5%	-76,296
SAR exchange rate rises	5%	18,081	5%	23,531
SAR exchange rate declines	-5%	-18,081	-5%	-23,531
KWD exchange rate rises	5%	36,866	5%	38,051
KWD exchange rate declines	-5%	-36,866	-5%	-38,051

9 DISCLOSURE OF FAIR VALUE

The input value used for measuring fair value is divided into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access on the measurement date.

Level 2 inputs are directly or indirectly observable inputs of relevant assets or liabilities other than first-level inputs;

Level 3 inputs refer to unobservable inputs of relevant assets or liabilities.

The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

9.1 Fair value of assets and liabilities measured at fair value as at June 30, 2021

On June 30, 2021, the assets and liabilities measured at fair value are listed by the above three levels as below:

Item	Fair value as at June 30, 2021			Total
	Measurement of fair value at level 1	Measurement of fair value at level 2	Measurement of fair value at level 3	
9.1.1 Continuous measurement at fair value				
◆ Receivables financing			1,204,205	1,204,205
◆ Investment in other equity instruments			22,835	22,835
Total assets with continuous measurement at fair value			1,227,040	1,227,040

The Group takes the date of occurrence of the event that caused the conversion between the levels as the time point to confirm the conversion between the levels in the current year; the fair value measurement of the Group's financial assets and financial liabilities did not undergo a conversion between the first level and the second level, and there was no transfer in or out of the third level.

For financial instruments that are traded in an active market, the Group uses the quoted prices in the active market to determine their fair value; for financial instruments that are not traded in an active market, the Group uses valuation techniques to determine their fair value. The valuation models adopted mainly include the discounted cash flow model and the corporate model with market comparability. The input values of valuation techniques mainly include the risk-free interest rate, benchmark interest rate, exchange rate, credit spread, liquidity premium and discount lack of liquidity.

9.2 Nature and quantitative information of valuation techniques and key parameters adopted for items measured at the fair value of Level 3 on a going and non-going concern

Item	Fair value as at December 31, 2020	Valuation techniques	Unobservable input values	Range (weighted average value)
Receivable financing	1,204,205	Value of assets or discounted cash flow	N/A	N/A
Other equity instrument investments: investments in unlisted equity	22,835	Net value of assets	N/A	N/A

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9 DISCLOSURE OF FAIR VALUE (Continued)

9.3 Analysis on the measurement items measured at fair value of level 3 on a going concern, adjustment information between the book value as at the end of the last year and the book value as at the end of last period and sensitivity of unobservable parameters

9.3.1 Adjustment information on the continuous measurement project of fair value at level 3

Item	Balance as at December 31, 2020	Total gains or losses in the current period		Balance as at June 30, 2021	For the assets held at the end of the reporting period, the current unrealized gains or changes included in profit or loss
		Included in the profit or loss	Included in the other comprehensive income		
◆ Investment in other equity instruments	22,835			22,835	
Total	22,835			22,835	
Including: profit or loss related to financial assets					
Profit or loss related to non-financial assets					

9.4 Fair value of financial assets and financial liabilities not measured at fair value

The Group's financial assets and financial liabilities measured at amortized cost mainly include: monetary funds, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable, other payables, long-term payables and long-term borrowings.

Except for the above-mentioned financial assets and financial liabilities, the book value and fair value of other financial assets and financial liabilities not measured at fair value have a very small difference.

10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

10.1 Parent company of the Company

Name of parent company	Registration place	Business nature	Registered capital (RMB100 million)	Shareholding ratio of the parent company in the Company (%)	Voting ratio of the parent company in the Company (%)
China Petrochemical Corporation	No.22 Chaoyangmen North Street, Chaoyang District, Beijing	Petroleum and natural gas exploration, exploitation and sales; petroleum refining; production, sales, storage and transportation of petrochemical, chemical fiber and other chemical products; pipeline transportation of oil and natural gas; research, development, and application of technology and information.	3,265	57	70

The ultimate controller of the Company is China Petrochemical Corporation.

China Petrochemical Corporation directly holds 56.51% of the Company's equity, and holds 13.67% of the Company's equity its wholly-owned subsidiary Sinopec Century Bright Capital Investment Limited, with a total voting ratio of 70.18%.

10.2 Information on subsidiaries of the Company

See "Note 7 Equity in other entities" for details of subsidiaries of the Company.

10.3 Joint ventures and associates of the Company

See "Note 7 Equity in other entities" for the details of significant joint ventures or associates of the Company

Other joint ventures and associates that conduct related-party transactions with the Company in the current period or have a balance arising from the related transactions with the Company occurred in the prior period are follows:

Name of joint venture or associate	Relationship with the Company
Sinopec Gulf Petroleum Engineering Service Co., Ltd.	Joint venture
Qianjiang Hengyun Motor Vehicle Comprehensive Performance Testing Co., Ltd.	Joint venture
Ordos North China Ruida Oil & Gas Engineering Technology Service Co., Ltd.	Associate
Xinjiang North China Tianxiang Oil & Gas Engineering Technology Service Co., Ltd.	Associate
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd.	Associate
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd.	Associate
Henan Zhongyou Petroleum and Natural Gas Technology Service Co., Ltd.	Associate

10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.4 Other related parties

Name of other related parties	Relationship between other related parties and the Company
China Petroleum & Chemical Corporation	Under the common control of Sinopec Group
Sinopec Shengli Petroleum Administrative Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Zhongyuan Petroleum Exploration Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Jiangnan Petroleum Administrative Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Henan Petroleum Exploration Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Jiangsu Petroleum Prospecting Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Star Co., Ltd.	Under the common control of Sinopec Group
Sinopec East China Petroleum Bureau	Under the common control of Sinopec Group
Sinopec North China Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Southwest Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Northeast Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Pipeline Storage and Transportation Company	Under the common control of Sinopec Group
Sinopec Offshore Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Finance Co., Ltd.	Under the common control of Sinopec Group
Sinopec Century Bright Capital Investment Limited	Under the common control of Sinopec Group
Sinopec Assets Operation and Management Co., Ltd.	Under the common control of Sinopec Group
China CITIC Group Co., Ltd.	Shareholder holding more than 5% of the Company's voting right in prior period, as at June 30, 2021, holding 4.45% of the Company's voting right
CITIC Bank	Subsidiaries of China CITIC Group Co., Ltd.
Taiping & Sinopec Financial Leasing Co., Ltd.	Joint ventures of Sinopec
SINOPEC International Petroleum Exploration and Production Corporation	Associate of Sinopec
China Oil & Gas Pipeline Network Corporation	Associate of Sinopec
Directors, managers, chief accountant and secretary of the Board of Directors	Key management personnel

10.5 Related-party transactions

10.5.1 Related-party transaction on purchase and sales of goods, and rendering and receipt of services

Purchase of goods/receipt of services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec and its subsidiaries	Purchase of materials and equipment	According to normal commercial terms or related agreements	4,141,305	4,648,267
Associates and joint ventures of Sinopec	Purchase of materials and equipment	According to normal commercial terms or related agreements	104,267	91,438
Associates and joint ventures	Receipt of labor services	According to normal commercial terms or related agreements	954,509	807,212
Sinopec and its subsidiaries	Receipt of community comprehensive services	According to normal commercial terms or related agreements	5	218,937
Sinopec and its subsidiaries	Receipt of others comprehensive services	According to normal commercial terms or related agreements	235,969	86,542
Associates and joint ventures of Sinopec	Receipt of others comprehensive services—	According to normal commercial terms or related agreements	70,631	74,566

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10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.5 Related-party transactions (Continued)

10.5.1 Related-party transaction on purchase and sales of goods, and rendering and receipt of services (Continued)

Table of sales of goods/rendering of services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec and its subsidiaries	Sales of products	According to normal commercial terms or related agreements	11,013	46,813
Sinopec and its subsidiaries	Petroleum engineering technology service	According to normal commercial terms or related agreements	20,537,866	18,343,386
Associates and joint ventures of Sinopec	Petroleum engineering technology service	According to normal commercial terms or related agreements	1,503,582	50,054
Associates and joint ventures of the Group	Petroleum engineering technology service	According to normal commercial terms or related agreements	172	78,222
Sinopec and its subsidiaries	Rendering sci-tech R&D services	According to normal commercial terms or related agreements	31,870	43,936
Sinopec and its subsidiaries	Rendering of comprehensive services	According to normal commercial terms or related agreements		407

10.5.2 Related-party lease

The Company as the lessor:

Name of lessee	Type of leased assets	Pricing and decision-making process of related transactions	Lease revenue recognized in the current period	Lease revenue recognized in prior period
Sinopec and its subsidiaries	Equipments	According to normal commercial terms or related agreements	234	
Sinopec and its subsidiaries	Real estate	Sinopec and its subsidiaries	918	286

The Company as the lessee:

Name of the lessor	Type of leased assets	Pricing and decision-making process of related transactions	Current period	Prior period
			Rental fees paid in the current period	Rental fees paid in the prior period
Sinopec and its subsidiaries	Land and real estate	According to normal commercial terms or related agreements	99,673	90,292
	Including: short-term lease	According to normal commercial terms or related agreements	13,129	1,689
	Right-of-use assets	According to normal commercial terms or related agreements	86,545	88,603
Sinopec and its subsidiaries	Equipment	According to normal commercial terms or related agreements	96,943	
	Including: short-term lease	According to normal commercial terms or related agreements	95,992	
	Right-of-use assets	According to normal commercial terms or related agreements	951	
Associates and joint ventures of Sinopec	Land and real estate	According to normal commercial terms or related agreements	780	
	Including: short-term lease	According to normal commercial terms or related agreements	780	
Associates and joint ventures of Sinopec	Equipment	According to normal commercial terms or related agreements	64,711	
	Including: lease of right-of-use assets	According to normal commercial terms or related agreements	64,711	

10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.5 Related-party transactions (Continued)

10.5.3 Related-party guarantees

The Company acted as guarantor:

The guaranteed	Guarantee type	Guarantee amount	Guarantee commencement date	Guarantee expiry date	Guarantee performance completed or not
Sinopec Group	Counter-guarantee	RMB500,000 thousand	2019/11/1	2021/11/1	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD588,000 thousand	2015/12/1	2021/12/1	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD61,830 thousand	2015/9/1	2024/12/1	No
Sinopec International Petroleum Service Corporation	Performance guarantee	THB 3,142,900 thousand; USD103,929 thousand	2017/4/1	2022/10/31	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD4,079 thousand	2019/4/1	2021/12/1	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD67,000 thousand	2019/4/1	2021/11/1	No
Sinopec Petroleum Engineering Geophysics Ltd.	Performance guarantee	USD12,000 thousand	2019/8/1	2022/1/1	No
Sinopec International Petroleum Service Corporation	Bank credit guarantee	USD8,740 thousand	2020/8/1	2021/8/1	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD611,000 thousand	2021/6/23	2030/6/23	No

10.5.4 Loans to and from related parties

Related party	Content of related-party transaction	Pricing and decision-making process of related-party transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Revenue from deposit interest	Based on normal commercial terms	560	778
	Loan interest expense	Based on normal commercial terms	278,688	404,381
	Obtaining the borrowing	Based on normal commercial terms	29,118,868	26,309,046
	Payment of the loan	Based on normal commercial terms	28,632,419	25,660,652
Joint ventures and associates of Sinopec Group	Finance lease interest expenses	Based on normal commercial terms	289	16,146

10.5.5 Assets transfer and debt restructuring of related parties

Related party	Content of related-party transaction	Pricing and decision-making process of related-party transactions	Current period	Prior period
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	37,800	38,080
	Return on security fund	Based on normal commercial terms or relevant agreements	52,118	61,178

10.5.6 Remuneration of key management personnel

Item	Current period	Prior period
Labor remuneration	6,899	5,682
Retirement scheme contribution	283	210
Share options		37
Total	7,182	5,929

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10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.6 Receivables from and payables to related parties

10.6.1 Receivables

Item	Related party	Balance as at June 30, 2021	Balance as at December 31, 2020
		Book balance	Book balance
Bank deposits	Sinopec Finance Co., Ltd.	105,531	107,564
	Sinopec Century Bright Capital Investment Limited	542,951	649,976
	China Citic Bank		1
Accounts receivable	Sinopec Group and its subsidiaries	2,603,413	2,364,781
	Joint ventures of the Group	3,712	5,249
	Associates and joint ventures of Sinopec Group	416,459	912,791
Contract assets	Sinopec Group and its subsidiaries	7,259,081	4,798,350
	Associates and joint ventures of Sinopec Group		1,131,659
Advance to suppliers	Sinopec Group and its subsidiaries	175,831	136,002
	Joint ventures and associates of Sinopec Group	2	
Other receivables	Sinopec Group and its subsidiaries	220,497	82,176
	Joint ventures of the Group	301	189
	Associates and joint ventures of Sinopec Group	536,135	294,411

10.6.2 Payables

Item	Related party	Book balance as at June 30, 2021	Book balance as at December 31, 2020
Accounts payable	Sinopec Group and its subsidiaries	1,920,895	1,146,343
	Joint ventures of the Group	89,493	18,322
	Joint ventures and associates of Sinopec Group	610	7,204
Contract liabilities	Sinopec Group and its subsidiaries	1,262,592	2,185,979
	Associates and joint ventures of Sinopec Group	151,553	55,226
Other payables	Sinopec Group and its subsidiaries	12,682	26,233
	Joint ventures of the Group	470	2,688
Short-term borrowings	Sinopec Finance Co., Ltd.	6,390,000	6,400,000
	Sinopec Century Bright Capital Investment Limited	1,866,969	1,970,520
	Sinopec Group and its subsidiaries	11,600,000	11,000,000
Interest payable	Sinopec Group and its subsidiaries	7,583	16,594
	Sinopec Finance Co., Ltd.	7,364	
Lease liabilities	Sinopec Group and its subsidiaries	443,765	441,190
	Joint ventures and associates of Sinopec Group	64,748	547,271
Long-term payables	Joint ventures and associates of Sinopec Group	8,400	11,200

11 SHARE-BASED PAYMENT

The Company held the 14th Meeting of the 8th Session of the Board of Directors on November 1, 2016 and considered and passed the *Resolution on Adjusting the List of Incentive Subjects and the Number of Grants for the First Grant of the Sinopec Oilfield Service Corporation A Share Stock Option Incentive Plan and the Resolution on Implementing the Grant of the First Phase of the Stock Option Incentive Plan*.

According to the Company's stock option incentive plan, the stock option grant date was November 1, 2016, and a total of 49.05 million stock options (0.3469% of the total number of common shares) were granted to 477 incentive recipients. Each stock option has the right to purchase one A share of the Company's RMB common stock at an exercise price of RMB5.63 per share and determined exercise conditions on the exercise date. Stock options that meet the following exercise conditions are exercisable two years after the date of grant:

- I. The Company's compound growth rate for 2017, 2018 and 2019 shall not be less than 6% (on the base of the Company's total profit for 2015)
- II. The Company's EOE for 2017, 2018 and 2019 shall not be less than 32%;

The performance conditions of item I and II are no less than the average performance level of the target enterprise.

- III. The Economic Value Added ("EVA") for 2017, 2018 and 2019 is more than 0 and reaches the performance objective set by China Petrochemical Corporation.

As at December 31, 2017, the exercise date and exercise price of the share options to expire 12 months after the exercise date are as follows:

Exercise date	Exercise price (RMB per share)	Number of share options
November 1, 2018	5.63	14,715,000
November 1, 2019	5.63	14,715,000
November 1, 2020	5.63	19,620,000

1. Changes of share options for the period

	Number of share options
Number of share options at the beginning of the period	17,084,000
Number of share options granted in the period	
Number of share options exercised in the period	
Number of share options lapsed in the period	
Number of share options at the end of the period	17,084,000

2. Calculation of the fair value of the share options on the grant date

The Group has elected the Black-Scholes option pricing model to calculate the fair value of the share option. On the Grant Date of the Share Options, the principle figures are as follows:

Exercise price for the options (RMB: yuan)	5.63
Validity period of the share options (year)	3-5
Spot stock price (RMB: yuan)	3.96
Expected volatility	46.17%
Expected dividend yield ratio	
Risk-free rate of interest during the validity period	2.3407%-2.4518%

The fair value of share options calculated with the figures above is RMB54,229.2 thousand.

3. Impact of share-based payments on financial condition and operating results:

	Amount
Total cost of equity-settled share-based payment within the period	-
Accumulated amount of equity-settled share-based payment in capital reserves	20,662

Section VIII Financial Reports

12 COMMITMENTS AND CONTINGENCIES

12.1 Significant commitments

12.1.1 Capital commitments

Capital commitments contracted for but not yet necessary to be recognized in the financial statements	As at June 30, 2021	As at December 31, 2020
Commitment to purchase and build long-term assets	144,565	180,023
Commitment to foreign investment	129,625	129,625

12.1.2 Performance of prior commitments

The Group's capital expenditure commitments and operating lease commitments as at June 30, 2021 have been fulfilled in accordance with the prior commitments.

12.2 Contingencies

12.2.1 Significant contingencies existed on the balance sheet date

(1) Contingent liabilities due to pending actions and their financial impacts

The Group might involve in disputes, litigations and claims for compensation with customers, sub-contractors and suppliers in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, litigations or other proceedings and believes that any resulting liabilities will not have material adverse effect on the financial position, operating results or cash flow of the Group. Thus, the Company has not made the provision for reserves.

- China National Chemical Engineering No.11 Construction Co., Ltd. ("No.11 Construction") as a subcontractor of the Group undertook the construction of the "Package C project" of "Saudi Yanbu-Medina Phase III Pipeline Project" in August 2012. On May 29, 2018, No.11 Construction submitted an arbitration application to the China International Economic and Trade Arbitration Commission because of contract dispute, requesting the Group to pay RMB456,810 thousand for the project fee and the accrued interest, RMB145,968 thousand for the loss due to stoppage of work and the accrued interest, RMB38,018 thousand for the advance payment under the letter of guarantee and the accrued interest, and RMB500 thousand for attorney fee and the arbitration fees for the case. The China International Economic and Trade Arbitration Commission accepted the case on June 15, 2018. Since the arbitration commission has selected a cost consultant institution to conduct cost appraisal on the disputed expenses related to this case, and as the case is still under trial, it is currently impossible to determine its impact on the current or future profits of the Group. The Company will make active response and safeguard the legitimate rights and interests of the Company.
- Panaturi Company, an indirectly wholly-owned overseas subsidiary of the Company, signed a service contract with Petroecuador ("PAM") regarding the rendering of obligatory workload services including the production capacity optimization, oil recovery enhancement and exploration operation for I-L-Y oil fields for the purpose of improving the field output. In May 2020, the Company submitted an arbitration application for the compensation and the accrued interest, approximately amounting to USD79.22 million. As at June 30, 2021, the arbitration procedure had not been completed. The Company will make active response and safeguard the legitimate rights and interests of the Company.

(2) Judicial reorganization the Brazil subsidiary and its financial impact

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

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

For the purpose of obtaining approval from creditors' meeting and the Court of Rio in Brazil, the Brazil Subsidiary's reorganization plan should include fully settling the amount due to employees in respect of the Project, repaying a proportion of debt due to Three Suppliers, and paying legal fees, fees on judicial authorities and other services fees in relation to the implementation of legal reorganization procedure. The amount of such payments is estimated to be approximately RMB475,276 thousand. As at June 30, 2021, the amount of provisions was 323,529 thousand.

(3) Contingent liabilities from providing debt guarantee for other entities and their financial impacts

As at June 30, 2021, the Group had no external guarantee that should be disclosed.

As at June 30, 2021, Sinopec Oilfield Service Company Limited, the subsidiary of the Company, provided guarantees respectively amounting to USD1,456,578 thousand and THB 3,142,900 thousand to its subsidiaries.

12 COMMITMENTS AND CONTINGENCIES (Continued)

12.2 Contingencies (Continued)

12.2.1 Significant contingencies existed on the balance sheet date (Continued)

(4) Contingent liabilities due to overseas tax penalties and their financial impacts

On February 7, 2014, the Federal Tax Administration of Rio de Janeiro conducted a tax audit on the Brazilian subsidiary of International Engineering (the "Brazilian Subsidiary"). On February 2, 2014, the Brazilian Subsidiary received a Notice of the Tax Payments and Penalties from the Federal Tax Administration of Rio de Janeiro with total amount of BRL 80,459,100, including tax of BRL 36,467,100, interest of BRL 13,929,800 and tax penalties of BRL 30,062,200. According to the legal opinion of the Brazilian Subsidiary, the Brazilian Subsidiary had administratively replied to such tax penalties on March 10, 2014, and no final results could be predicted up to the report date. Even if the Federal Tax Administration of Rio de Janeiro made the unfavorable decision against the Brazilian Subsidiary, the Brazilian Subsidiary still had the right for the administrative legal proceedings to the local court. On December 30, 2019, the Brazilian Subsidiary received an administrative second-level review notice, which approved some project expenditures, and the tax penalty was changed to BRL 73,195,000. At the end of March 2021, the Brazilian Subsidiary received the third-level taxation review decision, which upheld the second-level receive result. Thereafter, the Brazilian Subsidiary may settle such dispute via legal proceedings. In March 2021, the Federal Tax Administration of Brazil issued the special policy for federal tax debt treatment of companies with judicial reorganization, by which the maximum exemption amount should account for 70% of the total tax debts and can be repaid by installments. The deadline for peace negotiation application is September 30, 2021. As affected by the above-mentioned matters, the Group had not made provisions for those matters.

(5) Other contingent liabilities

When the State Taxation Administration issued a tax circular (GSH [2007] No. 664) in June 2007, the Company settled the enterprise income tax for 2007 at a rate of 33% according to the circular given by relevant tax authority; however, the uncertainty in enterprise income tax rate differences arising from 2006 and before still exists. To date, the Company has not been requested to pay the additional enterprise income tax in respect of any years prior to 2007. There is no further development of this matter as at 30 June 2021. No provision has been made in the financial statements for this uncertainty for tax year prior to 2007 for the reason that Management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

13 POST BALANCE SHEET EVENTS

As at August 25, 2021, there are no post balance sheet events to be disclosed by the Group.

14 CAPITAL MANAGEMENT

The objective of the Group's capital management policy is to safeguard the Group's ability to continue as a going concern, thereby providing returns to shareholders and benefits to other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the method of financing, adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares and other equity instruments or sell assets to reduce debt.

The Group monitors its capital using the debt-to-capital ratio, which is calculated as net debt divided by total capital. The net debt is total borrowings (including short-term borrowings, long-term borrowings maturing within one year, long-term borrowings and long-term payables) less the cash balance shown in the statement of cash flows. Total capital is the sum of shareholders' equity and net debt as presented in the consolidated balance sheet. Total shareholders' equity includes the shareholders' equity attributable to the parent company and the minority interests.

As at the balance sheet date, the Group's debt-to-capital ratio is as follows:

Item	As at June 30, 2021	As at December 31, 2020
Short-term borrowings	19,856,969	19,370,520
Lease liabilities maturing within one year	390,699	351,047
Long-term payables maturing within one year	8,400	11,200
Long-term borrowings	574,949	580,716
Lease liabilities	766,717	898,469
Less: cash balances as shown in the statement of cash flows	1,494,143	1,523,352
Net debt	20,103,658	19,688,600
Shareholders' equity	7,417,121	6,722,866
Total capital	27,520,779	26,411,466
Debt-to-capital ratio	73%	75%

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15 OTHER SIGNIFICANT EVENTS

15.1 Correction of prior accounting errors

There were no corrections of accounting errors in prior periods during the reporting period.

15.2 Debt restructuring

In the current period, the Group and debtors made the debt reorganization by adjusting debt principals, and the gains recognized for debt reorganization amounted to RMB16,528 thousand and the losses recognized based on the creditor's right with value less than the book value of thereof and collected in cash amounted to RMB568 thousand. In the current period, there was no important debt reorganization with individually significant amount.

15.3 Annuity plan

For details about the main components of the annuity plans, please refer to the Note "3.21.3 Accounting treatment of dismissal benefits".

15.4 Discontinued operation

There is no discontinued operation during the reporting period.

15.5 Segment information

15.5.1 Determination criteria and accounting policies for reportable segments

The Group has identified five reportable segments based on its internal structure, management requirements and internal reporting policy. The reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, and engineering construction. The segment information is prepared based on the financial information of the Company's daily management requirements. The Group's management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

The Group's reportable segments include:

- (1) Geophysics, which provides geophysical exploration, development and technical services;
- (2) Drilling engineering, which provides customers with drilling construction, technical services and drilling instrumentation;
- (3) Logging and mud logging, which provides logging and mud logging technology services;
- (4) Special down-hole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments;
- (5) Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects.

The segment information is disclosed in accordance with the accounting policies and measurement standards reported to management by each segment. These accounting policies and measurement standards are consistent with the accounting policies and measurement standards of preparation of the financial statements.

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

The resources related to long-term equity investment and investment (loss)/income on joint venture, income tax expenses as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

15 OTHER SIGNIFICANT EVENTS (Continued)

15.5 Segment information (Continued)

15.5.2 Financial information of reportable segments

Current period or As at June 30, 2021	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Offset	Total
Operating revenue	1,813,378	17,441,610	1,714,454	4,113,888	7,876,353	3,103,695	-4,493,317	31,570,061
Including: income from external transactions	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	1,095,597	-	31,570,061
Income from inter-segment transactions	12,744	1,728,725	563,716	172,445	7,589	2,008,098	-	-4,493,317
Including: income from primary business	1,813,378	17,441,610	1,714,454	4,113,888	7,876,353	3,103,695	-4,493,317	31,570,061
Operating costs	1,749,039	16,466,079	1,424,208	3,883,263	7,366,260	3,102,096	-4,493,317	29,497,628
Including: costs of primary business	1,749,039	16,466,079	1,424,208	3,883,263	7,366,260	2,838,005	-4,493,317	29,233,537
Operating expenses	91,407	668,762	103,845	160,494	375,519	344,990	-	1,745,017
Operating profit (loss)	-2,961	335,888	187,152	78,567	150,419	-318,623	-	430,442
Total assets	3,723,539	39,221,203	3,779,683	6,533,605	21,629,673	30,042,031	-40,950,021	63,979,713
Total liabilities	2,580,199	30,026,255	3,155,322	3,828,237	21,291,996	36,630,603	-40,950,021	56,562,591
Supplementary information:								
1. Capital expenditure	8,926	112,879	65,637	21,365	117,512	90,252	-	416,571
2. Depreciation and amortization expenses	226,663	1,755,241	182,324	379,038	136,549	149,755	-	2,829,570
3. Losses from impairment of assets	249	-15,369	4,741	13,095	-44,585	1,227	-	-40,642
Prior period or As at December 31, 2020								
Operating revenue	1,831,638	17,867,655	1,612,113	3,929,087	6,847,661	1,560,260	-2,215,977	31,432,437
Including: income from external transactions	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	-	31,432,437
Income from inter-segment transactions	2,034	867,745	468,092	144,207	20,759	713,140	-2,215,977	-
Including: income from primary business	1,810,795	17,785,297	1,606,333	3,926,849	6,813,076	1,340,987	-2,215,977	31,067,360
Operating costs	1,692,136	16,303,362	1,367,494	3,649,638	6,379,384	1,478,918	-2,215,977	28,654,955
Including: costs of primary business	1,688,235	16,248,025	1,367,079	3,645,893	6,351,666	1,369,505	-2,215,977	28,454,426
Operating expenses	166,178	970,445	109,058	149,128	453,661	621,379	-	2,469,849
Operating profit (loss)	-23,133	667,982	137,464	136,902	42,986	-507,627	-	454,574
Total assets	4,354,909	40,676,535	3,278,712	7,195,798	21,225,805	27,186,628	-38,378,578	65,539,809
Total liabilities	3,167,456	27,892,525	1,777,114	3,449,301	21,039,078	39,218,187	-38,378,578	58,165,083
Supplementary information:								
1. Capital expenditure	52,057	392,067	34,965	69,578	44,582	16,592	-	609,841
2. Depreciation and amortization expenses	246,311	1,752,666	137,978	366,734	131,558	135,741	-	2,770,988
3. Losses from impairment of assets	5820	21165	1666	15673	31463	2667	-	78,454

15.5.3 Other segment information

Dependence to principle customers:

The Group obtained over 50 % of the total geophysics, drilling engineering, logging and mud logging, special down-hole operations and engineering construction revenue from a single customer.

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16 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

16.1 Other receivables

Item	Balance as at June 30, 2021	Balance as at December 31, 2020
Other receivables	4,382,892	4,396,431
Total	4,382,892	4,396,431

16.1.1 Other receivables

(1) Disclosure of other receivables by aging

Aging	Balance as at June 30, 2021	Balance as at December 31, 2020
Within 1 year	4,382,892	4,396,431
Sub-total	4,382,892	4,396,431
Less: provision for bad debts		
Total	4,382,892	4,396,431

(2) Classification by nature

Nature	Book balance as at June 30, 2021	Book balance as at December 31, 2020
Transactions with wholly-owned subsidiaries and head office	4,382,892	4,396,431
Total	4,382,892	4,396,431

(3) Details of provision for bad debts

Category	Balance as at June 30, 2021					Balance as at December 31, 2020				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate in the next 12 months (%)		Amount	Proportion (%)	Amount	Expected credit loss rate in the next 12 months (%)	
Provision for bad debts accrued on individual basis	4,382,892	100.00			4,382,892	4,396,431	100.00			4,396,431
Including: Receivables from wholly-owned subsidiaries	4,382,892	100.00			4,382,892	4,396,431	100.00			4,396,431
Total	4,382,892	100.00			4,382,892	4,396,431	100.00			4,396,431

(4) Top 5 of other receivables as at June 30, 2021, presented by debtor

Company	Nature	Balance as at June 30, 2021	Aging	Proportion in the total ending balance of other receivables (%)	Ending balance of provision for bad debts
Sinopec Oilfield Service Limited	Current account	4,382,892	Within 1 year	100.00	
Total		4,382,892		100.00	

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16 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

16.2 Long-term equity investments

Item	Balance as at June 30, 2021			Balance as at December 31, 2020		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	27,891,662		27,891,662	27,891,662		27,891,662
Total	27,891,662		27,891,662	27,891,662		27,891,662

16.2.1 Investments in subsidiaries

Investee	Balance as at December 31, 2020	Increase in the current period	Decrease in the current period	Balance as at June 30, 2021	Provision for impairment made in the current period	Balance of provision for impairment as at June 30, 2021
Sinopec Oilfield Service Limited	27,891,662			27,891,662		
Total	27,891,662			27,891,662		

17 SUPPLEMENTARY INFORMATION

17.1 Breakdown of non-recurring profit or loss in the current period

Item	Amount	Remark
Profit or loss from disposal of non-current assets	5,500	
Government grants included in the current profit or loss (except for government grants closely related to the enterprise business, obtained by quota or quantity at unified state standards)	31,358	
Profit or loss from debt restructuring	15,958	
Non-operating income and expense excluding the aforesaid items	17,744	
Sub-total	70,560	
Affected amount of income tax	12,620	
Affected amount of minority equity (after tax)		
Total	57,940	

17.2 ROE and earnings per share

Profit during the reporting period	Weighted average ROE (%)	Earnings per share (RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	5.34	0.019	0.019
Net profit attributable to ordinary shareholders of the Company after deducting the non-recurring profit or loss	4.50	0.016	0.016

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17 SUPPLEMENTARY INFORMATION (Continued)

17.3 Accounting data difference between the domestic and overseas accounting standards

17.3.1 Reconciliation of differences between CASBE and IFRS financial statements

	Net profit		Net assets	
	Current period	Prior period	Balance as at June 30, 2021	Balance as at December 31, 2020
Based on CASBE	368,558	298,277	7,417,122	6,722,866
Adjusted items and amounts in accordance with IFRS:				
Special reserves	325,688	310,278		
Based on IFRS	694,246	608,555	7,417,122	6,722,866

17.3.2 Related notes

In accordance with CASBE, provision of safety fund according to the PRC regulation is recognized to the current profit or loss and at the same time included in the “special reserve” account under the “Owners’ equity”. When expenses related to work safety are incurred, they are directly offset against the special reserve. When using a fixed asset arising from or related to work safety, the special reserve is offset according to the cost of forming the fixed asset, the same amount of accumulated depreciation is recognized, and the relevant assets are not depreciated in subsequent periods. According to IFRS, expenditure in cost nature is recognized in the profit or loss and expenditure in capital nature is recognized as fixed assets when incurred and depreciate using corresponding depreciation methods.

Sinopec Oilfield Service Corporation

(Official seal)

August 25, 2021

Section VIII Financial Reports

Prepared in accordance with International Financial Reporting Standards



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Independent Review Report

To the Board of Directors of Sinopec Oilfield Service Corporation

(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 123 to 149, which comprises the condensed consolidated statement of financial position as at 30 June 2021, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Other Matter

The comparative unaudited interim financial information for the six months ended 30 June 2020 were reviewed by another auditor who expressed an unmodified opinion on 25 August 2020.

BDO Limited

Certified Public Accountants

Chan Tsz Hung

Practising Certificate no. P06693

Hong Kong, 25 August 2021

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	For the six months ended 30 June	
		2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Revenue	4	31,570,061	31,432,437
Cost of sales and taxes and surcharges		(29,277,815)	(28,449,551)
Gross profit		2,292,246	2,982,886
Selling expenses		(34,037)	(28,878)
General and administrative expenses		(888,531)	(1,150,692)
Research and development expenses		(349,034)	(619,803)
Finance expenses – net	5	(408,182)	(487,147)
Reversal of/(Provision for) expected credit loss (“ECL”) – net	6	40,642	(78,454)
Share of profit/(loss) from joint ventures		47	(1,016)
Share of profit from associates		3,290	4,036
Operating profit		656,441	620,932
Other income	7	135,457	162,146
Other expenses	8	(15,694)	(19,930)
Profit before income tax	9	776,204	763,148
Income tax expense	10	(81,958)	(154,593)
Profit for the period		694,246	608,555
Other comprehensive income for the period, net of tax			
Item 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”)		10	–
Total comprehensive income for the period		694,256	608,555
Earnings per share for profit attributable to owners of the Company (presented in RMB per share)	11	RMB	RMB
Basic and diluted		0.037	0.032

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 June 2021

	Notes	As at	As at
		30 June 2021	31 December 2020
		RMB' 000	RMB' 000
		(Unaudited)	(Audited)
Assets			
Non-current assets			
Property, plant and equipment	14	23,178,269	24,575,668
Other non-current assets		5,247,369	5,854,914
Intangible assets		345,732	396,611
Interest in joint ventures		23,251	23,204
Interest in associates		22,945	19,842
Financial assets at FVTOCI	15	22,835	22,835
Deferred tax assets		395,566	395,834
Total non-current assets		29,235,967	31,288,908
Current assets			
Inventories	19	884,832	1,025,965
Financial assets at FVTOCI	15	1,204,205	1,323,425
Trade receivables	16	7,857,774	9,358,385
Prepayments and other receivables	17	5,446,390	4,924,453
Contract assets	18	17,848,381	11,618,601
Restricted cash		8,020	28,106
Cash and cash equivalents		1,494,144	1,523,352
Total current assets		34,743,746	29,802,287
Total assets		63,979,713	61,091,195
Equity			
Share capital	20	18,984,340	18,984,340
Reserves		(11,567,218)	(12,261,474)
Total equity		7,417,122	6,722,866
Liabilities			
Non-current liabilities			
Long-term borrowings	24	1,344,466	1,484,785
Deferred income		13,618	14,186
Deferred tax liabilities		10,696	13,471
Provisions		364,584	382,646
Total non-current liabilities		1,733,364	1,895,088
Current liabilities			
Notes and trade payables	22	29,263,653	26,802,737
Other payables	23	3,104,021	2,652,248
Contract liabilities	18	1,964,150	3,024,461
Short-term borrowings	24	20,253,368	19,727,167
Current income tax payable		244,035	266,628
Total current liabilities		54,829,227	52,473,241
Total liabilities		56,562,591	54,368,329
Total equity and liabilities		63,979,713	61,091,195
Net current liabilities		(20,085,481)	(22,670,954)
Total assets less current liabilities		9,150,486	8,617,954

On behalf of the board of directors

CHEN Xikun

Chairman

YUAN Jianqiang

Executive Director and General Manager

Section VIII Financial Reports

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company							Total equity
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	
	RMB' 000 (Note 20)	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
At 1 January 2021	18,984,340	11,622,283	95,490	200,383	258,523	(2,014)	(24,436,139)	6,722,866
Profit for the period	-	-	-	-	-	-	694,246	694,246
Other comprehensive income for the period:								
Net movement in fair value of financial assets at FVTOCI	-	-	-	-	-	10	-	10
Total comprehensive income for the period	-	-	-	-	-	10	694,246	694,256
Transactions with owners:								
Appropriation of specific reserve	-	-	-	-	568,834	-	(568,834)	-
Utilisation of specific reserve	-	-	-	-	(243,146)	-	243,146	-
Transfer of other comprehensive income reserve	-	-	-	-	-	(10)	10	-
Total transactions with owners	-	-	-	-	325,688	(10)	(325,678)	-
At 30 June 2021 (Unaudited)	18,984,340	11,622,283	95,490	200,383	584,211	(2,014)	(24,067,571)	7,417,122

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total equity
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	
	RMB' 000 (Note 20)	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
At 1 January 2020	18,984,340	11,622,283	92,298	200,383	373,238	6,447	(24,515,117)	6,763,872
Profit and total comprehensive income for the period	-	-	-	-	-	-	608,555	608,555
Transactions with owners:								
Appropriation of specific reserve	-	-	-	-	551,604	-	(551,604)	-
Utilisation of specific reserve	-	-	-	-	(241,326)	-	241,326	-
Equity settled share-based transaction (Note 21)	-	-	2,299	-	-	-	-	2,299
Total transactions with owners	-	-	2,299	-	310,278	-	(310,278)	2,299
At 30 June 2020 (Unaudited)	18,984,340	11,622,283	94,597	200,383	683,516	6,447	(24,216,840)	7,374,726

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Cash flows from operating activities		
Cash flows generated from operations	441,299	388,093
Interest received	24,620	19,405
Income tax paid	(107,058)	(126,240)
Net cash generated from operating activities	358,861	281,258
Cash flows from investing activities		
Purchases of property, plant and equipment	(178,761)	(458,057)
Purchases of intangible assets	(1,434)	–
Purchases of other non-current assets	(228,321)	–
Proceeds from disposal of property, plant and equipment	11,500	11,915
Proceeds from disposal of other non-current assets	5,684	5,237
Increase in interests in a joint venture	–	(8)
Proceeds from financial assets at FVTOCI	10	–
Dividends received from associates	690	1,646
Net cash used in investing activities	(390,632)	(439,267)
Cash flows from financing activities		
Proceeds from borrowings	29,118,868	26,840,429
Repayments of borrowings	(28,611,789)	(25,660,652)
Payment of lease liabilities	(186,822)	(190,079)
Interests paid	(310,990)	(466,144)
Net cash generated from financing activities	9,267	523,554
Net (decrease)/increase in cash and cash equivalents	(22,504)	365,545
Effect of foreign exchange rate changes on cash and cash equivalents	(6,704)	(18,107)
Cash and cash equivalents at the beginning of the period	1,523,352	1,650,732
Cash and cash equivalents at the end of the period	1,494,144	1,998,170

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NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

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 中石化石油工程技術服務有限公司 from Sinopec Group, which was satisfied by the issuance of shares to Sinopec Group (hereinafter collectively referred to as the “Reorganisation”).

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

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 25 August 2021.

2. BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

As at 30 June 2021, the Group had net current liabilities of approximately RMB20,085,481,000 (31 December 2020: RMB22,670,954,000) and capital commitments of approximately RMB144,565,000; and it had a net profit of RMB694,246,000 for the period then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months from 30 June 2021 is expected, and most of the Group’s borrowings are sourced from Sinopec Group and its subsidiaries, where the directors of the Company, based on past experience, expected that these borrowings can be renewed upon maturity. In December 2020, the Group had also obtained lines of credit of RMB16 billion and USD0.6 billion (in aggregate of approximately RMB20.9 billion), and line of credit promissory note of RMB10 billion from the Sinopec Group’s subsidiaries. To further secure the source of finance, the Group will explore and develop relationship with listed and state-owned financial institutions. The directors of the Company are in the opinion that the above measures are sufficient to enable the Group to obtain sufficient financial resources to meet with the expected liquidity, daily operation and capital requirements, and thus consider that going concern basis is appropriate for the preparation of this interim financial information.

2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTOCI, which are carried at fair value.

3. SUMMARY OF SIGIFICANT ACCOUNTING POLICY

3.1 Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's interim financial information:

Amendments to HKAS 39, HKFRS 4, Interest Rate Benchmark Reform – Phase 2
HKFRS 7, HKFRS 9 and HKFRS 16

The adoption of the new and amended IFRSs had no material impact on the Group's results and financial position.

3.2 Significant accounting policies

The interim financial information has been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2020.

4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Geophysics	1,800,634	1,829,604
Drilling engineering	15,712,885	16,999,910
Logging and mud logging	1,150,738	1,144,021
Special downhole operations	3,941,443	3,784,880
Engineering construction	7,868,764	6,826,902
Others	1,095,597	847,120
	31,570,061	31,432,437

Segment information

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

Five reportable operating segments are as follows:

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

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4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain intangible assets, certain other non-current assets, certain inventories, certain contract assets, certain trade receivables, certain prepayments and other receivables, certain cash and cash equivalents, certain deferred tax assets, certain financial assets at FVTOCI and interests in joint venture and associates.

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

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

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

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

(a) Segment results, assets and liabilities

For the six months ended 30 June 2021 and as at that date, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
For the six months ended 30 June 2021 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	1,095,597	–	31,570,061
Inter-segment revenue	12,744	1,728,725	563,716	172,445	7,589	2,008,098	(4,493,317)	–
Reportable segment revenue	1,813,378	17,441,610	1,714,454	4,113,888	7,876,353	3,103,695	(4,493,317)	31,570,061
Reportable segment (loss)/profit	(19,982)	460,512	246,599	121,776	153,944	(306,408)	–	656,441
Other income	24,240	48,886	1,294	8,577	27,973	24,487	–	135,457
Other expenses	(2,795)	(1,270)	(2,991)	(1,202)	(7,334)	(102)	–	(15,694)
Profit/(Loss) before income tax	1,463	508,128	244,902	129,151	174,583	(282,023)	–	776,204
Income tax expense								(81,958)
Profit for the period								694,246
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	179,636	930,661	106,521	249,437	126,067	131,813	–	1,724,135
– Other non-current assets	47,018	783,879	75,083	125,846	6,028	15,268	–	1,053,122
– Intangible assets	9	40,701	720	3,755	4,454	2,674	–	52,313
Capital expenditure								
– Property, plant and equipment	8,926	112,879	65,637	21,365	117,512	88,818	–	415,137
– Intangible assets	–	–	–	–	–	1,434	–	1,434
(Reversal of)/Provision for ECL on trade receivables, net	(266)	(21,643)	294	8,389	(54,807)	3,863	–	(64,170)
Provision for/(Reversal of) ECL on other receivables, net	1,036	1,916	62	2,699	3,289	(2,927)	–	6,075
(Reversal of)/Provision for ECL on contract assets	(521)	4,358	4,385	2,007	6,933	291	–	17,453
As at 30 June 2021 (Unaudited)								
Assets								
Segment assets	3,723,539	39,221,203	3,779,683	6,533,605	21,629,673	30,042,031	(40,950,021)	63,979,713
Liabilities								
Segment liabilities	2,580,199	30,026,255	3,155,322	3,828,237	21,291,996	36,630,603	(40,950,021)	56,562,591

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4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

As at 31 December 2020 and for the six months ended 30 June 2020, the segment results, assets and liabilities were as follows:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
For the six months ended 30 June 2020 (Unaudited)								
Segment revenue and results								
Revenue from external customers	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	–	31,432,437
Inter-segment revenue	2,034	867,745	468,092	144,207	20,759	713,140	(2,215,977)	–
Reportable segment revenue	1,831,638	17,867,655	1,612,113	3,929,087	6,847,661	1,560,260	(2,215,977)	31,432,437
Reportable segment (loss)/profit	(24,220)	881,502	135,169	130,755	19,681	(521,955)	–	620,932
Other income	4,255	93,177	2,396	6,141	38,022	18,155	–	162,146
Other expenses	(1,322)	(14,803)	(1,606)	(613)	(1,520)	(66)	–	(19,930)
(Loss)/Profit before income tax	(21,287)	959,876	135,959	136,283	56,183	(503,866)	–	763,148
Income tax expense								(154,593)
Profit for the period								608,555
Supplementary information								
Depreciation and amortisation								
– Property, plant and equipment	192,078	906,010	100,299	293,245	122,449	132,198	–	1,746,279
– Other non-current assets	54,224	805,469	37,001	69,500	5,395	1,849	–	973,438
– Intangible assets	9	41,187	678	3,989	3,714	1,694	–	51,271
Capital expenditure								
– Property, plant and equipment	52,057	392,067	34,965	69,570	44,582	16,592	–	609,833
– Long-term equity investments	–	–	–	8	–	–	–	8
Provision for/(Reversal of) ECL on trade receivables, net	4,453	22,802	286	12,547	(1,110)	(832)	–	38,146
Provision for/(Reversal of) ECL on other receivables, net	1,198	(2,001)	330	792	30,381	3,298	–	33,998
Provision for ECL on contract assets	169	364	1,050	2,334	2,192	201	–	6,310
As at 31 December 2020 (Audited)								
Assets								
Segment assets	4,354,278	39,531,252	2,551,384	6,437,288	20,325,162	27,486,627	(39,594,796)	61,091,195
Liabilities								
Segment liabilities	3,185,765	30,373,664	1,918,995	3,634,310	20,110,692	34,739,699	(39,594,796)	54,368,329

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4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
The PRC	27,175,580	25,225,924
Middle East	3,369,391	4,270,277
Other countries	1,025,090	1,936,236
	31,570,061	31,432,437

	Specified non-current assets	
	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
The PRC	23,967,246	26,420,314
Other countries	4,850,320	4,449,925
	28,817,566	30,870,239

(c) Major customer

For the six months ended 30 June 2021 and 2020, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Customer A	20,581,901	18,434,828

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction accounted for 65% (2020: 59%) of the Group's revenue.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the six months ended 30 June 2021 and 2020, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
For the six months ended 30 June 2021							
Timing of revenue recognition:							
– At a point in time	–	2,248	4,270	176	3,815	54,912	65,421
– Over time	1,800,634	15,710,637	1,146,468	3,941,267	7,864,949	1,040,685	31,504,640
Total	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	1,095,597	31,570,061
For the six months ended 30 June 2020							
Timing of revenue recognition:							
– At a point in time	169	10,442	5,919	235	21,122	269,596	307,483
– Over time	1,829,435	16,989,468	1,138,102	3,784,645	6,805,780	577,524	31,124,954
Total	1,829,604	16,999,910	1,144,021	3,784,880	6,826,902	847,120	31,432,437

5. FINANCE EXPENSES – NET

	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Finance income		
Interest income		
– Sinopec Group's subsidiaries	560	778
– Third parties and other financial institutions	24,060	18,627
	24,620	19,405
Finance expenses		
Interest expenses on loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	(278,688)	(404,381)
– Third parties and other financial institutions	(40,830)	(18,578)
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	(12,173)	(14,452)
– Associates and joint ventures of Sinopec Group	(10,073)	(31,909)
– Third parties	(8,928)	(7,530)
Exchange losses, net	(56,379)	(3,211)
Bank and other charges	(25,731)	(26,491)
	(432,802)	(506,552)
	(408,182)	(487,147)

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6. REVERSAL OF/(PROVISION FOR) ECL – NET

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Reversal of/(Provision for) ECL on trade and other receivables, net	58,095	(72,144)
Provision for ECL on contract assets	(17,453)	(6,310)
	40,642	(78,454)

7. OTHER INCOME

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Gain on disposal of property, plant and equipment, net	4,420	2,906
Gain on disposal of other non-current assets, net	1,080	933
Government grants (Note)	74,824	99,239
Waived payables	14,511	5,873
Penalty income	494	1,149
Compensation received	6,055	6,053
Gain on debt restructuring	15,958	37,298
Others	18,115	8,695
	135,457	162,146

Note:

For the six months ended 30 June 2021 and 2020, government grants primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

8. OTHER EXPENSES

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Loss on scraps of assets	–	751
Penalty	1,591	4,485
Compensation	2,689	3,909
Others	11,414	10,785
	15,694	19,930

9. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Staff costs, including directors and supervisors emoluments	6,914,213	6,754,339
Retirement benefit plan contribution (including in the above mentioned staff costs)		
– Municipal retirement scheme costs	699,978	372,719
– Supplementary retirement scheme costs	335,335	311,265
Share options granted to directors and employees (including in the above mentioned staff costs)	–	2,299
Changes in inventories of finished goods and work in progress	(54,505)	27,236
Raw materials and consumables used	8,873,355	12,654,392
Depreciation and amortisation		
– Property, plant and equipment	1,724,135	1,746,279
– Other non-current assets	1,053,122	973,438
– Intangible assets	52,313	51,271
Operating lease expenses		
– Short-term leases and leases with lease term shorter than 12 months	783,557	528,707
(Reversal of)/Provision for ECL – net		
– Trade and other receivables	(58,095)	72,144
– Contract assets	17,453	6,310
Rental income from property, plant and equipment after relevant expenses	(4,992)	(6,078)
Gain on disposal/write-off of property, plant and equipment, net	(4,420)	(2,906)
Gain on disposal/write-off of other non-current assets, net	(1,080)	(933)
Exchange losses, net	56,379	3,211
COVID-19 related rent concessions	(174)	–

10. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021	2020
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Current tax		
PRC enterprise income tax	68,550	19,502
Overseas enterprise income tax	15,915	136,961
	84,465	156,463
Deferred tax		
Reversal of temporary difference	(2,507)	(1,870)
Income tax expense	81,958	154,593

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2021 and 2020 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the six months ended 30 June 2021 and 2020, 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.

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11. EARNINGS PER SHARE

(a) Basic

For the six months ended 30 June 2021 and 2020, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company (RMB'000)	694,246	608,555
Weighted average number of ordinary shares in issue (Shares)	18,984,340,033	18,984,340,033
Basic earnings per share (RMB)	0.037	0.032

(b) Diluted

For the six months ended 30 June 2021 and 2020, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares during the periods.

12. DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2021 (2020: Nil).

13. EMPLOYMENT BENEFITS

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	5,908,880	6,068,056
Retirement benefit plan contribution (note)		
– Municipal retirement scheme costs	669,978	372,719
– Supplementary retirement scheme costs	335,355	311,265
Share options granted to directors and employees (note 21)	–	2,299
	6,914,213	6,754,339

Note :

Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2021, the Group and the employees pay 16% and 8% (31 December 2020: 16% and 8%) of salary respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 8% (31 December 2020: 8%) of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

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

14. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2021

	Buildings	Oil engineering equipment and others	Land	Prepaid land leases	Construction in progress	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Cost						
Balance at 1 January 2021	2,574,128	63,146,900	229,773	136,660	356,026	66,443,487
Additions	48,846	71,585	55,291	–	175,391	351,113
Remeasurement of leases	52,374	2,670	8,980	–	–	64,024
Disposals/Write-off	(125,565)	(347,742)	(17,762)	–	–	(491,069)
Transferred from construction in progress	–	195,228	–	–	(195,228)	–
At 30 June 2021	2,549,783	63,068,641	276,282	136,660	336,189	66,367,555
Accumulated depreciation						
Balance at 1 January 2021	978,471	39,361,809	99,134	28,305	–	40,467,719
Depreciation	144,536	1,553,992	24,060	1,547	–	1,724,135
Disposals/Write-off	(57,182)	(334,336)	(10,311)	–	–	(401,829)
At 30 June 2021	1,065,825	40,581,465	112,883	29,852	–	41,790,025
Accumulated impairment loss						
Balance at 1 January 2021	8,436	1,319,930	–	–	71,734	1,400,100
Disposals/Write-off	–	(839)	–	–	–	(839)
At 30 June 2021	8,436	1,319,091	–	–	71,734	1,399,261
Carrying amounts						
At 30 June 2021 (Unaudited)	1,475,522	21,168,085	163,399	106,808	264,455	23,178,269
At 31 December 2020 (Audited)	1,587,221	22,465,161	130,639	108,355	284,292	24,575,668

Note:

As at 30 June 2021, right-of-use assets with carrying amounts of RMB1,276,432,000 are included in property, plant and equipment (31 December 2020: RMB1,394,653,000).

	Carrying amounts		Depreciation
	As at 30 June 2021	As at 1 January 2021	During the six months ended 30 June 2021
	RMB' 000	RMB' 000	RMB' 000
Buildings	476,223	561,175	117,569
Oil engineering equipment and others	530,002	594,484	113,564
Land	163,399	130,639	24,060
Prepaid land leases	106,808	108,355	1,547
	1,276,432	1,394,653	256,740

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

For the six months ended 30 June 2020

	Buildings	Oil engineering equipment and others	Land	Prepaid land leases	Construction in progress	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Cost						
Balance at 1 January 2020	2,410,301	61,847,590	211,535	136,660	285,553	64,891,639
Additions	100,225	187,441	12,708	–	338,479	638,853
Remeasurement of leases	–	(29,020)	–	–	–	(29,020)
Disposals/Write-off	(373)	(178,318)	–	–	–	(178,691)
Transferred from construction in progress	–	45,776	–	–	(45,776)	–
Reclassification	486	1,127	–	–	–	1,613
At 30 June 2020	2,510,639	61,874,596	224,243	136,660	578,256	65,324,394
Accumulated depreciation						
Balance at 1 January 2020	723,997	37,286,864	46,447	25,210	–	38,082,518
Depreciation	135,142	1,582,427	27,163	1,547	–	1,746,279
Disposals/Write-off	(362)	(152,387)	–	–	–	(152,749)
At 30 June 2020	858,777	38,716,904	73,610	26,757	–	39,676,048
Accumulated impairment loss						
Balance at 1 January 2020	8,436	1,353,320	–	–	71,734	1,433,490
Disposals/Write-off	–	(16,933)	–	–	–	(16,933)
At 30 June 2020	8,436	1,336,387	–	–	71,734	1,416,557
Carrying amounts						
At 30 June 2020 (Unaudited)	1,643,426	21,821,305	150,633	109,903	506,522	24,231,789

15. FINANCIAL ASSETS AT FVTOCI

	As at 30 June 2021	As at 31 December 2020
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Financial assets at FVTOCI (non-recycling)		
Non-current asset:		
Equity securities – the PRC	22,835	22,835
Current assets:		
Notes receivables	1,204,205	1,323,425

Notes:

- (a) Unlisted investments represent the Groups' equity interests in the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The Group designated its investment in unlisted investment as financial assets at FVTOCI (non-recycling), as the investment is held for strategic purpose.

- (b) As at 30 June 2021, notes receivables were classified as financial assets at FVTOCI, as the Group's business model is achieved both by collecting contractual cash flows and by selling of these assets.

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

As at 30 June 2021 and 31 December 2020, none of the Group's notes receivables were pledged as collateral or overdue.

- (c) All financial assets at FVTOCI are denominated in RMB.

16. TRADE RECEIVABLES

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Trade receivables		
– Sinopec Group and its subsidiaries	2,603,413	2,364,781
– Joint ventures of the Group	3,712	5,249
– Joint ventures and associates of Sinopec Group	416,459	912,791
– Third parties	7,234,125	8,550,102
	10,257,709	11,832,923
Less: ECL allowance	(2,399,935)	(2,474,538)
Trade receivables – net	7,857,774	9,358,385

As at 30 June 2021 and 31 December 2020, the Group's trade receivables were approximately their fair values.

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

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

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	6,953,836	8,302,161
1 to 2 years	546,834	617,561
2 to 3 years	229,923	309,393
Over 3 years	127,181	129,270
	7,857,774	9,358,385

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

	2021	2020
	RMB' 000	RMB' 000
At 1 January	2,474,538	2,513,990
ECL allowance	66,739	213,945
Reversal	(130,909)	(175,799)
Others	(10,433)	5,373
Receivables write-off as uncollectible	–	(153,900)
At 30 June (Unaudited)	2,399,935	2,403,609

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17. PREPAYMENT AND OTHER RECEIVABLES

	As at 30 June 2021	As at 31 December 2020
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Prepayments (note (a))	443,592	445,518
Other receivables (note (b))		
Petty cash funds	63,100	11,907
Guarantee deposits	1,366,589	1,326,522
Disbursement of funds	844,725	833,797
Temporary payment	829,357	622,405
Escrow payments	4,701	4,688
Deposits	35,346	44,539
Export tax refund receivables	10,389	22,213
Excess value-added tax paid	1,236,837	981,684
Value added tax to be certified	19,753	247,610
Prepaid value-added tax	853,051	761,948
Prepaid income tax	4,232	4,566
Others	501,135	378,069
	6,212,807	5,685,466
Less: ECL allowance	(766,417)	(761,013)
Prepayments and other receivables – net	5,446,390	4,924,453

Notes:

- (a) As at 30 June 2021, the prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB175,831,000 (31 December 2020: RMB136,002,000), the associates and joint ventures of Sinopec Group amounting to RMB2,000 (31 December 2020: Nil).
- (b) As at 30 June 2021, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB220,497,000 (31 December 2020: RMB82,176,000), the joint ventures of the Group amounting to RMB301,000 (31 December 2020: RMB189,000) and the associates and joint ventures of Sinopec Group amounting to RMB536,135,000 (31 December 2020: RMB294,411,000).
- (c) The amounts due from related parties are unsecured, interest free and repayable on demand.
- (d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2021 and 31 December 2020 approximate their fair value.

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

	2021	2020
	RMB' 000	RMB' 000
At 1 January	761,013	710,685
ECL allowance	48,450	110,377
Reversal	(42,375)	(76,379)
Others	(671)	–
At 30 June (Unaudited)	766,417	744,683

18.CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contract assets arising from construction and service contracts	17,969,835	11,723,048
Less: ECL allowance	(121,454)	(104,447)
	17,848,381	11,618,601

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

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

The amount of contract assets that is expected to be recovered after more than one year is RMB404,822,000 (31 December 2020: RMB185,358,000).

(b) Contract liabilities

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contract liabilities arising from construction and service contracts	1,964,150	3,024,461

The balance of contract liabilities as at 1 January 2021 is RMB3,024,461,000, in which RMB2,222,292,000 was recognised as revenue during the period.

Unsatisfied performance obligation:

The group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 30 June 2021, part of the Group's petroleum engineering and technical service and construction engineering contracts were still in the process, and the total transaction price apportioned to the unsatisfied performance obligation was RMB30.6 billion (31 December 2020: RMB21.53 billion), the amount of which was related to the progress of the performance of each contract, and will be recognized as revenue in accordance with the percentage of work performed in the future, which is expected to be completed in the coming 60 months.

19.INVENTORIES

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Raw materials	829,598	916,767
Finished goods	63,303	68,039
Work in progress	16,807	66,577
Turnover materials	15,043	15,079
	924,751	1,066,462
Less: Provision for impairment/write off	(39,919)	(40,497)
	884,832	1,025,965

For the periods ended 30 June 2021 and 2020, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB8,818,850,000 and RMB12,681,628,000 respectively. For the six months ended 30 June 2021, no provision for inventories (for the six months ended 30 June 2020: Nil) was made to write down inventories to their net realisable values and the inventories were written off of RMB578,000 (31 December 2020: RMB19,124,000).

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20.SHARE CAPITAL

	As at 30 June 2021		As at 31 December 2020	
	Number of shares (Share)	Share capital RMB' 000 (Unaudited)	Number of shares (Share)	Share capital RMB' 000 (Audited)
Registered, issued and paid:				
– Domestic non-public legal person shares of RMB1.00 each	11,786,045,218	11,786,046	11,786,045,218	11,786,046
– Social public A shares of RMB1.00 each	1,783,333,333	1,783,333	1,783,333,333	1,783,333
– H shares of RMB1.00 each	5,414,961,482	5,414,961	5,414,961,482	5,414,961
	18,984,340,033	18,984,340	18,984,340,033	18,984,340

21.SHARE-BASED PAYMENTS

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

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

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

As at 30 June 2021, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price (per share in RMB)	Outstanding shares options
1 November 2020	5.63	17,084,000

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. At 30 June 2021, 17,084,000 share options with a total fair value of RMB22,067,000 at the grant date have not been exercised.

The movement of share options are as follows:

	No. of share options
Outstanding shares at 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	17,084,000

The significant inputs into the model were as follows:

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

No share-based payment have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021 (for the six months ended 30 June 2020: RMB2,299,000). For the six months ended 30 June 2021, no share option had been exercised.

As at 30 June 2021, under the current capital structure, fully exercise of the outstanding shares will lead to issue of 17,084,000 (31 December 2020: 17,084,000) extra ordinary A share and increase in share capital of RMB17,084,000 (31 December 2020: RMB17,084,000), before issue expenses.

22. NOTES AND TRADE PAYABLES

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Trade payables		
– Sinopec Group and its subsidiaries	1,920,895	1,146,343
– Joint ventures of the Group	89,493	18,322
– Joint ventures and associates of Sinopec Group	610	7,204
– Third parties	17,476,649	19,325,640
	19,487,647	20,497,509
Notes payables	9,776,006	6,305,228
	29,263,653	26,802,737

As at 30 June 2021 and 31 December 2020, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	28,694,253	26,219,667
1 to 2 years	265,117	277,441
2 to 3 years	102,885	96,699
Over 3 years	201,398	208,930
	29,263,653	26,802,737

23. OTHER PAYABLES

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Salaries payables	486,711	498,071
Other tax payables	200,884	457,761
Interest payables (note (a))	3,543	17,458
Other payables (note (b))		
Guarantee deposits	556,346	489,083
Deposits	165,125	126,570
Disbursement of funds	835,974	558,073
Temporary receipts	291,190	117,080
Escrow payments	61,738	43,776
Withheld payments	93,550	54,411
Others	408,960	289,965
	3,104,021	2,652,248

Notes:

- (a) As at 30 June 2021, the interest payables include related party balances with Sinopec Group and its subsidiaries amounting at RMB14,947,000 (31 December 2020: RMB16,594,000).
- (b) As at 30 June 2021, the other payables include related party balances with Sinopec Group and its subsidiaries amounting at RMB12,682,000 (31 December 2020: RMB26,233,000), associates of the Group amounting to RMB470,000 (31 December 2020: RMB2,688,000).
- (c) The above amounts due to related parties are unsecured, interest free and repayable on demand.

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24. BORROWINGS

	As at 30 June 2021	As at 31 December 2020
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Current liabilities		
Loans from Sinopec Finance Company Limited (note (a))	6,390,000	6,400,000
Loans from Sinopec Century Bright Capital Investment Limited (note (a))	1,866,969	1,970,520
Loans from Sinopec Group (note (a))	11,600,000	11,000,000
Lease liabilities (note (b))	396,399	356,647
	20,253,368	19,727,167
Non-current liabilities		
Bank borrowings (note (a))	574,949	580,716
Lease liabilities (note (b))	769,517	904,069
	1,344,466	1,484,785
	21,597,834	21,211,952

Notes:

(a) The borrowings of the Group are repayable as follows:

	As at 30 June 2021	As at 31 December 2020
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Within 1 year	19,856,969	19,370,520
1 to 2 years	574,949	580,716
	20,431,918	19,951,236

As at 30 June 2021, annual interest rate of credit loans from related parties and bank ranged from 1.43% to 3.92% (31 December 2020: 1.42% to 3.92%).

(b) Lease liabilities

	As at 30 June 2021	As at 31 December 2020
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
Total minimum lease payments		
– Within 1 year	413,771	372,436
– 1 to 2 years	377,244	177,417
– 2 to 5 years	425,724	637,027
– Over 5 years	50,589	331,542
	1,267,328	1,518,422
Future finance charges on lease liabilities	(101,412)	(257,706)
Present value of lease liabilities	1,165,916	1,260,716

24. BORROWINGS (Continued)

(b) Lease liabilities (Continued)

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Present value of minimum lease payments		
– Within 1 year	396,399	356,647
– 1 to 2 years	350,933	161,987
– 2 to 5 years	387,015	530,767
– Over 5 years	31,569	211,315
	1,165,916	1,260,716
Less: Portion due within one year included under current liabilities	(396,399)	(356,647)
Portion due after one year included under non-current liabilities	769,517	904,069

As at 30 June 2021, the Group leases various residential properties, office and equipment. The leases run for an initial period of 1 to 30 years (31 December 2020: 1 to 29 years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors.

For the six months ended 30 June 2021, total cash outflow for the lease payment is RMB1,288,228,000 (30 June 2020: RMB757,471,000).

25. COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2021 and 31 December 2020 are as follows:

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contracted but not provided for	144,565	180,023

(b) Lease commitments

The lease commitments for short-term leases as at 30 June 2021 and 31 December 2020 are as follows:

	As at 30 June 2021	As at 31 December 2020
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	208,959	337,451

As at 30 June 2021 and 31 December 2020, the Group leases various residential properties, office and equipment with a lease period of 6 to 12 months, which are qualified to be accounted for under short-term lease exemption under IFRS 16.

(c) Investment commitments

As at 30 June 2021, the Group has outstanding commitments of RMB129,625,000 (31 December 2020: RMB129,625,000) in respect of its investment in joint ventures.

(d) Fulfilment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2021.

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26. CONTINGENCIES

In preparing this interim financial information, except for described below, there were no further developments of those contingencies as at 30 June 2021, which were disclosed in the 2020 annual report.

Foreign tax penalties

On 7 February 2014, Federal Tax Administration of Rio de Janeiro conducted a tax audit on Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned overseas subsidiary of the Company (the "Brazilian Subsidiary"). On 11 February 2014, the Brazilian subsidiary received a notice of the tax payments and penalties from Federal Tax Administration of Rio de Janeiro with total amount of BRL80,459,100, including tax of BRL36,467,100, interest of BRL13,929,800 and tax penalties of BRL30,062,200. According to the legal opinion of the Brazilian subsidiary, on 10 March 2014, the Brazilian subsidiary has administratively replied to such tax penalties and no final results can be predicted. Even if Federal Tax Administration of Rio de Janeiro has made unfavorable decision against the Brazilian subsidiary, the Brazilian subsidiary still has the right for the administrative legal proceedings to the local court.

On 30 December 2019, the Brazilian subsidiary received an administrative second-level review notice, which approved some project expenditures, and the tax penalty had been revised to BRL73,195,500. On 13 January 2020, the Brazilian subsidiary had filed a new administrative review. Later, due to Federal Tax Administration of Rio de Janeiro failure to implement legal procedures and the consideration of COVID-19, the time for filing a three-level administrative review was changed to 29 August 2020.

At the end of March 2021, the Brazilian subsidiary received a three-level tax review notice, which maintained the result of second-level review. After the three-level administrative review, the Brazilian subsidiary can resolve the dispute through filing an administrative lawsuit in the local court.

In March 2021, the Federal Tax Administration of Rio de Janeiro issued a special policy for handling tax of companies undergoing judicial reorganisation. The maximum exemption amount is 70% of the total tax amounts, which can be paid in multiple instalments. The deadline for application is 30 September 2021. Up to now, there is no latest development after the three-level administrative review. Since the tax amounts are not predictable, the Group did not provide the provision of such incident.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2021 and 2020.

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

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

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27.SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Purchases of materials		
– Sinopec Group and its subsidiaries	4,141,305	4,648,267
Sale of products		
– Sinopec Group and its subsidiaries	11,013	46,813
Rendering of engineering services		
– Sinopec Group and its subsidiaries	20,537,866	18,343,386
Receiving of community services		
– Sinopec Group and its subsidiaries	5	218,937
Receiving of integrated services		
– Sinopec Group and its subsidiaries	235,969	86,542
Rendering of integrated services		
– Sinopec Group and its subsidiaries	–	407
Rendering of technology research and development services		
– Sinopec Group and its subsidiaries	31,870	43,936
Rental income – Buildings		
– Sinopec Group and its subsidiaries	918	286
Rental income – Equipment		
– Sinopec Group and its subsidiaries	234	–
Lease payment – Lands and buildings		
– Sinopec Group and its subsidiaries	99,673	90,292
Lease payment – Equipment		
– Sinopec Group and its subsidiaries	96,943	–
Deposits interest income		
– Sinopec Group's subsidiaries	560	778
Loans interest expenses		
– Sinopec Group and its subsidiaries	278,688	404,381
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	12,173	14,452
Borrowings obtained		
– Sinopec Group and its subsidiaries	29,118,868	26,309,046

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27.SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Borrowings repaid		
– Sinopec Group and its subsidiaries	28,632,419	25,660,652
Safety and insurance fund expenses		
– Sinopec Group	37,800	38,080
Safety and insurance fund refund		
– Sinopec Group	52,118	61,178

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

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Rendering of engineering services		
– Associates and joint ventures of the Group	172	78,222
Receiving of engineering services		
– Associates and joint ventures of the Group	954,509	807,212
Lease payment – Lands and buildings		
– Associates and joint ventures of the Group	780	–

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

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Purchases of materials		
– Associates and joint ventures of Sinopec Group	104,267	91,438
Rendering of engineering services		
– Associates and joint ventures of Sinopec Group	1,503,582	50,054
Receiving of integrated services		
– Associates and joint ventures of Sinopec Group	70,631	74,566
Lease payment – Equipment		
– Associates and joint ventures of Sinopec Group	64,711	–
Interest expenses on lease liabilities		
– Associates and joint ventures of Sinopec Group	10,073	31,909

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27. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(d) Remuneration of key management personnel

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

	For the six months ended 30 June	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Fee	300	350
Salaries, allowances and bonus	6,599	5,332
Contributions to pension plans	283	210
Share-based payments	–	37
	7,182	5,929

(e) Provision for counter guarantee

As at 30 June 2021, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB500,000,000 (30 June 2020: RMB500,000,000). The counter guarantee will be ended in November 2021.

28. FAIR VALUE

Other than noted as below, the carrying value of the Group's financial assets and liabilities stated at the consolidated statement of financial position are not materially different from their fair values.

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The Group discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) Recurring fair value measurement of the Group's financial assets measured at fair value

The financial assets measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	Level 3	
	As at 30 June 2021 RMB' 000 (Unaudited)	As at 31 December 2020 RMB' 000 (Audited)
Financial assets at FVTOCI (non-recycling)		
– Unlisted equity investments	22,835	22,835
Financial assets at FVTOCI		
– Notes receivables	1,204,205	1,323,425
	1,227,040	1,346,260

The reconciliation of the carrying amounts of assets classified within Level 3 of the fair value hierarchy is as follows:

	As at 30 June 2021 RMB' 000 (Unaudited)	As at 31 December 2020 RMB' 000 (Audited)
Opening balance	1,346,260	1,479,236
Addition/(Settlement), net	(119,230)	(122,964)
Movement in fair value recognised in other comprehensive income	10	(10,012)
Closing balance	1,227,040	1,346,260



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28. FAIR VALUE (Continued)

(a) Recurring fair value measurement of the Group's financial assets measured at fair value (Continued)

The fair value of the unlisted equity investments and notes receivables is measured using valuation techniques with reference to the net asset value and asset-based valuation and discounted cash flow, where appropriate. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

There have been no transfers into or out of Level 3 during the six months period ended 30 June 2021 (2020: Nil).

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying value of the Group's financial instruments carried at amortised cost are not materially different from fair value as at 30 June 2021 and 31 December 2020.

Section IX Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 26 August 2021 (Thursday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2021 signed by the Chairman of the Company;
 2. The financial report of the Company for the six months ended 30 June 2021 signed by the Chairman, General Manager, Chief Financial Officer and the person in charge of the accounts;
 3. The Articles of Association of the Company;
 4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by the CSRC during the report period.
- * This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IFRS, the Chinese version shall prevail.