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## **Sinopec Oilfield Service Corporation**

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

**(Stock code: 1033)**

### **Announcement on Annual Results in 2020**

The Board of Directors (“**the Board**”) and the Supervisory Committee of Sinopec Oilfield Service Corporation (“**the Company**”) and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this announcement and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this announcement. The content of the annual results is extracted from the 2020 annual report (the “Annual Report”). In order to understand the full content, the investors should read the Annual Report for more details.

The Board of the Company has pleasure in presenting the audited annual results of the Company and its subsidiaries (“**the Group**”) for the year ended 31 December 2020.

#### **1. COMPANY PROFILE**

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

- (4). **Secretary to the Board:** Mr. Li Honghai  
**Company Secretary /**  
**Securities affairs representative:** Mr. Shen Zehong  
**Address:** 9#, Jishikou Road, Chaoyang District, Beijing, P.R. China  
The Office of the Board of Director  
**Telephone:** 86-10-59965998  
**Fax:** 86-10-59965997  
**E-mail:** [ir.ssc@sinopec.com](mailto:ir.ssc@sinopec.com)
- (5). **Domestic newspapers to disclose information:** China Securities, Shanghai Securities News, and Securities Times
- Internet website designated by HKSE to disclose information:** <http://www.hkexnews.hk>
- Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the annual report:** <http://www.sse.com.cn>
- Place where the annual report available for inspection:** The Office of the Board of Director of the Company.
- (6). **Places of listing, names and codes of the stock:**
- |             |  |
|-------------|--|
| H share:    | The Stock Exchange of Hong Kong Limited (“HKSE” or “Hong Kong Stock Exchange”) |
| Stock name: | SSC  |
| Stock code: | 1033   |
| A Share:    | Shanghai Stock Exchange (“SSE”)  |
| Stock name: | SSC  |
| Stock code: | 600871   |

## 2. PRINCIPAL FINANCIAL INFORMATION AND FINANCIAL INDICATORS

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

Unit: RMB'000

	As at 31 December				
	2020	2019	2018	2017 (Restated)	2016 (Restated)
Total assets	<b>61,091,195</b>	62,069,378	60,904,715	62,089,315	74,794,669
Total liabilities	<b>54,368,329</b>	55,305,506	55,126,305	64,190,633	66,343,412
Equity attributable to owners of the Company	<b>6,722,866</b>	6,763,872	5,778,410	( 2,099,946 )	8,452,533
Net assets per share attributable to owners of the Company (RMB)	<b>0.35</b>	0.36	0.30	( 0.15 )	0.60
Equity ratio of owners	<b>11.00%</b>	10.90%	9.49%	( 3.38% )	11.30%
Return on net assets	<b>( 0.53% )</b>	14.59%	4.16%	( 503.02% )	(191.89%)
	For the year ended 31 December				
	2020	2019	2018	2017 (Restated)	2016
Revenue	<b>68,073,394</b>	69,870,147	58,409,078	48,593,948	42,923,500
Profit/(Loss) before income tax	<b>233,339</b>	1,428,397	613,769	(10,324,177)	(15,887,181)
Income tax expense	<b>269,076</b>	441,524	373,581	239,034	311,196
(Loss) / profit attributable to owners of the Company	<b>( 35,737 )</b>	986,873	240,188	(10,563,211)	(16,198,242)
Basic and diluted (loss)/ earnings per share(RMB)	<b>( 0.002 )</b>	0.052	0.013	( 0.747 )	(1.145)

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

**2.1 Principal financial information**

Unit: RMB'000

	<b>For the year ended 31 December 2020</b>	For the year ended 31 December 2019	Increase/ (Decrease) (%)	For the year ended 31 December 2018
Operating income	68,073,394	69,870,147	-2.6	58,409,078
Operating profit (“-” for losses)	283,335	1,251,242	-77.4	852,278
Profit before income tax (“-” for losses)	348,054	1,355,768	-74.3	515,637
Net profit attributable to equity shareholders of the Company (“-” for losses)	78,978	914,244	-91.4	142,056
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company (“-” for losses)	-266,915	503,704	Not Applicable	37,951
Net cash inflow from operating activities (“-” for outflow)	4,471,820	1,377,053	224.7	-2,939,789
	<b>As at 31 December 2020</b>	As at 31 December 2019	Year-on-year change (%)	As at 31 December 2018
Total equity attributable to equity shareholders of the Company	6,722,866	6,763,872	-0.6	5,778,410
Total assets	61,091,195	62,069,378	-1.6	60,904,715

**2.2 Principal financial indicators**

	<b>For the year ended 31 December 2020</b>	For the year ended 31 December 2019	Year-on-year change (%)	For the year ended 31 December 2018
Basic earnings per share (RMB/share) (“-” for losses)	0.004	0.048	-91.7	0.008
Diluted earnings per share (RMB/share) (“-” for losses)	0.004	0.048	-91.7	0.008
Basic earnings per share deducted extraordinary gain and loss (RMB/share) (“-” for losses)	-0.014	0.027	Not applicable	0.002
Weighted average return on net assets (%)	1.16	14.66	decreased by 13.5 percentage points	2.86
Weighted average return on net assets deducted extraordinary gain and loss (%)	-3.92	8.08	decreased by 12.0 percentage points	0.76

**22.3 Extraordinary gain and loss items and amounts**

Unit: RMB'000

Extraordinary gain and loss item	<b>2020</b>	2019	2018
Gain and loss on disposal of non-current assets	5,961	67,044	278
Government grants recognised in profit or loss during the year	293,684	170,446	472,569
Gain and loss from debt restructuring	53,960	154,539	395,261
Net profit or loss from the beginning to the merger date of the subsidiary of the business combination under common control	-	-	-2,385
Profits and losses arising from matters unrelated to the normal business of the Company	-	-	-475,276

Gains or losses on previously held equity interests re-measured at acquisition date	-	27,474	-
Other non-operating income and expenses excluding the aforesaid items	64,719	104,526	-257,894
Other gains and losses that meet the definition of non-recurring profit and loss	-	-1,292	-
Tax effect	-72,431	-112,197	-28,448
Total	345,893	410,540	104,105

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

Unit: RMB'000

	Net profit attributable to owners of the Company		Total equity attributable to owners of the Company	
	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019
PRC ASBE	78,978	914,244	6,722,866	6,763,872
Adjustments under IFRS:				
Specific reserve (a)	-114,715	72,629	-	-
IFRS	-35,737	986,873	6,722,866	6,763,872

Explanation of differences between domestic and foreign accounting standards:

#### (a) Special 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.

### **3. INFORMATION ON CHANGES IN SHARE CAPITAL AND SHAREHOLDERS**

#### **(1) Changes in the Company's share capital**

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

#### **(2) Information on shareholders**

##### **2.1 Number of shareholders**

As at 31 December 2020, the number of shareholders of the Company was 121,568, including 121,225 holders of A shares and 343 registered holders of H shares. The minimum public float of the Company satisfied the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**").

As at 28 February 2021, the number of shareholders of the Company was 119,173, including 118,835 holders of A shares and 338 registered holders of H shares.

## 2.2 The shareholdings of the top ten shareholders of the Company

<b>Shareholdings of the top ten shareholders</b>						
<b>Names of shareholders</b>	<b>Nature of shareholders</b>	<b>Number of shares held increased/decreased<sup>1</sup> by (shares)</b>	<b>Number of shares held at the end of the reporting period (shares)</b>	<b>Percent age to total share capital (%)</b>	<b>Number of shares with selling restrictions (shares)</b>	<b>Number of shares pledged or frozen</b>
China Petrochemical Corporation <sup>2</sup>	State-owned legal person	0	10,727,896,364	56.51	1,503,568,702	0
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”) <sup>3</sup>	Overseas legal person	28,950	5,401,972,694	28.45	0	0
CITIC Limited	State-owned legal person	0	1,035,000,000	5.45	0	0
Donghai Fund-Industrial Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan	Others	0	66,666,666	0.35	0	0
Donghai Fund-Industrial 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	-87,301,501	40,145,899	0.21	0	0
Changjiang Pension Insurance Co., Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension Management Fund <sup>4</sup>	Others	0	23,148,854	0.12	23,148,854	0
Hong Kong Securities Clearing Company Limited <sup>5</sup>	Others	551,216	20,358,368	0.11	0	0
Huaan Fund- Industrial Bank –China Foreign Economy and Trade Trust Co., Ltd.	Others	0	13,333,300	0.07	0	0
Shanghai Tongneng Investment Holdings Co., Ltd.	Others	11,516,200	11,516,200	0.06	0	0
<b>Shareholdings of top ten shareholders of shares without selling restrictions</b>						
<b>Name of shareholders</b>					<b>Number of shares without selling restrictions held at the end of the reporting period (shares)</b>	<b>Types of shares</b>
China Petrochemical Corporation					9,224,327,662	A Share
Hong Kong Securities Clearing Company (Nominees) Limited (“HKSCC (Nominees) Limited”)					5,401,972,694	H Share
CITIC Limited					1,035,000,000	A Share
Donghai Fund-Industrial Bank-Huaxin Trust- Huizhi Investment No.49 Trust Plan					66,666,666	A Share
Donghai Fund-Industrial Bank-Huaxin Trust- Huizhi Investment No.47 Trust Plan					66,666,666	A Share
China Minsheng Bank Corp., Ltd. Hohhot Branch					40,145,899	A Share
Hong Kong Securities Clearing Company Limited					20,358,368	A Share
Huaan Fund- Industrial Bank –China Foreign Economy and Trade Trust Co., Ltd.					13,333,300	A Share
Shanghai Tongneng Investment Holdings Co., Ltd.					11,516,200	A Share
Vanguard Investment Australia Limited-Vanguard Emerging Market Stock Index Fund					9,515,800	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders		Except that “Donghai Fund-Industrial Bank-Huaxin Trust - Huizhi Investment No.49 Trust Plan” and “Donghai Fund-Industrial Bank-Huaxin Trust - Huizhi Investment No.47 Trust Plan” belong to Donghai Fund Management Limited				

	Company, the Company is not aware of that there is any connected relationship or activities in concert among the above-mentioned shareholders.
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Note1: As compared with the number of shares held as of 31 December 2019.

Note2: Apart from directly holding 10,727,896,364 A shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H shares through its wholly-owned subsidiary Sinopec Century Bright Capital Investment Limited (“**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; According to the H-share subscription agreement of Century Bright Company, Century Bright Company undertook that the 2,595,786,987 H shares of the Company it subscribed would not be transferred within 36 months from 24 January 2018. On 23 January 2021, the lock-up period for 2,595,786,987 H shares subscribed by Century Bright Company has expired.

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

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

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

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

As at 31 December 2020, so far as the Directors, Supervisors and senior management of the Company are aware of, each of the following persons, not being a Director, Supervisor or senior management of the Company, had an interest in the Company’s shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”).

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

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

Save as disclosed above and so far as the Directors, Supervisors and senior management of the Company are aware of, as at 31 December 2020, no other person had an interest or short position in the Company’s shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under



the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Hong Kong Listing Rules) of the Company.

**(4) The controlling shareholder of the Company**

Name of the controlling shareholder: China Petrochemical Corporation, holding 70.18% of the Company's shares directly and indirectly

Legal representative: Zhang Yuzhuo

Date of establishment: 14 September 1983

Registered capital: RMB 326.547 billion

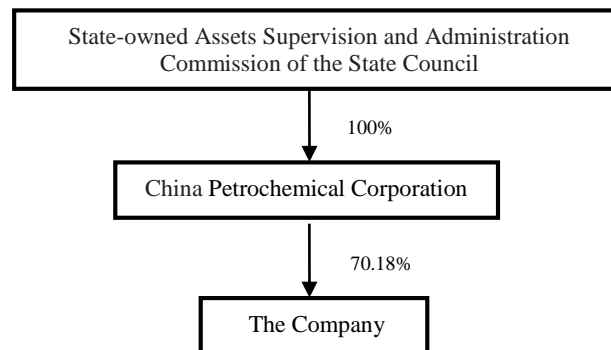
Principal activities: Upon the reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil-testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

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

**(5) The actual controller of the Company**

The actual controller of the Company is still China Petrochemical Corporation.

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



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

**4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

Name	Position	Gender	Age	The beginning of the term	The end of the term	Number of shares at the beginning of the year	Number of shares at the end of the year	Reason for change	Salaries from the Company during reporting period (RMB) (before taxation)	Whether get payment from related party of the Company
Chen Xikun	Chairman	male	56	19 December 2019	1 February	0	0	No Change	860,112	No

	Excutive Director			8 February 2018	2024					
Yuan Jianqiang	General Manager	male	57	20 May 2019	1 Ferbruary 2024	0	0	No Change	838,875	No
	Excutive Director			26 June 2019						
Lu Baoping	Non-Excutive Director	male	59	8 February 2018	1 Ferbruary 2024	0	0	No Change	-	Yes
Fan Zhonghai	Non-Excutive Director	male	55	8 February 2018	1 Ferbruary 2024	0	0	No Change	-	Yes
Wei Ran	Non-Excutive Director	male	53	20 June 2018	1 Ferbruary 2024	0	0	No Change	-	No
Zhou Meiyun	Non-Excutive Director	male	51	2 February 2021	1 Ferbruary 2024	0	0	No Change	-	Yes
Chen Weidong	Independent Non-Excutive Director	male	65	20 June 2018	1 Ferbruary 2024	0	0	No Change	200,000	No
Dong Xiucheng	Independent Non-Excutive Director	male	59	20 June 2018	1 Ferbruary 2024	0	0	No Change	200,000	No
Zheng Weijun	Independent Non-Excutive Director	male	53	2 February 2021	1 Ferbruary 2024	0	0	No Change	-	No
Ma Xiang	Chairman of the Supervisory Committee	male	59	19 December 2019	1 Ferbruary 2024	0	0	No Change	818,025	No
Du Jiangbo	Supervisor	male	56	16 June 2015	1 Ferbruary 2024	0	0	No Change	-	Yes
Zhang Jianbo	Supervisor	male	58	8 February 2018	1 Ferbruary 2024	0	0	No Change	-	Yes
Zhang Qin	Supervisor	female	58	9 February 2015	1 Ferbruary 2024	0	0	No Change	-	Yes
Sun Yongzhuang	Employee Representative Supervisor	male	55	2 February 2021	1 Ferbruary 2024	0	0	No Change	-	No
Zhang Bailing	Employee Representative Supervisor	male	55	2 February 2021	1 Ferbruary 2024	0	0	No Change	-	No
Du Guangyi	Employee Representative Supervisor	male	57	2 February 2021	1 Ferbruary 2024	0	0	No Change	-	No
Zhang Yongjie	Deputy General Manager	male	57	9 February 2015	1 Ferbruary 2024	0	0	No Change	828,621	No
Zuo Yaojiu	Deputy General Manager	male	58	27 June 2017	1 Ferbruary 2024	0	0	No Change	825,852	No
Zhang Jinhong	Deputy General Manager	male	57	28 April 2015	1 Ferbruary 2024	0	0	No Change	773,826	No

Xiao Yi	Chief Financial Officer	male	51	19 December 2019	1 February 2024	0	0	No Change	835,173	No
Zhang Jiankuo	Deputy General Manager	male	46	29 October 2020	1 February 2024	0	0	No Change	93,388	No
Li Honghai	Secretary to the Board	male	57	9 February 2015	1 February 2024	0	0	No Change	641,093	No
Jiang Bo	Former Independent Non-Executive Director	female	65	9 February 2015	2 February 2021	0	0	No Change	200,000	No
Pan Ying	Former Independent Non-Executive Director	male	51	16 December 2015	2 April 2020	0	0	No Change	50,000	No
Zhai Yalin	Former Supervisor	male	57	26 June 2019	2 February 2021	0	0	No Change	-	Yes
Zhang Hongshan	Former Employee Representative Supervisor	male	60	23 February 2017	2 February 2021	0	0	No Change	720,798	No
Chen Weiguo	Former Employee Representative Supervisor	male	57	30 May 2019	6 August 2020	0	0	No Change	565,679	No

Note:

1. Mr. Chen Xikun, Mr. Yuan Jianqiang, Mr. Ma Xiang, Mr Zhang Hongshan, Mr Zhang Yongjie, Mr. Zuo Yaojiu, Mr. Zhang Jinhong, Mr Xiao Yi and Mr. Li Honghai all received 12 months of salary in 2020. Mr. Chen Weiguo resigned as the employee representative supervisor on 6 August 2020 and received 8 months of salary in 2020. Mr. Sun Yongzhuang, Mr. Zhang Bailing and Mr. Du Guangyi started to serve as employee representative supervisors on 2 February 2021 and did not receive salary in 2020. Mr. Zhang Jiankuo started his position of deputy general manager of the Company on 29 October 2020 and received two months of salary in 2020.
2. Ms. Jiang Bo, Mr. Chen Weidong and Mr. Dong Xiucheng received 12 months of directors's fee in 2020; Mr. Pan Ying resigned as the independent non-executive director on 2 April 2020 and received 3 months of director's fee in 2020.

## (2) Information on share option held by current directors, supervisors and senior management

Unit: shares

Name	Position	Number of share options held at the beginning of 2019	Number of share options newly granted during the reporting period	Exercisable share options during the reporting period	Share options exercised during the reporting period	Exercise price of share options (RMB/share)	Number of share options by the end of reporting period	Stock price at the end of reporting period (RMB/share)
Sun Yongzhuang	Employee Representative Supervisor	60,000	0	0	0	5.63	60,000	1.96

Zhang Yongjie	Deputy General Manager	76,000	0	0	0	5.63	76,000	1.96
Liu Rushan	Deputy Secretary of Party Committee	76,000	0	0	0	5.63	76,000	1.96
Zuo Yaojiu	Deputy General Manager	72,000	0	0	0	5.63	72,000	1.96
Zhang Jinhong	Deputy General Manager	72,000	0	0	0	5.63	72,000	1.96
Zhang Jiankuo	Deputy General Manager	40,000	0	0	0	5.63	40,000	1.96
Li Honghai	Secretary to the Board	56,000	0	0	0	5.63	56,000	1.96
Total	/	452,000	0	0	0	/	452,000	/

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

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

In Qi Xin Gong Ying Scheme, the Company's directors, supervisors and senior management subscribed for a total of 4.85 million, accounting for approximately 8.0% of the total share of the scheme. The total number of directors, supervisors and senior management of the Company who subscribed for the Qi Xin Gong Ying Scheme was 14 persons. For details of the participation of the directors, supervisors and senior management of the Company in the Qi Xin Gong Ying Scheme, see the following table.

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme (RMB)	Subscription scheme shares under Qi Xin Gong Ying Scheme (share)	Subscription Price (RMB/A Share)	Subscription of A share (share)
Chen Xikun	Chairman, Secretary of Party Committee	400,000	400,000	2.62	152,671
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	Secretary to the Board	300,000	300,000	2.62	114,503
Sun Qingde	Former Deputy Chairman, General Manager	400,000	400,000	2.62	152,671

Li Wei	Former Chairman of the Supervisory Employee Representative Supervisor	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

#### 4. Changes in Directors, Supervisors and Senior Management

Name	Position	Change	Reasons for change
Pan Ying	Independent Non-Executive Director	Resigned	Personal Health
Chen Weiguo	Employee Representative Supervisor	Resigned	Change of work
Zhang Jiankuo	Deputy General Manager	Appointed as the Deputy General Manager	Appointed by the Board of Directors

Mr. Pan Ying, an independent non-executive director of the Company, was unable to perform his duties normally due to personal health and ceased to serve as an independent non-executive director the ninth session of the board of directors of the Company, chief officer of the remuneration committee and member of the audit committee from 2 April 2020. The Company expresses its heartfelt thanks to Mr. Pan Ying for his hard work and important contributions during his tenure.

Due to change of work arrangement, Mr. Chen Weiguo ceased to serve as the employee representative supervisor of the Company from 6 August 2020.

On 29 October 2020, the Company held the 22nd meeting of the ninth session of the Board of Directors. According to the nomination of the general manager, the board of directors appointed Mr. Zhang Jiankuo as the deputy general manager of the Company for a term commencing from 29 October 2020 to the date when the term of the ninth session of the board of directors expires (February 2021).

After the election at the Company's first extraordinary general meeting for 2021 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 of Directors, with a term of office commencing from 2 February 2021 to the date when the term of the tenth session of the board of directors expires (February 2024).; Mr. Ma Xiang, Mr. Du Jiangbo, Mr. Zhang Jianbo and Ms. Zhang Qin were appointed or 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 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 Supervisory Committee expires (February 2024).

On 2 February 2021, the Company held the first meeting of the tenth session of the Board of Directors and elected Mr. Chen Xikun as the chairman of the tenth session of the board of directors. According to the nomination of the chairman, the board of directors 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 of directors expires (February 2024); according to the nomination of the

general manager, the board of directors 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 of directors expires (February 2024). According to the nomination of the chairman, the board of directors continued to appoint Mr. Li Honghai as the secretary to the board of directors 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 of directors expires (February 2024).

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

### **(5) Directors', Supervisors' and Chief Executive's rights to acquire shares and debentures and short position**

As at 31 December 2020, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the Hong Kong Stock Exchange by the Directors, Supervisors or chief executive of the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Hong Kong Listing Rules..

## **5 REPORT OF THE BOARD**

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

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

#### **1.1 Annual results**

In the face of the dual impacts of the COVID-19 epidemic and the low oil prices in 2020, the Company coordinated epidemic prevention and control, production and operation, reform and development and other various work and focused on expanding market, creating revenue, adjusting structure, intensifying reform and preventing risks, achieving significant strategic results in the prevention and control of the epidemic. Its operating results achieved profitability for three consecutive years and the risk resistance capacity was continuously enhanced.

Due to the impacts of the COVID-19 epidemic and the plunge of oil prices in 2020, oil companies reduced expenditure in upstream exploration and exploitation. The workload of the Company in the main profession decreased year-on-year while the expenses in epidemic prevention increased, resulting in a year-on-year decrease of 0.7 percentage point in the gross profit margin of the principal business. Financial expenses recorded a year-on-year increase of RMB250 million due to exchange rate fluctuations. Due to the abovementioned factors, the Company's consolidated revenue was RMB68,073,394,000, representing a year-on-year decrease of 2.6%, and net profit attributable to shareholders of the Company amounted to RMB78,978,000, representing a year-on-year decrease of 91.4%. Basic earnings per share was RMB0.004, representing a year-on-year decrease of 91.7%. Through the increase in clearance of inventories and account receivable, the strict control of cost and expense and capital expenditure, the Company maintained sound cash flow conditions and the net cash flow in operating activities reached RMB4.47 billion.

#### **1.2 Market review**

The COVID-19 epidemic caused significant effects to the world economy in 2020 and major economies experienced recession to different extent. China's economy was also greatly affected. However, with the domestic COVID-19 epidemic under effective control, China's economy showed the trend of recovery and the

gross domestic product (GDP) expanded by 2.3% year on year, making it the only major economy with positive economic growth in the world. The abundant supply in the global crude oil market was further intensified due to the impacts of the macro economy and the COVID-19 epidemic. The annual average Europe Brent Spot Price was US\$41.96 per barrel, representing a decrease of 34.7% as compared to 2019. Global oil and gas companies reduced upstream exploration and development capital expenditure and the oilfield service industry remained sluggish on the whole. As domestic oil companies continued to implement the seven-year action plan aiming at expanding reserves and production, domestic oil and gas output achieved steady growth and the domestic oilfield service workload recorded a year-on-year increase, creating opportunities for the Company to expand the market and improve the efficiency.

In 2020, the Company achieved remarkable results in market expansion. Under the complicated and severe operating environment, the Company achieved growth against the market trend. The total newly signed contracts amounted to RMB69.8 billion, representing a year-on-year increase of 0.4%. In particular, the newly signed contracts in the Sinopec market amounted to RMB41.4 billion, representing a year-on-year increase of 7.8%. The newly signed contracts in domestic external markets amounted to RMB12.8 billion, representing a year-on-year decrease of 11.7%. The newly signed contracts in overseas markets amounted to RMB15.6 billion, representing a year-on-year decrease of 6.0%.

### **1.3 Operations review**

In 2020, the Company actively seized market opportunities in the improved demands in the domestic oilfield service market with the progress in expanding reserves and production, coordinated the epidemic prevention and control and production and operation, vigorously advanced market layouts and optimized resources allocation. It solidly carried out the campaign on “achieving breakthroughs and improving efficiency in 100 days” and “continuously achieving breakthroughs and improving efficiency” to consistently enhance the engineering technical service capability. It focused on promoting the professional reform and restructuring of testing, logging and locating businesses and strengthened cost control and risk management to constantly improve the profitability of projects under low oil prices. In 2020, the Company achieved positive results in market expansion, technological development, management and reform, laying a solid foundation for comprehensively facilitating the high-quality development of the Company.

#### **1.3.1 Geophysical services**

In 2020, the Company's operation revenue from the principal business of geophysical service was RMB4,599,371,000, an increase of 9.0% than the same period of the previous year, for which the figure was RMB4,219,721,000. The completed 2D seismic accumulated for 8,414 kilometers in the year, a decrease of 55.5% than the previous year; while the 3D seismic accumulated for 20,681 square kilometers, an increase of 46.6% than the previous year. The Company improved the quality of seismic data continuously, with 2D and 3D records reaching quality rate of 100%. It boosted efforts in promoting application of self-developed wireless node collection and other high-end collection equipment to fully improve its oil and gas exploration capabilities; sped up in promoting the high-quality development of geophysical business and improved the efficiency of completed collection projects by 23%; and maintained a good cooperative relationship with China Geological Survey and the Chinese Academy of Geological Sciences, and won the bids for 22 seismic collection projects, with a contract value of RMB150 million. The Company continued to expand the new business market for China Petrochemical Corporation's soil pollutant survey, with a newly signed contract value of RMB204 million, representing a year-on-year increase of 36.0%.

#### **1.3.2 Drilling service**

In 2020, the Company's operation revenue from the principal business of drilling service was RMB34,199,657,000, a decrease of 6.3% than the same period of the previous year, for which the figure was RMB36,487,700,000. Its completed drilling footage reached 9,320 kilometers, representing a year-on-year decrease of 6.7%. The Company intensified the requirements on integrated geological engineering, served China Petrochemical Corporation's high-efficient exploration and efficiency development in a high-quality and

efficient manner, and made every effort to promote the improvement of the quality, service speed, efficiency and production in “Northwest China, North China, Northeast China and Sichuan”, achieving the average drilling cycle and the time on complicated failures reducing by 20.5% and 34.8%. The Company successfully completed the task of capacity construction of oil and gas fields such as eastern old oil fields, Fuling shale gas field, Shunbei super deep oil and gas field, tight gas fields in North China, gas fields in western Sichuan, and Weirong shale gas. It continuously consolidated traditional high-quality markets such as CNPC and CNOOC with various teams entered CNPC’s southwestern shale gas market. It has signed new general contracting agreements on well drilling and completion for 7 platforms with an amount of RMB1.05 billion.

### **1.3.3 Logging/Mud logging service**

In 2020, the Company’s operation revenue from the principal business of logging/mud logging service was RMB2,728,760,000, an increase of 9.0% than the same period of the previous year, for which the figure was RMB2,503,262,000. Its completed logging projects have accumulated for 274,740,000 standard meters, a decrease of 1.2% than the previous year. Its completed mud logging projects have accumulated for 9,410 kilometers, an increase of 1.1% than the previous year. The pass rate of logging/mud logging data was 100% and the one-time success rate of logging was above 93%. The Company consistently improved its logging/mud logging service capabilities, made full efforts to meet domestic oil companies’ market demand for oil stabilization, gas increase and cost reduction, providing high-quality and effective guarantee for the production stabilization and increase task of China Petrochemical Corporation’s key regions in “Northwest China, North China, Northeast China and Sichuan” and eastern old oil fields. It witnessed the scale of domestic and foreign markets, including CNPC’s southwest shale gas, and local coal bed methane, continuing to expand steadily and the traction perforating and other featured technical service capabilities consistently improved.

### **1.3.4 Downhole operation service**

In 2020, the Company’s operation revenue in downhole operation was RMB8,596,355,000, an increase of 12.3% than the same period of the previous year, for which the figure was RMB7,657,148,000. It completed downhole operation for 6,228 wells, a decrease of 9.4% than the previous year. The qualified rate of one-time downhole special operation was 98.5%. The Company continued to enhance the construction capabilities on large-scale deep and atmospheric pressure shale gas fracturing, completion testing of ultra-high temperature, ultra-high pressure and ultra-deep oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs, acidified fracturing of tight oil and gas reservoirs and other complicated oil and gas reservoirs. The fracturing construction efficiency in key regions in “Northwest China, North China, Northeast China and Sichuan” was improved by 49.3% as compared with the same period of the previous year. Several oil wells with a daily output of more than 100 cubic meters were discovered in Shunbei oil and gas field. The Company further expanded the cooperative development of difficult-to-use reserves and has cumulatively completed capacities of over 800,000 tons. It improved and strengthened high-end business such as high-pressure operations and smart tubing business. It successfully explored the Saudi Arabian market for the coiled tubing and continuously expanded the overseas market share.

### **1.3.5 Engineering and construction service**

In 2020, the Company’s operation revenue in engineering and construction service was RMB 15,683,065,000, a decrease of 4.3% than the same period of the previous year, for which the figure was RMB16,381,730,000. In 2020, the cumulative value of newly signed contracts was RMB15.6 billion, a decrease of 15.2% than the same period of the previous year. While guaranteeing the oil and gas capacity construction of China Petrochemical Corporation, the Company displayed its advantages in the construction of large-scale oil and gas pipeline, roads and bridges and strengthened the business integration with China Oil & Gas Pipeline Network Corporation (“PipeChina”). It won the bids for 4 phases of oil and gas pipeline projects with a total contracted amount of over RMB700 million. It consistently expanded local natural gas pipeline market and won the bids for projects with a total contracted amount of RMB1.29 billion. For the traditional road and bridge market, it won the bids for the expansion of Beijing-Shanghai Expressway with a contracted amount of RMB930 million. Breakthroughs have been made in the offshore engineering market. It won the bids for the general contracting of the Yushan-Zhongjin submarine pipeline construction project with a contracted amount of RMB1.42 billion.



### **1.3.6 International business**

In 2020, the Company's operation revenue in international business service was RMB11,331,043,000, a decrease of 12.0% than the same period of the previous year, for which the figure was RMB12,875,129,000. The revenue contributed by the international business accounted for 16.9% of the whole revenue, with a year-on-year decrease of 1.8 percentage points. In 2020, the Company continued to optimize overseas market layouts and resources allocation, formulated and completed the Implementation Plan on Coordination of Market Layouts and Optimization of Resources Allocation for International Business. It formulated market strategies based on the size and category of markets to ensure scale benefits of key markets, effective development of potential markets and withdrawal from inefficient markets in an orderly manner. The Company struggled to overcome various difficulties such as the international epidemic spreading and the cancellation or postponement of bids or price cut by project owners, resolutely stabilized the fundamentals in overseas markets and achieved remarkable results in the development of Saudi Arabia, Kuwait and other high-quality markets. In the Kuwaiti market, the Company renewed contracts for 17 drilling and repairing rigs projects and obtained qualifications on screwing services, unconventional fracturing, directional wells and other services. The geophysical services business maintained the large-scale Algerian market. For the ground projects construction business, it won the bids for roads upgrading and transformation in Kenya, the King's Cultural Center in Dammam, Saudi Arabia and other projects.

### **1.3.7 Research and development**

In 2020, the Company deeply implemented the innovation-driven strategy and stepped up efforts in overcoming difficulties in scientific research. It achieved various new results and new progress and was granted 505 new domestic and overseas patents. Firstly, the technological R&D system was continuously improved. It officially established the Sinopec Oilfield Acid Gas Technology Center and the Tight Oil and Gas Technology Center and generally completed the establishment of the wellbore engineering R&D system with "2 R&D centers" and "12 technical centers" as the main body. Secondly, breakthroughs were made in overcoming technological difficulties. The Company achieved breakthroughs in key and core technologies for the rotation guidance system, which was trialed in 14 wells on site and was successfully trialed in the horizontal drilling of shale gas wells for the first time; the near-bit geosteering system achieved accurate judgment and trajectory control in key formation; the 200°C high-temperature and high-pressure logging system achieved breakthroughs and was successfully applied in Shunbei 53-2H well; and new progresses were made in coiled tubing sidetracking drilling technology, carbon isotope logging appraisal technology and other key technologies. Shunbei 55X achieved a drilling depth of 8,725 meters and Shunbei 53-2H achieved a drilling depth of 8,874 meters, setting a record in the depth of onshore directional wells in Asia and marking that the ultra-deep drilling technology of the Company reached a world-leading level.

### **1.3.8 Internal reform and management**

In 2020, the Company continued to deepen its internal reforms, and various reform measures came into effect. Firstly, significant breakthroughs were made in coordinating market layouts and optimizing resources allocation. It promoted the flow of teams, equipment, materials, engineering technology and other resources to high-efficient markets and preliminary results have been achieved in logistic bases for industrial zones in Northwest China, North China and Southwest China and the integration of departments. Secondly, periodic results have been achieved in structural adjustment. The total number of teams reduced to 1,588, a decrease of 11.6% as compared with previous year. The number of auxiliary business units dropped to 68 through optimization and consolidation, decreasing by 40.4%. The number of administrative personnel decreased over 10% for three consecutive years. Thirdly, the internal professional reorganization achieved remarkable progress. It actively and steadily advanced the professional reorganization of testing, logging and locating businesses and the preparation of Sinopec Jingwei Co., Ltd. was advanced in an orderly manner. Fourthly, cost control achieved obvious results. The Company carried out optimization of all processes, reduction of all factors and tapped potential of all chains to reduce rigid costs, reducing a total cost of RMB500 million for the whole year.

### **1.3.9 Capital expenditures**

In 2020, the Company actually had a capital expenditure of RMB3.07 billion. In 2020, to further enhance the exploration and development service capability, fully guarantee the increase in oil and gas reserves and production and actively respond to external market changes, the Company focused on the improvement of the quality, service speed, efficiency and production, increased investment in equipment updating and reduced investment in certain external markets and non-emergency production projects in domestic markets. The investment is mainly made for the transformation of 15 drilling rigs, 18 sets of top-drive guiding devices 20 sets of fracturing trucks (crowbars), 66,000 seismic acquisition equipment 20 sets of rig network electrical equipment, 98 high-pressure mud pumps, 1 set of rotary guidance equipment, 4 sets of coiled tubing equipment, 3 sets of automatic welding equipment and investment projects such as safety hazard management and environmental protection.

### **1.4 Financial analysis (Prepared in accordance with IFRS)**

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

#### **1.4.1 Assets, liabilities and equity analysis**

Total assets were RMB 61,091,195,000, representing a decrease of RMB 978,183,000 from that at the end of 2019, of which: Current assets were RMB 29,802,287,000, representing a decrease of RMB 745,613,000 from that at the end of 2019. The decrease was mainly due to a decrease in notes and trade receivables of RMB 2,638,470,000, an increase in contract assets of RMB 1,911,313,000, an increase in prepayment and other receivables of RMB 244,387,000 and a decrease in cash and cash equivalents of RMB 127,380,000. Non-current assets were RMB 31,288,908,000, representing a decrease of RMB 232,570,000 from that at the end of 2019, which was mainly due to the combined impact of the decrease in the property, plant and equipment of RMB 799,963,000 and the increase of RMB 480,133,000 in other non-current assets due to the purchase of special tools for petroleum engineering.

Total liabilities were RMB 54,368,329,000, representing a decrease of RMB 937,177,000 from that at the end of 2019, of which: Current liabilities were RMB 52,473,241,000, an increase of RMB 34,884,000 as compared with the end of 2019, which was mainly due to comprehensive impact of an increase in notes and trade payables of RMB 2,000,511,000, a decrease in contract liabilities of RMB 551,193,000, a decrease in other payables of RMB 145,589,000, a decrease in short-term borrowings of RMB 1,211,283,000. Non-current liabilities were RMB 1,895,088,000, a decrease of RMB 972,061,000 compared with the end of 2019, which was mainly due to the decrease of long-term borrowings of RMB 823,043,000.

Total equity attributable to owners of the Company was RMB 6,722,866,000, a decrease of RMB 41,006,000 as compared with the end of 2019, mainly due to the loss attributable to equity holders of the Company in 2020 achieved RMB 35,737,000.

As at 31 December 2020, the ratio of total liabilities to total assets was 89.0%, and 89.1% as at 31 December 2019.

#### **1.4.2 Cash flow analysis**

During the year ended 31 December 2020, the Group's net cash inflow from operating activities was RMB 4,471,820,000, representing an increase of cash inflow by RMB 3,094,767,000 as compared with last year. This was mainly due the increase in collection of the account receivables and inventories and settlement of bills payable.

During the year ended 31 December 2020, the Group's net cash outflow from investing activities was RMB 1,599,872,000, a decrease of cash outflow by RMB 1,578,885,000 as compared with last year. It was mainly due to the impact of the epidemic, investments were mainly concentrated in the second half of the year and the

capital expenditure slowed down.

During the year ended 31 December 2020, the Group's net cash inflow from financing activities was RMB 2,880,102,000, presenting a decrease of cash inflow by RMB 4,129,728,000 compared with last year. This was mainly due to repayment of borrowings and payment of finance lease payments.

#### 1.4.3 Bank and affiliated company borrowings

As at 31 December 2020, the Group's borrowings from bank and affiliated companies were RMB 19,951,236,000 (31 December 2019: RMB 20,877,457,000). These borrowings included the short-term borrowings in RMB 19,370,520,000, and the long-term borrowings due more than one year of RMB 580,716,000; the fixed-rate loans were RMB 17,400,000,000 and the floating rate loans were RMB 2,551,236,000. As at 31 December 2020, approximately 87.2% of the borrowings denominated in Renminbi and approximately 12.8% were denominated in US dollar borrowings.

#### 1.4.4 Assets pledge

As at year ended 31 December 2020, there was no pledge on the Group's assets.

#### 1.4.5 Gearing ratio

As at 31 December 2020, the gearing ratio of the Group was 74.5% (2019: 76.1%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/ (liability with interest – cash & cash equivalents + shareholders' equity)

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

Industries	Operating income for 2020 RMB'000	Operating cost for 2020 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Geophysical	4,599,371	4,246,892	7.7	9.0	6.1	Increased by 2.6 Percentage points
Drilling	34,199,657	31,785,498	7.1	-6.3	-4.1	Decreased by 2.1 Percentage points
Logging/Mud Logging	2,728,760	2,206,279	19.1	9.0	11.2	Decreased by 1.7 Percentage points
Downhole Operation	8,596,355	8,146,749	5.2	12.3	12.9	Decreased by 0.5 Percentage points
Engineering and Construction	15,683,065	14,427,278	8.0	-4.3	-6.0	Increased by 1.7 Percentage points
Other	1,250,272	1,261,927	-0.9	-18.7	-18.5	Decreased by 0.2 Percentage points
Total	67,057,480	62,074,623	7.4	-2.5	-1.8	Decreased by 0.7 Percentage points

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

Region	Operating income for 2020 RMB'000	Operating cost for 2020 RMB'000	Gross profit margin (%)	Change in operating income as compared with last year (%)	Change in operating cost as compared with last year (%)	Gross profit margin compared with last year
Mainland China	55,726,437	51,987,986	6.7	-0.3	0.2	Decreased by 0.5 Percentage points
Hong Kong, Macau, Taiwan, and overseas	11,331,043	10,086,637	11.0	-12.0	-11.1	Decreased by 0.9 Percentage points

## 1.7 Major suppliers and customers

Aggregate purchase amounts from the top five largest suppliers	RMB 12,383,899,000	Percent of total purchases	26.4%
Aggregate sales amounts to the top five largest customers	RMB 55,210,581,000	Percent of total sales	81.1%

## (2) Discussion and analysis on the Company's business in the future

### 2.1 Competitive industry structure and development trend

Looking forward to 2021, with the popularization of vaccines, the global prevention and control of the COVID-19 epidemic will gradually improve and the world economy will recover. However, there are still uncertainties in the development of the epidemic and the process of economic recovery. The international oil prices are likely to rise steadily with the global economic recovery. China's economy picked up firstly in the world and it is expected to record a GDP growth of over 6% throughout the year, which will drive the continuous increase in domestic oil and gas demands. The gradual recovery of oil prices will facilitate the recovery of capital investments by oil and gas companies. Domestic oil companies will continue to boost exploration and development to ensure energy security and the demands in the domestic oil service market will maintain steady increase. With the acceleration in the low-carbon development trend in the global energy industry, the development of the traditional oil and gas industries will face increasing challenges, which will raise urgent requirements on oil service companies to provide services with higher quality, efficiency and more cost competitiveness. The competition in the oil service market will remain fierce.

### 2.2 Operation plans in 2021

Facing the complicated and severe situation in 2021, the Company will continue to leverage the advantages of complicated services and special technologies and closely follow the development trends of the industry. It will strive to achieve high-quality development through various measures such as continuously improving the management, advancing technological innovation, enhancing cost control to fully guarantee exploration and development and vigorously expand market and improve efficiency. The Company plans to sign new contract to reach a yearly value of over RMB70.0 billion, in which RMB44.8 billion will be from China Petrochemical Corporation's internal market, RMB12.5 billion from domestic external market, and RMB12.7 billion from overseas market. It will continue to deepen internal reforms, strengthen management innovation, deepen resources optimization and integration, overall structure optimization and adjustment, advance reform and innovation, speed up in transformation and upgrading and fully advance the progress towards a technology-guided oil service company. The Company puts emphasis on the following aspects:

#### 2.2.1 Geophysical service

In 2021, the Company will vigorously promote the application of high-density and high-precision seismic exploration technologies and node blind collection in oil and gas exploration, and continuously improve construction efficiency and data quality. It will continue to advance the high-quality development of geophysical services, improve the advanced equipment and information technology and facilitate major breakthroughs in exploration; efficiently serve the exploration and deployment of China Petrochemical

Corporation, and do a good job in oilfield exploration in the Tarim Basin, eastern fault depressions and Junggar Basin, and natural gas exploration in Sichuan Basin and Ordos Basin; improve the integration of acquisition, processing, and interpretation service capabilities, consolidate the strategic cooperation with the systems of China Geological Survey, Yanchang Group and other key customers, maintain the position as the largest international geophysical contractor in Algeria and step efforts in the expansion of Saudi Arabia, Africa and other key overseas markets. It plans to complete annual acquisition of 2D seismic data of 1,670 kilometers and 3D of 21,000 sq. kilometers.

### **2.2.2 Drilling Service**

In 2021, the Company will vigorously satisfy the demands for efficient exploration and profitable development of China Petrochemical Corporation, based on the positioning of engineering technology support center, strengthen the services and guarantees of oil and gas exploration and development, and consolidate the internal market share; select high quality team to serve and ensure the construction of production capacity in key industrial areas such as the Shunbei ultra-deep oil and gas field, Southwest natural gas, Ordos tight oil and gas, Weirong deep shale gas and Fuling shale gas, helping China Petrochemical Corporation to stabilize oil, increase gas output and reduce costs, serve the development of low-cost benefits. In the domestic and foreign markets, it will continue to optimize the layout of external resources, consolidate and expand the market share in high-quality markets such as CNPC and CNOOC and strive to achieve greater breakthroughs in CNPC's Southwest shale gas, Northwest conventional oil and gas and other high-quality markets; actively expand local coalbed methane and other unconventional and non-oil businesses to achieve increase amid stability. The Company plans to complete drilling footage accumulated for 9,500 kilometers in 2021.

### **2.2.3 Logging/Mud logging service**

In 2021, the Company will continue to focus on exploration and development. It will enhance and expand share in China Petrochemical Corporation's internal market while actively increasing income from external market. For China Petrochemical Corporation's internal market, the Company will ensure the implementation of key district projects in "Northwest China, North China, Northeast China and Sichuan" and eastern Shengli. For external market, the layout will be further optimized and emphasis will be on market expansion in CNPC southwest shale gas, CNOOC East Sea and South Sea, China Geological Survey and Yanchang Group. It will continue to optimize the allocation of internal resources such as crews, equipment and staff and complete the professional restructuring of the testing, logging and locating businesses. It will perfect and strengthen its business in logging/mud logging service. The Company plans to complete logging footage accumulated for 279,000 kilometers in 2021, while the mud logging footage accumulated for 9,500 kilometers.

### **2.2.4 Downhole operation service**

In 2021, the Company will constantly refine the construction technology system of special downhole operation, put effort into raising its support capability in exploration service, promote oil and gas development and improve quality, speed, efficiency and production, with a focus to ensure the exploration and development and the increase in reserves and production of the Fuling shale gas field in the Sichuan Basin and the Weirong shale gas field, Ordos tight oil and gas, Shunbei super deep oil and gas reserves, and offshore oil and gas fields. The Company will continue to expand the CNPC and local shale gas market in China and provide supports and guarantees to the increase in gas output and production; accelerate the expansion of the industrial chain and increase the intensity of cooperation and development of eastern old oil fields, tight gas fields in North China and other difficult-to-use reserves; improve and strengthen high-end business such as high-pressure operations and smart tubing business, and continue to develop new businesses such as anhydrous fracturing and smart completion. In 2021, the Company plans to complete downhole operation service for 6,457 wells.

### **2.2.5 Engineering and construction service**

In 2021, the Company will boost efforts in overall deployment and coordination, promote the integrated operation of engineering projects, innovate development concepts, concentrate advantageous resources in the expansion of high-efficient and high-quality markets and effectively manage and control low-efficient markets.

While consolidating and strengthening the oil and gas field service guarantees to China Petrochemical Corporation, it boosted the exploration of external markets such as PipeChina, CNPC and CNOOC. It will focus on tracking the Phase-II EPC project of Wen 23 gas storage facility (ground engineering) and the outbound pipelines project of the northwest oilfield; display the advantages in long-distance pipelines EPC and expand the domestic long-distance pipelines engineering market. In January 2021, the Company won the bid for the Project for Construction of South Main Gas Pipeline of Shandong Pipeline with an amount of RMB3.47 billion. Meanwhile, it will carry out the development and construction of the East Main Gas Pipeline of Shandong Pipeline, new gas pipeline Guangxi Branch, outbound pipelines of the Inner Mongolia Western Coal-based Natural Gas Transmission Pipeline, Anhui East Natural Gas Pipeline and other projects. It will display its advantages in roads and bridges and conduct the development of domestic road and bridge projects. In 2021, the Company plans to sign new contracts valued RMB19.1 billion and complete contracts valued RMB15.5 billion.

#### **2.2.6 International business**

In 2021, the Company will continue to implement the internationalization business strategy. It will closely follow the steps of the “Belt and Road” initiatives, strengthen unified and standardized management, unswervingly support excellent and strong players, deeply integrate market resources and promote new breakthroughs in the full-chain market expansion. It will concentrate advantageous resources in the development of key markets such as Saudi Arabia, Kuwait and Ecuador, effectively develop potential markets such as Algeria and Nigeria and withdraw from high-risk and inefficient markets in an orderly manner to continuously improve the overall benefits. In February 2021, the Company entered into a five-year contract with one-year extension option on 10 workover rigs services with Kuwait Oil Company (KOC), which has a contract value of US\$360 million. It will vigorously expand high-end technical service markets, continuously improve the businesses and strive to seize high-end markets and constantly advance the transformation of single drilling construction to general drilling contracting, comprehensive services and other models. It will pay close attention to unconventional, shale gas and other high value-added technical service projects and drive “going out” of business including logging, cementing, mud, directional, fracturing and other businesses. It will focus on the expansion of seismic data processing and interpretation, gravity, magnetic and electric exploration, drone mapping and other geophysical services and develop and enhance the execution capability on ground EPC contracting projects. In 2021, the Company plans to sign new contracts valued US\$1.9 billion.

#### **2.2.7 Technology development**

In 2021, the Company will continue to step up efforts in overcoming technology difficulties, integrate scientific research resources and concentrate on making breakthroughs in key and core technologies. It will consistently strengthen engineering and technical service capabilities and speed up in advancing towards a technology guided oil service company. It will intensify research on technology difficulties such as drilling rotation guidance and high-temperature logging as well as breakthroughs in ultra-deep oil and gas exploration and development technology, ultra long-section horizontal wells, branch well drilling and other key and core technologies and accelerate the industrial development of equipment, instruments and chemical additives. The Company will continue to improve the petroleum engineering technologies with the shale gas innovation and integration technology and other comprehensive ancillary technologies as the main line, measurement while drilling and other professional technologies as the core and pressure control drilling and other professional technologies and featured products as supplements to develop brand technology and knockout products.

#### **2.2.8 Internal reform and management**

In 2021, the Company will continue to boost reform in key industries and links, deeply optimize the business structure and market layout, vigorously advance the professional development of testing, logging and locating businesses and accelerate the transition to the mid-to-high end; deepen the management system reform, promote the management of “small institutions and large departments”, further rationalize management functions, optimize business processes, develop a high-effective operation mechanism and reduce management personnel and fees; deepen the reform of the project-based management system and establish a “One Body, Two Wings”

project-based management system with project management as the main body and the human resources coordination and allocation center and the materials and equipment deployment center as supports; coordinate and optimize the allocation of market, capitals, human resources, materials, equipment and other key resources and improve the utilization efficiency and benefits of resources; and put more efforts on the performance evaluation, implement the performance evaluation of the entire staff, and promote income increase or decrease. It will also make joint efforts to reduce cost and fees by enhancing the cost control in all factors and the entire process. In 2021, the reduced cost and fees are expected to be RMB0.5 billion.

### **2.2.9 Capital expenditures**

In 2021, the Company plans to arrange capital expenditure of RMB3.5 billion on fixed assets. The Company will focus on guaranteeing exploration and development, market expansion and efficiency improvement, closely follow the trends of automatic, electrified and intelligent development, give full play to the leading role of investment, intensify technical innovation and optimize team structures to facilitate the comprehensive, sustainable and high-quality development of the Company. Firstly, for high-quality exploration and increase in reserves, it will vigorously improve the capability to discover and identify oil and gas fields and increase input in seismic node equipment and equipment for key exploration wells construction. Secondly, for high-efficient oil and gas development, it will accelerate in project construction, reduce construction cost, and arrange the upgrading and transformation of drilling rigs for deep wells in key industrial zones and the procurement of coiled tubing operation equipment, high-pressure mud pumps and electric fracturing pumps for shale gas oilfields. Thirdly, for strengthening innovation-driven development and to overcome key technology difficulties, it will make input on the procurement of rotary guidance equipment, wireless measurement equipment while drilling and laboratory infrastructure. Fourthly, based on the main line of improving safety, it will facilitate green development and arrange input in drilling equipment with grid electricity, equipment for collecting mud and projects with potential hazards. Fifthly, based on the main line of market expansion and efficiency improvement, it will arrange input in the fully automatic welding equipment for serving PipeChina and gas well rigs required in overseas quality markets such as Saudi Arabia and Kuwait. Sixthly, it will continue the construction of an integrated production and operation coordination platform (SICP) based on the main line of building a digital oilfield service company.

### **(3) Profit distribution plan**

In 2020, after the audit by Grant Thornton (Special General Partnership) and prepared in accordance with the PRC ASBE, the net profit attributable to shareholders of the Company is RMB 78,978,000 (In accordance with the IFRS, the net profit attributable to shareholders of the Company is RMB -35,737,000), and the parent company's undistributed profit at the end of 2020 is RMB -1,516,087,000. Since the undistributed profit of the parent company at the end of the year is negative, the board of directors recommends that no cash dividend distribution be made in 2020, nor the capital reserve conversion to share capital. The proposal still needs to be submitted to the general meeting of shareholders for consideration.

## **6 SIGNIFICANT EVENTS**

- (1) During this reporting period, there were no major litigation or arbitration or events commonly disputable by the media of the Company.
- (2) During this reporting period, there were no non-operational funds supplied by the Company to the controlling shareholders and its related parties.
- (3) During this reporting period, there were no material acquisition nor disposals of assets and merger and acquisitions activities of the Company.

### **(4) Information on connected transactions**

The Company's significant connected transactions entered into during the year ended 31 December 2020 are as follows:

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

The nature of the transaction classification	Related parties	Amount of transaction RMB'000	Proportion of the same type of transaction (%)
Purchase of materials and equipments	China Petrochemical Corporation and its associates	10,566,242	26.8
Rendering engineering services	China Petrochemical Corporation and its associates	43,255,129	64.2
Receiving of community services	China Petrochemical Corporation and its subsidiaries	389,047	100
Receiving of integrated services	China Petrochemical Corporation and its subsidiaries	351,306	100
Rendering of technology development services	China Petrochemical Corporation and its subsidiaries	79,300	95.8
Land and property lease expenses	China Petrochemical Corporation and its subsidiaries	208,038	35.6
Equipment rental expenses	China Petrochemical Corporation and its subsidiaries	264,645	27.6
Interest expenses	China Petrochemical Corporation and its associates	783,064	86.4
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	52,974,382	98.8
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	54,391,017	100
Safety and insurance fund expenses	China Petrochemical Corporation	76,160	100
Safety and insurance fund refund	China Petrochemical Corporation	107,168	100

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

On 25 August 2020, the Company entered into the Framework Agreement in relation to the Mutual Leasing of Equipment between the Group and China Petrochemical Corporation (the "Equipment Leasing Framework Agreement") with China Petrochemical Corporation, pursuant to which, the Group agreed to lease equipment to and from China Petrochemical Corporation production and operation during the period from 16 October 2020 (the "Agreement Effective Date") to 31 December 2021. Under rules 14A.07(1) and 14A.07(4) of the Listing Rules, China Petrochemical Corporation and its associates are connected persons of the Company. Accordingly, the transactions between the Group and China Petrochemical Corporation constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. Pursuant to the Equipment Leasing Framework Agreement, from the Agreement Effective Date to 31 December 2020, the proposed annual caps for the lease of equipment by the Group from China Petrochemical Corporation (total right-of-use assets) and the lease of equipment by the Group to China Petrochemical



Corporation (rental collected) were RMB450 million and RMB30 million, respectively; and from 1 January 2021 to 31 December 2021, the proposed annual caps for the lease of equipment by the Group from China Petrochemical Corporation (total right-of-use assets) and the lease of equipment by the Group to China Petrochemical Corporation (rental collected) were RMB850 million and RMB30 million, respectively. As the highest applicable percentage ratio of the proposed annual caps of the transactions contemplated under the Equipment Leasing Framework Agreement exceed 0.1% but fall below 5%, the transactions contemplated under the Equipment Leasing Framework Agreement and the proposed annual caps are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the Announcement of Connected Transaction on Entering into the Equipment Leasing Framework Agreement (Temporary 2020-016) disclosed at "China Securities Journal", "Shanghai Securities News", "Securities Times" and www.sse.com.cn on 26 August 2020 and the Continuing Connected Transactions Equipment Leasing Framework Agreement disclosed on www.hkexnews.hk on 25 August 2020.

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

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

Please refer to Note 10 of this year's financial statements prepared in accordance with the PRC ASBE Standards for details of the connected transactions conducted by the Company during the reporting period. Among them, the significant related party transactions with China Petrochemical Corporation and its subsidiaries also fall under the definition of continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the reporting period, the above-mentioned related party transactions between the Company and China Petrochemical Corporation and its subsidiaries have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

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

Unit: RMB '000

Connected parties	Funds provided to connected party			Funds provided to the Company by connected party		
	Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
China Petrochemical Corporation and its subsidiaries	9,798,884	-2,417,575	7,381,309	10,168,257	4,648,082	14,816,339
Sinopec Finance Company Limited	-	-	-	12,080,000	-5,680,000	6,400,000
Sinopec Century Bright Capital Investment Limited	-	-	-	2,797,457	-826,937	1,970,520
Total	9,798,884	-2,417,575	7,381,309	25,045,714	-1,858,855	23,186,859
Causes of connected claims and debts	Normal production and operation					
Influence of connected claims and debts on the Company	No material adverse effect					

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

**(6) Leasing of the Company during the reporting period.**

√Applicable □Not Applicable

Unit:RMB

Lessor	Lessee	Leased Assets	The amount of money involved	Lease commencement date	Lease termination date	Rental Income	The basis for determining the rental income The impact of leasing proc	The impact of leasing proceeds on the Company	Is it a connected transaction?	Connected relation
Taiping & Sinopec Financial Leasing (TSFL)	Shengli Petroleum Engineering Company	machines and equipment used for drilling and downhole operations	RMB 1 billion	8 February 2018	24 November 2020	RMB - 96.66million	Calculated based on a fixed annual interest rate of 4%	No significant impact	Yes	TSFL is a joint venture company of the controlling shareholder of the Company
Shanghai Offshore Petroleum Bureau	Sinopec Group Shanghai Offshore Petroleum Bureau Co., Ltd.	semi-submersible rig (Exploration IV)	RMB 38.47 million	6 November 2019	5 November 2022	RMB (5.65) million ( before renovation )	at the daily rental of no more than RMB15,500 per day	No significant impact	Yes	Shanghai Offshore Petroleum Bureau is a wholly-owned subsidiary of the controlling shareholder of the Company

On 24 November 2020, TSFL and Shengli Petroleum Engineering Company signed the "Early Termination Agreement" after friendly negotiation. Both parties agreed that the lease relationship under the "Leasing Contract" would be terminated from 24 November 2020. The ownership of the corresponding leased property is transferred to the lessee.

**(7) Guarantee of the Company during the reporting period**

Unit: RMB '000

External Guarantee of the Company (excluding Guarantees for Subsidiaries)	
Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries)	0
Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries)	0
The Guarantee of the Company and its Subsidiaries to the Subsidiaries	
Total Amount of Guarantees paid to Subsidiaries during the Reporting Period	6,462,628
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)	19,915,014
Total Company Guarantee (including Guarantee for Subsidiaries)	
Total guarantee (A+B)	19,915,014
Total Amount of Guarantees as a Percentage of the Company's Net Assets (%)	296.2

Among them:	
Amount of Guarantee provided to Shareholders, Actual Controllers and their related Parties (C)	0
Debt Guarantee Amount directly or indirectly for the guaranteed object whose asset-liability Ratio exceeds 70% (D)	7,773,813
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)	16,553,581
Sum of the three Guarantee above (C+D+E)	24,327,394
Statement of Unexpired Guarantees as potential subject to Joint Liability	None
Guarantee Statement	The guarantees provided by the Company are all provided by the guarantees for the performance of the performance guarantee letters issued by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting of the Company for 2019.

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

On 31 December 2020, the balance of the counter-guarantee provided by the Company to China Petrochemical Corporation was RMB 500,000,000.

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

	Currently hired
The name of the domestic accounting firm	Grant Thornton (Special General Partnership)
The audit period for the domestic accounting firm	7
The name of the overseas accounting firm	Grant Thornton Hong Kong Limited
The remuneration of the domestic and overseas accounting firm	RMB 9,800,000
The audit period for the overseas accounting firm	7
The name of the internal control accounting firm	Grant Thornton (Special General Partnership)
The remuneration of the internal control accounting firm	RMB 2,000,000

Note: Grant Thornton Tax Services Limited provided the Company tax services on Hong Kong profit tax declaration in 2020, and the compensation was HKD 10,000.

The description for the appointment and dismissal of the auditor:

As proposed by the Company’s audit committee, the Board has resolved to propose to appoint Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as domestic and international auditor for the year 2020. The Proposal was approved by the Shareholders at the annual general meeting for 2019 convened on 16 June 2020.

According to the relevant regulations of the Ministry of Finance and the State-owned Assets Supervision and Administration Commission of the People's Republic of China, 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 will respectively retire as domestic and international auditor of the

Company with effect from the conclusion of the forthcoming annual general meeting for the year 2020 of the Company .

On 24 March 2021, the Company's board of directors recommended the appointment of BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited as the domestic auditor and the international auditor of the Company for 2021. The proposal is subject to shareholders' approval at the annual general meeting for the year 2020.

**(9) The special undertakings made by the Company, the ultimate controller, shareholders, related parties, acquirer and other associated parties and the performance of such undertakings for the year ended 31 December 2020:**

Undertakings Background	Acceptance	Undertakings	completion date of Undertakings	Performance of Undertakings
Undertakings regarding the Material Assets Reorganization	China Petrochemical Corporation	<p>The Non-Competition Undertaking</p> <p>1. China Petrochemical Corporation issued the commitment that it will not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through its exercise of shareholder rights.</p> <p>2. After the Material Assets Reorganisation, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company.</p> <p>3. After the Material Assets Reorganisation, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition.</p> <p>4. China Petrochemical Corporation consent that it will bear and pay damages to the listed companies caused by its violation of the commitment.</p>	<p>Date of undertaking: 12 September 2014</p> <p>Duration: Long Term</p>	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Undertakings regarding the Material Assets Reorganization	China Petrochemical Corporation	<p>The undertakings of regulating the connected transaction: China Petrochemical Corporation and its other controlling companies will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and its controlling Company's will sign the standard agreement of connected transactions, and will fulfil the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.</p>	<p>Date of undertaking: 12 September 2014</p> <p>Duration: Long Term</p>	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.

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

##### **a. The grant date and quantity**

Grant date: 1 November 2016

Number of share options granted: 49,050,000

Number of participants: 477 persons

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

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

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

The Proposed Grant covers 467 key business personnel holding core positions, and the total amount of share options granted to them was 47.20 million shares, accounting for 96.2% of the total amount of the share options in the Proposed Grant, and accounting for 0.3337% of the total shares of the Company.

##### **d. Exercise price of the Proposed Grant**

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

##### **e. Validity Period and Exercise Arrangement under the Proposed Grant**

Under the Scheme, Options under the Proposed Grant have a validity period of five years commencing from the Grant Date. The Exercise Period for the Options shall be three years after the expiry of the two-year vesting period after the Grant Date. There shall be three Exercise Periods (one year for each Exercise Period, same for the following) for each plan of grant under the Scheme. And during the 1st, 2nd and 3rd Exercise Period, there

will be 30%, 30% and 40% respectively of the total options granted may be exercised upon fulfillment of the conditions for exercise of Share Options.

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

f. Exercise and Cancellation of the Proposed Grant during the reporting period

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

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

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

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

Meanwhile, In view of a total of 30 Participants of the Company’s A Share Option Incentive Scheme came across matters such as retirement, change in job positions, resignation and death, etc., according to the Share Incentive Plan Measures and the relevant provisions of the Share Option Scheme, as the above Participants have not met the qualifications, the Company proposes to cancel a total of 1,300,000 Share Options that have

been granted to but not yet been exercised by the above-mentioned personnel. After this adjustment, the Participants of the Company's A Share Option Incentives were adjusted from 453 to 423, and the number of A Share Options which have been granted but not yet been exercised were adjusted from 18,384,000 to 17,084,000. For details, please refer to the "Announcement relating to Non-fulfillment of Exercise Conditions for the Second Exercise Period and Adjustment to the List of Participants and the Number of Share Options under the First Grant of the A Share Option Incentive Scheme I." (P.2019-044) disclosed on China Securities, Shanghai Securities News, Securities Times, [www.sse.com.cn](http://www.sse.com.cn) on 29 October 2019 at [www.hkexnews.hk](http://www.hkexnews.hk) on 28 October 2019.

#### **(11) Other major issues**

After consideration and approval at the 22nd meeting of the ninth session of the Board of Directors held on 29 October 2020, Sinopec Oilfield Service Company Limited, a wholly-owned subsidiary of the Company, proposed to establish an indirect wholly-owned subsidiary, Sinopec Jingwei Co., Ltd. ("**Jingwei Company**"), and on such basis, the professional restructuring for logging, mud logging and directional well services are implemented within the Company. Jingwei Company has a registered capital of RMB 1 billion, and the Company proposes to make capital contributions with its own funds.

For details, please refer to the Announcement on the Establishment of an Indirectly Wholly Owned Subsidiary" (P. 2020-024) published in the China Securities Journal, Shanghai Securities News, Securities Times, and on [www.sse.com.cn](http://www.sse.com.cn) on 30 October 2020, and on [www.hkexnews.hk](http://www.hkexnews.hk) on 29 October 2020.

On 19 December 2020, Jingwei Company was registered, established, and obtained a business license, but the professional restructuring for logging, mud logging and directional well services of the Company is still in progress.

## **7. FINANCIAL REPORT**

### **7.1 Audit Opinion**

The financial statements of the Group for the year ended 31 December 2020, prepared in accordance with the PRC ASBE have been audited by Zhang Yaxu and Hao Jianwei of Grant Thornton (Special General Partnership), which has issued unqualified opinion on 24 March 2021. Also, the financial statements of the Group for the year ended 31 December 2020, prepared in accordance with IFRS have been audited by Grant Thornton Hong Kong Limited, which has issued unqualified opinion on 24 March 2021.

## 7.2 Financial Statements prepared in accordance with IFRS

The following financial information were extracted from the audited consolidated financial statements of the Company and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2020, which were prepared in accordance with the IFRS.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>Revenue</b>	4	<b>68,073,394</b>	69,870,147
Cost of sales and taxes and surcharges		(62,957,850)	(63,908,668)
<b>Gross profit</b>		<b>5,115,544</b>	5,961,479
Selling expenses		(72,604)	(63,787)
General and administrative expenses		(2,781,058)	(2,965,864)
Research and development expenses		(1,369,501)	(1,194,198)
Finance expenses - net	5	(1,196,670)	(945,344)
Expected credit loss and impairment losses on assets	6	(109,093)	(111,239)
Investment income	7	500	36,513
Share of (loss)/profit from joint ventures		(94)	10,214
Share of profit from associates		5,561	3,685
<b>Operating (loss)/profit</b>		<b>(407,415)</b>	731,459
Other income	8	684,440	755,274
Other expenses	9	(43,686)	(58,336)
<b>Profit before income tax</b>	10	<b>233,339</b>	1,428,397
Income tax expense	11	(269,076)	(441,524)
<b>(Loss)/Profit for the year</b>		<b>(35,737)</b>	986,873
<b>Other comprehensive expense for the year, net of tax</b>			
Items that will not be reclassified subsequently to profit or loss:			
Net movement in fair value of financial assets at fair value through other comprehensive income ("FVTOCI")		(8,461)	(5,229)
<b>Total comprehensive (expense)/ income for the year</b>		<b>(44,198)</b>	981,644
		<b>RMB</b>	<b>RMB</b>
<b>(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company (presented in RMB per share)</b>	12		
Basic and diluted		(0.002)	0.052



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		24,575,668	25,375,631
Other non-current assets		5,854,914	5,374,781
Intangible assets		396,611	281,497
Interests in joint ventures		23,204	23,791
Interests in associates		19,842	15,927
Financial assets at FVTOCI		22,835	32,847
Deferred tax assets		395,834	417,004
<b>Total non-current assets</b>		<b>31,288,908</b>	<b>31,521,478</b>
<b>Current assets</b>			
Inventories		1,025,965	1,048,465
Financial assets at FVTOCI		1,323,425	1,446,389
Notes and trade receivables	14	9,358,385	11,996,855
Prepayments and other receivables		4,924,453	4,680,066
Contract assets and cost to fulfil contracts		11,618,601	9,707,288
Restricted cash		28,106	18,105
Cash and cash equivalents		1,523,352	1,650,732
<b>Total current assets</b>		<b>29,802,287</b>	<b>30,547,900</b>
<b>Total assets</b>		<b>61,091,195</b>	<b>62,069,378</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
<b>Equity</b>			
Share capital		18,984,340	18,984,340
Reserves		(12,261,474)	(12,220,468)
<b>Total equity</b>		<b>6,722,866</b>	<b>6,763,872</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		1,484,785	2,307,828
Deferred income		14,186	92,211
Deferred tax liabilities		13,471	17,854
Provisions		382,646	449,256
<b>Total non-current liabilities</b>		<b>1,895,088</b>	<b>2,867,149</b>
<b>Current liabilities</b>			
Notes and trade payables	15	26,802,737	24,802,226
Other payables		2,652,248	2,797,837
Contract liabilities		3,024,461	3,575,654
Short-term borrowings		19,727,167	20,938,450
Current income tax payable		266,628	324,190
<b>Total current liabilities</b>		<b>52,473,241</b>	<b>52,438,357</b>
<b>Total liabilities</b>		<b>54,368,329</b>	<b>55,305,506</b>
<b>Total equity and liabilities</b>		<b>61,091,195</b>	<b>62,069,378</b>
<b>Net current liabilities</b>		<b>(22,670,954)</b>	<b>(21,890,457)</b>
<b>Total assets less current liabilities</b>		<b>8,617,954</b>	<b>9,631,021</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### **1 GENERAL INFORMATION, THE REORGANISATION AND BASIS OF PRESENTATION**

#### **1.1 General information and the Reorganisation**

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

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

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

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

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

These consolidation financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 24 March 2021.

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

## **1.2 Basis of presentation**

As at 31 December 2020, the Group had net current liabilities of approximately RMB22,670,954,000(2019: RMB21,890,457,000) and capital commitments of approximately RMB180,023,000; and it had a net loss of RMB35,737,000 for the year then ended. The directors of the Company have performed an assessment that operating cash inflows in the next twelve months is expected, and most of the Group's borrowings are sourced from Sinopec Group and its subsidiaries, where the Group maintains ongoing good relationship with these companies, which enables the Group to secure sufficient financial support from these companies. In December 2020, the Group obtained a line of credit of RMB16 billion and USD 0.6 billion (Total: approximately RMB20.9 billion), and line of credit promissory note of RMB10 billion from the Sinopec Group's subsidiaries. The management and those charged with governance are satisfied that the Group is able to operate as a going concern with the line of credit. To obtain sufficient credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions. The directors of the Group are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

## **2 Basis of preparation**

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

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

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

### 3 NEW AND AMENDED IFRSs

The IASB has issued a number of amended IFRSs. The Group has adopted all these amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the accounting period beginning on or after 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 16	2019 Covid-19-Related Rent Concessions

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

#### **Application of Amendments to IFRS 16 “2019 COVID-19-Related Rent Concessions”**

Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- and there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 “Leases ” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has early applied the amendment and the application has no impact to the opening retained profits at 1 January 2020. During the current year, there was no COVID-19-related rent concession occurred and had no impact on the disclosures or the amounts recognised in the consolidated financial statements of the Group.

### 3 NEW AND AMENDED IFRSs (CONTINUE)

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2020 which are relevant to the Group but the Group has not early adopted are set out below:

IFRS 17	Insurance Contracts and related amendments <sup>3</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>5</sup>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 <sup>2</sup>
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> Effective date not yet determined

<sup>5</sup> Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

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

#### 4 REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	2020 RMB'000	2019 RMB'000
Geophysics	4,599,371	4,305,555
Drilling engineering	34,199,657	36,941,274
Logging and mud logging	2,728,760	2,535,982
Special downhole operations	8,596,355	7,675,950
Engineering construction	15,683,065	16,603,211
Others	2,266,186	1,808,175
	<b>68,073,394</b>	<b>69,870,147</b>

##### Segment information

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

## **5 REVENUE AND SEGMENT INFORMATION (Continued)**

### **Segment information (Continued)**

**Five reportable operating segments are as follows:**

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

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

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

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

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

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



#### 4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

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

(a) Segment results, assets and liabilities

For the year ended 31 December 2020 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
<b>During the year ended 31 December 2020</b>								
<b>Segment revenue and results</b>								
Revenue from external customers	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	2,266,186	–	68,073,394
Inter-segment income	10,202	774,221	1,466,368	674,078	36,314	5,973,842	(8,935,025)	–
<b>Segment revenue</b>	<b>4,609,573</b>	<b>34,973,878</b>	<b>4,195,128</b>	<b>9,270,433</b>	<b>15,719,379</b>	<b>8,240,028</b>	<b>(8,935,025)</b>	<b>68,073,394</b>
Reportable segment (loss)/profit	(75,959)	12,542	161,833	(214,901)	9,107	(300,037)	–	(407,415)
Other income	58,964	456,066	7,679	35,275	67,926	58,530	–	684,440
Other expenses	(12,448)	(664)	(5,413)	(4,094)	(14,720)	(6,347)	–	(43,686)
(Loss)/Profit before income tax	(29,443)	467,944	164,099	(183,720)	62,313	(247,854)	–	233,339
Income tax expense								(269,076)
<b>Loss for the year</b>								<b>(35,737)</b>

#### 4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

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

For the year ended 31 December 2020 and as at that date, the segment results, assets and liabilities were as follows: (Continued)

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>During the year ended 31 December 2020</b>								
<b>Supplementary information</b>								
Depreciation and amortisation								
-- Property, plant and equipment	383,106	1,826,826	202,039	570,515	244,119	259,717	–	3,486,322
-- Other non-current assets	99,623	1,673,357	84,163	311,492	10,869	3,437	–	2,182,941
-- Intangible assets	19	97,206	1,385	7,828	7,649	2,137	–	116,224
Capital expenditure								
-- Property, plant and equipment	225,407	1,576,109	112,015	497,805	259,047	172,964	–	2,843,347
-- Intangible assets	6	219,989	430	901	8,227	1,785	–	231,338
Provision /(Reversal of provision) for ECL on trade receivables, net	11,772	(55,448)	(3,203)	27,674	(15,109)	(1,428)	–	(35,742)
(Reversal of provision)/ Provision for ECL on other receivables, net	(2,218)	(4,294)	437	883	76,682	2,602	–	74,092
Provision for ECL on contract assets	891	63,414	290	707	565	30	–	65,897
Write down of inventories to net realizable value	–	4,846	–	–	–	–	–	4,846
<b>As at 31 December 2020</b>								
<b>Assets</b>								
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
<b>Liabilities</b>								
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

#### 4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

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

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

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

#### 4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

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

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

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Eliminated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>During the year ended 31 December 2019</b>								
<b>Supplementary information</b>								
Depreciation and amortisation								
-- Property, plant and equipment	381,511	1,743,357	179,951	576,034	235,388	294,770	-	3,411,011
-- Other non-current assets	72,907	1,511,365	38,751	207,394	15,066	2,067	-	1,847,550
-- Intangible assets	26	64,265	1,641	11,792	7,423	4,487	-	89,634
Capital expenditure								
-- Property, plant and equipment (Note)	719,255	1,393,448	108,445	611,283	239,285	531,804	-	3,603,520
-- Intangible assets (Note)	-	187,094	-	55,929	7,017	2,151	-	252,191
-- Other non-current assets (Note)	-	-	-	10,543	-	-	-	10,543
Provision /(Reversal of provision) for ECL on trade receivables, net	17,559	(11,992)	(6,894)	35,331	(34,704)	(430)	-	(1,130)
Provision /(Reversal of provision) for ECL on other receivables, net	1,673	(5,876)	188	(3,886)	108,503	(890)	-	99,712
(Reversal of provision)/Provision for ECL on contract assets	(1,020)	13,483	42	555	(468)	65	-	12,657
<b>As at 31 December 2019</b>								
<b>Assets</b>								
Segment assets	4,456,257	30,456,832	1,584,703	6,222,747	21,139,252	36,285,557	(38,075,970)	62,069,378
<b>Liabilities</b>								
Segment liabilities	3,253,673	28,892,878	1,436,217	4,691,961	21,032,728	34,074,019	(38,075,970)	55,305,506

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

#### 4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

(b) Geographical information

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

	Revenue from external customers	
	2020 RMB'000	2019 RMB'000
The PRC	56,742,351	56,894,888
Middle East	8,636,854	7,894,085
Other countries	2,694,189	5,081,174
	<b>68,073,394</b>	<b>69,870,147</b>
	Specified non-current assets	
	2020 RMB'000	2019 RMB'000
The PRC	26,420,314	26,705,971
Other countries	4,449,925	4,365,656
	<b>30,870,239</b>	<b>31,071,627</b>

(c) Major customer

For the years ended 31 December 2020 and 2019, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2020 RMB'000	2019 RMB'000
Customer A	<b>41,033,624</b>	<b>40,177,581</b>

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

#### 4 SEGMENT INFORMATION (CONTINUED)

##### Segment information (Continued)

(d) Analysis on revenue from contracts

For the years ended 31 December 2020 and 2019, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations, engineering construction service:

	Geophysics RMB'000	Drilling engineering RMB'000	Logging and mud logging RMB'000	Special downhole operations RMB'000	Engineering construction RMB'000	Unallocated RMB'000	Total RMB'000
During the year ended 31 December 2020							
Timing of revenue recognition:							
– At a point in time	–	23,259	6,670	–	24,252	588,283	642,464
– Over time	4,599,371	34,176,3	2,722,090	8,596,355	15,658,813	1,677,903	67,430,930
Total	4,599,371	34,199,657	2,728,760	8,596,355	15,683,065	2,266,186	68,073,394
During the year ended 31 December 2019							
Timing of revenue recognition:							
– At a point in time	17,708	258,233	14,761	4,736	270,573	325,965	891,976
– Over time	4,287,847	36,683,041	2,521,221	7,671,214	16,332,638	1,482,210	68,978,171
Total	4,305,555	36,941,274	2,535,982	7,675,950	16,603,211	1,808,175	69,870,147

(e) Performance obligation of contracts with customers

The Group enters into petroleum engineering technical service contracts or construction contracts with customers to provide geophysical exploration, drilling, logging and mud logging, special downhole operations and surface engineering construction services of which rendering of services and construction contracts is completed according to the agreed schedule. When value of the completed work is confirmed and is certified, customers pay progress payments within 30-180 days after billing. Final billing and payment is made upon the completion and acceptance of the work.

In accordance with contracts and relevant legal requirement, the Group's engineering construction business provides quality assurance for the constructed assets. This type of quality assurance is an assurance-type warranty that ensures that the constructed assets fulfil the established quality standards, which does not constitute a single performance obligation.

## 5 FINANCE EXPENSES - NET

	2020 RMB'000	2019 RMB'000
<b>Finance income</b>		
Interest income		
- Sinopec Group's subsidiaries	1,407	2,289
- Third parties and other financial institutions	58,169	101,210
	<u>59,576</u>	<u>103,499</u>
<b>Finance expenses</b>		
Interest expenses on borrowings wholly repayable within 5 years		
- Sinopec Group and its subsidiaries	(753,965)	(768,972)
- Third parties and other financial institutions	(52,785)	(87,273)
Interest expenses on lease liabilities		
- Sinopec Group and its subsidiaries	(25,699)	(32,800)
- Sinopec Group's associates and joint ventures	(59,303)	(76,455)
- Third parties	(14,941)	(14,963)
Exchange loss, net	(289,068)	(7,444)
Bank and other charges	(60,485)	(60,936)
	<u>(1,256,246)</u>	<u>(1,048,843)</u>
	<u>(1,196,670)</u>	<u>(945,344)</u>

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

	2020 RMB'000	2019 RMB'000
ECL on trade and other receivables, net	38,350	98,582
ECL on contract assets	65,897	12,657
Write down of inventories to net realizable value	4,846	-
	<u>109,093</u>	<u>111,239</u>

## 7 INVESTMENT INCOME

	2020 RMB'000	2019 RMB'000
Investment income from financial assets at FVTOCI	500	600
Gain on remeasurement of previously held equity interests of SinoFTS Petroleum Services Limited	-	27,474
Gain on bargain purchase	-	8,439
	<u>500</u>	<u>36,513</u>

## 8 OTHER INCOME

	2020 RMB'000	2019 RMB'000
Gain on disposal of property, plant and equipment, net	935	61,442
Gain on disposal of other non-current assets, net	5,026	5,602
Gain on debt restructuring	53,960	154,539
Government grants (Note)	511,210	367,080
Waived payables	81,208	122,414
Penalty income	2,779	2,636
Compensation received	3,059	11,724
Insurance claims	8,215	15,221
Asset surplus	4,327	470
Others	13,721	14,146
	<u>684,440</u>	<u>755,274</u>

Note:

For the years ended 31 December 2020 and 2019, government grants primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

## 9 OTHER EXPENSES

	2020 RMB'000	2019 RMB'000
Loss on scraps of assets	7,147	1,976
Penalty	8,220	9,418
Donation	5,623	1,197
Compensation	12,844	8,354
(Reversal of provision)/Provision for expected loss on pending litigations	(2,424)	286
Others	12,276	37,105
	<u>43,686</u>	<u>58,336</u>



**10 PROFIT BEFORE INCOME TAX**

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

	2020 RMB'000	2019 RMB'000
Staff costs, including directors and supervisors emoluments	15,733,882	15,742,653
Retirement benefit plan contribution (included in the above mentioned staff costs)		
— Municipal retirement scheme costs	899,329	1,259,833
— Supplementary retirement scheme costs	645,597	562,219
Share options granted to directors and employees (included in the above mentioned staff costs)	3,192	3,818
Changes in inventories of finished goods and work in progress	72,575	(70,540)
Raw materials and consumables used	28,133,529	20,802,619
Depreciation and amortisation		
— Property, plant and equipment	3,486,322	3,411,011
— Other non-current assets	2,182,941	1,847,550
— Intangible assets	116,224	89,634
Operating lease expenses		
— Short-term leases with lease term of 12 months or less	996,480	927,772
ECL, net		
— Trade and other receivables	38,350	98,582
— Contract assets	65,897	12,657
- Write down of inventories to net realizable value	4,846	-
Rental income from property, plant and equipment less relevant expenses	(20,704)	(27,684)
Gains on disposal/write-off of property, plant and equipment, net	(935)	(61,442)
Gains on disposal/write-off of other non-current assets, net	(5,026)	(5,602)
Auditors' remuneration	9,800	9,800
Exchange loss, net	289,068	7,444

## 11 INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
<b>Current tax</b>		
PRC enterprise income tax	50,750	86,047
Overseas enterprise income tax	199,988	283,912
	<u>250,738</u>	<u>369,959</u>
<b>Deferred tax</b>		
Origination and reversal of temporary difference	18,338	71,565
Income tax expense	<u>269,076</u>	<u>441,524</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2020 and 2019 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project can enjoy 15% preferential tax rate during the period, for the years ended 31 December 2020 and 2019, the majority of the companies of the Group are subject to 25% income tax rate.

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

## 12 EARNINGS PER SHARE

### (a) Basic

For the years ended 31 December 2020 and 2019, the basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company.

	2020	2019
(Loss)/Profit for the year attributable to owners of the Company (RMB'000)	(35,737)	986,873
Weighted average number of ordinary shares in issue (Shares)	18,984,340,033	18,984,340,033
Basic (loss)/earnings per share (RMB)	<u>(0.002)</u>	<u>0.052</u>

### (a) Diluted

For the years ended 31 December 2020 and 2019, the diluted (loss)/earnings per share was the same as the basic (loss)/earnings per share as the exercise price of those share options is higher than the average market price for shares in the both years.

## 13 DIVIDENDS

The Board of Directors of the Company do not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

## 14 NOTES AND TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables		
- Sinopec Group and its subsidiaries	2,364,781	4,760,085
- Joint ventures	5,249	13,848
- Sinopec Group's joint ventures and associates	912,791	111,715
- Third parties	8,550,102	9,624,697
	<u>11,832,923</u>	<u>14,510,345</u>
Less: ECL allowance	(2,474,538)	(2,513,990)
Trade receivables - net	<u>9,358,385</u>	<u>11,996,355</u>
Notes receivables	-	500
Notes and trade receivables - net	<u>9,358,385</u>	<u>11,996,855</u>

As at 31 December 2020 and 2019, the Group's notes and trade receivables were approximately their fair value. All notes receivables of the Group are bank's acceptance bills and commercial acceptance bills and usually collected within six months from the date of issue. As at 31 December 2020 and 2019, none of the Group's notes receivables were pledged as collateral or overdue.

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

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

	2020 RMB'000	2019 RMB'000
Within 1 year	8,302,161	10,515,700
1 to 2 years	617,561	1,002,971
2 to 3 years	309,393	322,870
Over 3 years	129,270	155,314
	<u>9,358,385</u>	<u>11,996,855</u>

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

	2020 RMB'000	2019 RMB'000
Balance at the beginning of the year	2,513,990	2,525,191
ECL allowance	363,655	407,122
Reversal	(399,397)	(408,252)
Others	(1,976)	-
Receivables write-off as uncollectible	(1,734)	(10,071)
At 31 December	<u>2,474,538</u>	<u>2,513,990</u>

## 15 NOTES AND TRADE PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables		
- Sinopec Group and its subsidiaries	1,146,343	1,148,614
- Joint ventures	18,322	19,723
- Sinopec Group's joint ventures and associates	7,204	1,311
- Third parties	19,325,640	18,898,646
	<u>20,497,509</u>	<u>20,068,294</u>
Notes payables	6,305,228	4,733,932
	<u>26,802,737</u>	<u>24,802,226</u>

As at 31 December 2020 and 2019, the carrying amounts of the Group's notes and trade payables were approximately their fair value.

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

	2020 RMB'000	2019 RMB'000
Within 1 year	26,219,667	24,029,249
1 to 2 years	277,441	377,839
2 to 3 years	96,699	61,377
Over 3 years	208,930	333,761
	<u>26,802,737</u>	<u>24,802,226</u>

### 7.3 Financial statements prepared in accordance with PRC ASBE

The following financial information has been extracted from the Company's audited financial statements, prepared in accordance with PRC ASBE for the year ended 31 December 2020.

#### Consolidated Balance sheet

(Expressed in thousands of Renminbi Yuan)

Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Cash at bank and on hand	1,551,458	1,668,837
Bills receivable		500
Accounts receivable	9,358,385	11,996,355
Accounts receivable financing	1,323,425	1,446,389
Advances to suppliers	441,654	553,726
Other receivables	2,464,362	2,365,418
Inventories	1,033,678	1,185,504
Contract assets	11,610,888	9,570,249
Non-current assets due within one year		
Other current assets	1,995,808	1,742,338
Total current assets	29,779,658	30,529,316
Non-current assets:		
Available-for-sale financial assets	-	-
Long-term receivable	-	-
Long-term equity investments	43,046	39,718
Other equity instrument investments	22,835	32,847
Fixed assets	22,939,838	23,516,427
Construction in progress	284,292	213,819
Right-of-use assets	1,265,583	1,547,822
Intangible assets	504,966	392,947
Long-term prepaid expenses	5,855,143	5,379,478
Deferred tax assets	395,834	417,004
Total non-current assets	31,311,537	31,540,062
Total assets	61,091,195	62,069,378

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

Liabilities and shareholders' equity	<u>2020</u>	<u>2019</u>
Current liabilities :		
Short-term loans	19,370,520	20,403,075
Bills payable	6,305,228	4,733,932
Accounts payable	20,497,509	20,068,294
Contract liabilities	3,024,461	3,575,654
Employee benefits payable	498,071	421,938
Taxes payable	724,389	843,715
Other payables	1,675,104	1,770,597
Non-current liabilities due within one year	356,747	535,475
Other current liabilities	-	-
Total current liabilities	52,452,029	52,352,680
Non-current liabilities:		
Long-term loans	580,716	474,382
Lease liabilities	898,469	1,134,746
Long-term payables	26,812	784,377
Provisions	382,646	449,256
Deferred income	14,186	92,211
Deferred income tax liabilities	13,471	17,854
Total non-current liabilities	1,916,300	2,952,826
Total liabilities	54,368,329	55,305,506
Shareholders' equity :		
Share capital	18,984,340	18,984,340
Capital reserve	11,717,773	11,714,581
Other comprehensive income	-2,014	6,447
Specific reserve	258,523	373,238
Surplus reserve	200,383	200,383
Retained earnings	-24,436,139	-24,515,117
Equity attributable to the owners of the Company	6,722,866	6,763,872
Minority interests	-	-
Total shareholders' equity	6,722,866	6,763,872
Total liabilities and shareholders' equity	61,091,195	62,069,378

**Consolidated Income statements**  
(Expressed in thousands of RenminbiYuan)

	<u>2020</u>	<u>2019</u>
1.Revenue	68,073,394	69,870,147
2.Less:Cost of sales	62,605,007	63,695,235
Business taxes and surcharges	238,128	286,062
Selling and distribution expenses	72,604	63,787
General and administrative expenses	2,781,058	2,965,864
Research and development expenses	1,369,501	1,194,198
Financial costs	1,196,670	945,344
Including: Interest expense	906,693	980,463
Interest income	59,576	103,499
Add: Other income	516,114	370,829
Investment income	59,927	204,951
Including: Investment income from investment in association and joint venture	5,467	13,899
Gains from derecognition of financial assets measured at amortized cost	53,960	154,539
Credit impairment losses (loss in “-”)	-38,350	-98,582
Impairment losses on assets (loss in “-”)	-70,743	-12,657
Gains from disposal of non-current assets (loss in “-”)	5,961	67,044
3.Operating profit (loss in “-”)	283,335	1,251,242
Add: Non-operating income	108,405	162,862
Less: Non-operating expenses	43,686	58,336
4. Profit before income tax (loss in “-”)	348,054	1,355,768
Less: Income tax expenses	269,076	441,524
5.Net profit for the year (loss in “-”)	78,978	914,244
Classified by business sustainability:	78,978	914,244
-Profit from continuing operations	-	-
-Profit from discontinued operations	-	-
Classified by ownership :	78,978	914,244
- The owners’ of the Company	-	-
- Minority interests	-	-
6.Earnings per share :		
(1) Basic earnings per share (in RMB)	0.004	0.048
(2) Diluted earnings per share (in RMB)	0.004	0.048
7.Other comprehensive income for the year	-8,461	-5,229
Other comprehensive income (net of tax) attributable to shareholders of the company	-8,461	-5,229
8.Total comprehensive income for the year	70,517	909,015
Total comprehensive income for the year/period attributable to:		
- The owners’ of the Company	70,517	909,015
- Minority shareholders	-	-

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

	Note	<u>2020</u>	<u>2019</u>
1. Cash flows from operating activities:			
Cash received from sale of goods		63,737,397	65,122,758
Refund of taxes		351,304	331,262
Cash received from other operating activities		<u>3,263,701</u>	<u>3,661,508</u>
Sub-total of cash inflows		<u>67,352,402</u>	<u>69,115,528</u>
Cash paid for goods and services		42,039,015	47,732,202
Cash paid to and for employees		15,484,300	15,638,635
Cash paid for all types of taxes		1,470,849	1,860,359
Cash paid relating to other operating activities		<u>3,886,418</u>	<u>2,507,279</u>
Sub-total of cash outflows		<u>62,880,582</u>	<u>67,738,475</u>
Net cash inflow from operating activities		<u>4,471,820</u>	<u>1,377,053</u>
2. Cash flows from investing activities :			
Cash received from disposal of investment		-	-
Cash received from the investment income		2,146	2,368
Net cash received from disposal of fixed assets		140,655	167,338
Cash received relating to other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash inflows		<u>142,801</u>	<u>169,706</u>
Cash paid for acquisition of fixed assets and intangible assets		1,742,664	3,208,997
Cash paid for investment in a joint venture		9	-
Net cash paid for acquisition of subsidiaries and other business units		-	139,466
Cash paid for other investing activities		<u>-</u>	<u>-</u>
Sub-total of cash outflows		<u>1,742,673</u>	<u>3,348,463</u>
Net cash outflow from investing activities		<u>-1,599,872</u>	<u>-3,178,757</u>



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

	Note	<u>2020</u>	<u>2019</u>
3.Cash flows from financing activities:			
Cash received from the acquisition of investments		-	-
Cash received from borrowings		53,601,812	38,367,042
Cash received for other financing activities		-	4,211
		<u>53,601,812</u>	<u>38,371,253</u>
Sub-total of cash inflows		<u>53,601,812</u>	<u>38,371,253</u>
Cash paid for repayments of borrowings		54,391,017	35,715,939
Cash paid for distribution of dividend, profit or payments of interests		827,362	855,364
Cash paid for other financing activities		1,263,535	550,324
		<u>56,481,914</u>	<u>37,121,627</u>
Sub-total of cash outflows		<u>56,481,914</u>	<u>37,121,627</u>
Net cash outflow from financing activities		<u>-2,880,102</u>	<u>1,249,626</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>-119,226</u>	<u>29,230</u>
5.Net decrease in cash and cash equivalents		-127,380	-522,848
Add: Cash and cash equivalents at the beginning of the year		<u>1,650,732</u>	<u>2,173,580</u>
6.Cash and cash equivalents at the end of the year		<u>1,523,352</u>	<u>1,650,732</u>

**Notes to cash flow statements***(Expressed in thousands of renminbi yuan)***(1) Supplement to cash flow statement****(a) Reconciliation of net profit to cash flows from operating activities:**

<u>Item</u>	<u>2020</u>	<u>2019</u>
Net profit	78,978	914,244
Add: Impairment loss on assets	70,743	12,657
Impairment of credit losses	38,350	98,582
Depreciation of fixed assets and right-of use assets	3,483,227	3,407,719
Amortisation of intangible assets	119,319	92,926
Amortisation of long-term prepaid expenses	2,182,941	1,847,550
Losses/(gains) from disposal of fixed assets	-5,961	-67,044
Losses/(gains) on retirement of fixed assets	7,147	1,976
Financial expenses	1,232,251	1,032,708
Investment losses	-5,967	-50,412
Decrease/(Increase) in deferred tax assets	22,332	75,434
Increase/(Decrease) in deferred tax liabilities	-3,995	-3,869
Decrease in gross inventories	146,980	235,444
Decrease in operating receivables	404,313	558,047
Increase in operating payables	-3,187,316	-6,855,356
Safety costs	-114,714	72,629
Unexercised share-based payment	3,192	3,818
Net cash inflow from operating activities	<u>4,471,820</u>	<u>1,377,053</u>

**(b) Changes in cash and cash equivalents:**

<u>Item</u>	<u>2020</u>	<u>2019</u>
Cash at the end of the year	1,523,352	1,650,732
Less: Cash at the beginning of the year	<u>1,650,732</u>	<u>2,173,580</u>
Net decrease in cash and cash equivalents	<u>-127,380</u>	<u>-522,848</u>

**(2) Details of cash and cash equivalents**

<u>Item</u>	<u>2020</u>	<u>2019</u>
Cash on hand	8,517	6,792
Bank deposits available on demand	1,511,398	1,643,824
Other monetary funds available on demand	3,437	116
Closing balance of cash	<u>1,523,352</u>	<u>1,650,732</u>
Add: Restricted cash	<u>28,106</u>	<u>18,105</u>
Closing balance of cash and cash equivalents	<u>1,551,458</u>	<u>1,668,837</u>

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

	<u>2020</u>							
	Share capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total shareholders' equity
1. Balance at 31 December 2019	18,984,340	11,714,581	6,447	373,238	200,383	-24,515,117	-	6,763,872
Adjustment for the acquisition of the acquired group	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-
2. Balance at 1 January 2020	18,984,340	11,714,581	6,447	373,238	200,383	-24,515,117	-	6,763,872
3. Changes in equity for the year ("-" for decreases)	-	3,192	-8,461	-114,715	-	78,978	-	-41,006
(1) Total comprehensive income	-	-	-8,461	-	-	78,978	-	70,517
(2) Increase or decrease of capital	-	3,192	-	-	-	-	-	3,192
a. Original stock of surplus reserve	-	-	-	-	-	-	-	-
b. Share payments recognised in equity	-	3,192	-	-	-	-	-	3,192
c. Others	-	-	-	-	-	-	-	-
(3) Appropriation of profits	-	-	-	-	-	-	-	-
a. Appropriation for surplus reserve	-	-	-	-	-	-	-	-
b. Distributions to shareholders	-	-	-	-	-	-	-	-
(4) Transfer of equity	-	-	-	-	-	-	-	-
(5) Specific reserve	-	-	-	-114,715	-	-	-	-114,715
(a) Accrued	-	-	-	1,163,262	-	-	-	1,163,262
(b) Utilised	-	-	-	-1,277,977	-	-	-	-1,277,977
(6) Others	-	-	-	-	-	-	-	-
4. Balance at 31 December 2020	18,984,340	11,717,773	-2,014	258,523	200,383	-24,436,139	-	6,722,866

**Statement of changes in shareholders' equity**

(Expressed in thousands of Renminbi Yuan)

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

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

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

(Expressed in thousands of Renminbi Yuan)

	Net profit attributable to equity shareholders of the Company		Net assets attributable to the shareholders of the Company	
	For the year ended 31 December		At 31 December	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts under PRC ASBE	78,978	914,244	6,722,866	6,763,872
Adjustments under IFRS:				
Specific reserve (a)	-114,715	72,629	-	-
Amounts under IFRS	-35,737	986,873	6,722,866	6,763,872

##### (a) Specific reserve

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

## 8. OTHER ITEMS

### (1) Annual Report

The Company will dispatch the 2020 Annual Report to its H shareholders in due course.

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

For the year ended on 31 December 2020, the Company has complied with all the code provisions under the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that:

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

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

During the reporting period, the Audit Committee under the Board held four meetings and reviewed the Company's 2019 Financial Statements, Interim Report for 2020 and continuing connected transactions and formed its independent opinion.

The Audit Committee of the tenth session of the Board held the first meeting on 22 March 2021 and reviewed and passed the resolution regarding the 2020 Financial Statements, proposed re-appointment of the auditors of the Company and performance report of the Audit Committee of the Company.

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

During the year ended at 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### (4) Annual performance review

The annual results for the year ended 31 December 2020 have been reviewed by the audit committee of the Company's board of directors, and the audit committee has no different opinions on the annual results.

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

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

By Order of the Board  
**Shen Zehong**  
Company Secretary

24 March 2021, Beijing

*As at the date of this announcement, the Board of Directors comprises Mr. Chen Xikun#, Mr. Yuan Jianqiang#, Mr. Lu Baoping+, Mr. Fan Zhonghai+, Mr. Wei Ran+, Mr. Zhou Meiyun\*, Mr. Chen Weidong \*, Mr. Dong Xiucheng \* and Mr. Zheng Weijun\*.*

*+ Non-Executive Director*

*# Executive Director*

*\* Independent Non-Executive Director*